

Validation Workshop on Final Draft Study Reports
on
Market Access, Comparative Advantage and Export Diversification
and
Upscaling the RMG Sector

*Organized by the Support to Sustainable Graduation Project (SSGP), ERD
in association with PRI and RAPID*

Outcome Document

A Validation Workshop on two final draft study reports titled 'Market Access, Comparative Advantage and Export Diversification' and 'Upscaling the RMG Sector' was held at Bangabandhu International Conference Centre of the capital on 31 January 2024. Support to Sustainable Graduation Project (SSGP) of the Economic Relations Division (ERD) organized the event. Principal Secretary to the Hon'ble Prime Minister Mr. M. Tofazzel Hossain Miah graced the occasion as the chief guest. Senior Secretary of the Ministry of Commerce Mr. Tapan Kanti Ghosh and the President of Bangladesh Textile Mills Association (BTMA) Mr. Mohammad Ali Khokon attended the event as special guests. ERD Secretary Mr. Md. Shahriar Kader Siddiky chaired the workshop. Representatives from government ministries and agencies, private sector, academia, and think tanks participated in the event. Major discussions and recommendations of the event are documented below.

Welcome Remarks - Mr. Farid Aziz, Additional Secretary & Project Director, SSGP, ERD:

Mr. Aziz, in his welcome remarks, noted that the government is attaching the highest priority to ensure a smooth and sustainable LDC graduation of the country. He recalled that several in-depth sectoral studies are being carried out by the SSGP under the guidance of the National Committee on LDC Graduation with a view to assessing the impact of LDC graduation and recommending strategies for action. He mentioned that in line with this, a study has been carried out on 'Market Access, Comparative Advantage and Export Diversification' with support from Policy Research Institute, while another study has been carried out on 'Upscaling the RMG Sector' with support from Research and Policy Integration for Development (RAPID). He explained that the workshop had been organized to review the key research findings; to disseminate those among the relevant stakeholders and at the same time to receive their feedback to enrich the reports.

Presentation on the Study Report on Upscaling the RMG Sector by Dr. Mohammad Abdur Razzaque, Chairman, RAPID:

Dr. Razzaque, in his presentation, pointed out that the dual concentration phenomenon in Bangladesh's RMG exports with a heavy focus on cotton-based apparel and high concentration on few products within cotton-based apparel poses a significant risk. He also noted that Bangladesh holds a strong market share of cotton-based apparel in a number of countries of different regions. Nevertheless, the export performance of non-cotton apparel has not reached the same level as cotton exports. He noted that given the growing worldwide demand for non-cotton apparel, Bangladesh must advance in this area.



Dr. Razzaque, in his presentation, explained that consumer preferences are driving the transition from cotton to man-made fibre (MMF) apparel. MMFs are versatile, offering characteristics like moisture-wicking and wrinkle resistance, meeting various consumer needs. Environmental policies, especially in regions like the EU, are navigating the textile industry towards sustainable fibres.

Dr. Razzaque, pointed out that despite Bangladesh's notable progress in the global apparel market, it faces the challenge of receiving lower prices than its competitors, highlighting the need for strategies to enhance value. In this context, he said that to move up the global value chain, the focus should be on creating more sophisticated items and strengthening both backward and forward linkages, especially in areas like product design, branding, sales, and after-sales services, where Bangladesh currently faces limitations.

Dr. Razzaque, informed that a comprehensive analysis had identified 20 promising cotton and MMF products with an untapped potential of \$16 billion. He also pointed out that a subjective assessment indicates that MMF-based apparel export earnings could increase to a range of \$12.5 to \$19 billion.

The primary policy constraints, identified in the presentation that impeded the growth of MMF apparel exports include: lack of duty-free access of man-made fibres; discriminatory policies; an underdeveloped backward industry due to insufficient investment; inadequate short-term financing; energy supply shortages; inefficient customs clearing processes; and infrastructural bottlenecks. Meanwhile, firm-level constraints further hindering the transition to MMF apparel exports include: limited adoption of modern technology; issues related to management practices; a shortage of skilled workers; limited research and development activities; and inadequate market research and export strategy.

Dr. Razzaque, in his presentation, highlighted that the comparator countries like India, China and Vietnam have taken some policy measures to favour MMF production, such as removing duties on essential inputs, providing incentives, establishing technology and textile research funds, attracting FDI, and establishing specialised industrial parks.

The study proposed the following measures to address those policy constraints:

- Implementing a dual-track strategy by consolidating cotton apparel and expanding MMF apparel export;
- Providing duty-free access for all fibres;
- Improving customs clearance process
- Formulating a fibre security strategy;
- Reviewing export policies and incentives for PET bottles;
- Incentivising the recycling of PET bottles on environmental considerations;
- Establishing a low-cost investment fund, attracting FDI;
- Streamlining duty-drawback procedures;
- Ensuring a reliable power supply; and
- Securing favourable market access in the post-LDC period.



Meanwhile, the study had also come up with following recommendations to tackle firm-level challenges:

- Incentivising technology modernisation;
- Bolstering managerial capabilities;
- Improving worker skills;
- Promoting research and development activities for faster technological adoption;
- Conducting extensive market research;
- Providing export strategy support for MMF-based products to assess market potential;
- Fostering private sector involvement in mobilising investments, modernising operations, ensuring compliance, and embracing global best practices.

Presentation on the Study Report on Market Access, Comparative Advantage and Export Diversification by Dr Mohammad Abdur Razzaque, Research Director, PRI:

At the outset of his presentation, Dr. Razzaque provided a brief background on the state of Bangladesh's export landscape. He underlined the fact that Bangladesh is largely dependent on preferential treatment for its exports, and the export basket is highly concentrated on RMG goods. He moved on to briefly describe the domestic manufacturing base and showed that Bangladesh has a robust manufacturing base that is not being utilized to its full potential. Using the results of the Revealed Comparative Advantage Framework, he showed that how Bangladesh is extremely competitive on several non-RMG products but is still primarily focused on exporting RMG goods.

Dr. Razzaque, then highlighted the export potential of Bangladesh's products using the ITC potential map and showed how Bangladesh has a good opportunity to increase its export earnings in the near future. He observed that the biggest impediment to export diversification is the lack of tariff rationalization. In support of this point, he showed a few examples of perverse tariff rates and the scenario of unjustified protection. He explained that how protection and export diversification are interconnected, and explained that without rationalizing this protective structure, export diversification could not be achieved. He pointed out that the local investors find it more profitable to sell in the domestic market than overseas market. As a result, domestic production-oriented investment is more lucrative due to the high protection rate. He explained that how this trend acts as a policy-induced disincentive for exports. Additionally, he highlighted the lack of compliance with international standards among the local manufacturers, which impedes their access to the world market.

Dr. Razzaque, in his presentation, urged for speedy and effective implementation of the National Tariff Policy, 2023 in order to address some of the problems faced by the export sector. He also emphasized the need to attract more FDI, especially the export-oriented FDI. Lastly, he pointed out some of the major policy recommendations from the study which are highlighted below.

1. Recommendations for improving the enabling environment for export diversification

- Speedy and effective implementation of National Tariff policy including the provision of partial bond facility



- Improving the incentives framework for exports
- Overcoming the technological and innovation constraints to improve productivity
- Improving trade logistics in order to reduce the cost of international trade
- Enhancing access to low-cost trade finance for small enterprises and new exporters
- Improving the capacity of existing standards authorities and institutions and providing support for exporters to maintain compliance

2. Boosting Foreign Direct Investment (FDI)

- Restoring macroeconomic management through the prudent use of monetary, fiscal, and exchange rate policies is essential for improving the
- Reducing cost of business, focusing in improving infrastructure services and cutting high taxes and paperwork is also important.

3. Addressing the skills constraints

- Agriculture and food processing sector: Recommend expanding training initiatives on Quality Assurance, GMP, GHP, and HACCP in collaboration with the Ministry of Commerce and businesses to ensure employee commitment.
- Light Engineering Sector: The Skills for Employment Investment Program (SEIP) can bridge the skills gap of this sector by providing comprehensive and accessible training programs.
- Pharmaceutical Industry: Collaborations between the industry and universities can update the curriculum and provide practical industry knowledge through hands-on training programs and internships.
- Leather and Footwear Sector: Creating specialised training facilities for technicians to efficiently run and manage leather testing labs, improving quality control and compliance methods are most important.

4. Encouraging green production to ensure sustainability

- Expanding green-tech financing
- Establishing a domestic carbon market and implementing carbon reduction policies
- Adopting a circular economy model

5. Recommendations related to dealing with challenges arising from shrinking market access after LDC graduation

- LDC graduation does not mean end of trade preference; proactive engagements and negotiations are needed to extend existing and/or securing new preferences
- Seeking extended preference and favourable terms in the post-LDC graduation period
- Ensuring continued duty-free access to the Indian market
- Negotiating free-trade agreements

- Exploring new destinations for export
- Attracting more investment and seeking development assistance from the development partners
- Strengthening the backward linkages of export-oriented industries
- Dissemination of information regarding existing and post-graduation market access among exporters
- Converting existing supports to be compliant with WTO Rules and Regulations

Discussions by the Panelists:

Mr. Abdullah Hil Rakib, Director, BGMEA

Mr. Rakib, in his remarks, noted that readymade garments industry in Bangladesh is transforming from a volume driven industry to a value driven industry. He observed that the government needs to work in strong partnership with the industry partners for reskilling and upskilling of the RMG workforce. He also opined that necessary policy support is required to attract investment including FDI in the form of joint ventures in the RMG sector which would help this industry to build up necessary capacity for two-stage transformation. He observed that the country's backward linkage industry needs to be strengthened to grab a better share of the global MMF market. He noted that the local apparel manufacturers need to focus more on research and development. He mentioned that single country fairs need to be organized abroad to promote the local brands and products in the global market.

Mr. Mohammad Belal Hossain Chowdhury, Director General, DEDO, NBR

Mr. Chowdhury, in his remarks, suggested that a high-powered committee should be established involving the stakeholders, including government officials relevant to RMG sector to enhance non-cotton exports. He mentioned that duties on some man-made fibres can be easily removed, since the revenue generation from import of those products is not significant and will not hamper the revenue target fixed by the government. He suggested that a priority list should be prepared by identifying the sectors which do not generate too much revenue but are crucial for our export. He underscored the importance of automation to increase revenue generation and domestic resource mobilization in the country.

Mr. AHM Ahsan, Vice Chairman & CEO, EPB:

Mr. Ahasan, in speech, affirmed that 'anti-export bias' is disincentivizing the local manufacturers to go global, which in turn is negatively impacting the government's export diversification drive. However, he pointed out that the import substitution generated by the local manufacturers ultimately help to have a positive impact on the country's Balance of Payment (BoP). Mr. Ahsan said that the new Industrial Policy should ensure that the investment coming into the Economic Zones are export driven. He observed that the local exporters need to invest in research and development as well as overseas marketing to expand their market. He said that the local manufacturers should reduce their dependency on low-cost loans and cash incentives.

Ms. Sharifa Khan, Adviser (Former Senior Secretary), SSGP, ERD

Noting that the country's domestic manufacturing base has diversified robustly in recent decades, Ms. Sharifa Khan observed that a large portion of these domestic manufacturers are yet to be linked with the global value chain. She identified the apparent unwillingness of the local manufacturers in maintaining compliance with the international standard as an underlying cause behind this paradox. She noted that tariff rationalization would be essential for export diversification and to give the country an equal footing while negotiating Free Trade Agreements (FTAs) with the potential trading partners. She expressed concern about the disproportionately high export incentives allocated to the RMG sector, noting that approximately 80 per cent of total incentives were directed towards it last year. In this context, she opined that there should be a specific timeline for gradual withdrawal of cash incentives. She also underscored the importance of speeding up the automation efforts of NBR. She opined that attracting FDI would be crucial for diversification of markets. Ms. Khan observed that the study report 'Market Access, Comparative Advantage and Export Diversification' should reflect more on ways and means of diversifying the country's overseas market. Noting that the study had identified a total of 1393 potential products for export - she opined that the study should also analyse that how long the export potentials of those products would continue. She observed that there should be a thorough analysis of whether the incentives are provided to right sectors.

Open Floor Discussion:

At this stage, the floor was opened for feedback from participants. During this session, the following feedback and suggestions came from them:

- Secretary of the Ministry of Environment, Forest and Climate Change Dr. Farhina Ahmed informed that Bangladesh is losing around 17 percent of its GDP due to environmental pollution. In this context, she observed that the studies should highlight the issues of environmental sustainability and social equilibrium. She opined that stakeholders from the environment sector should have been included among the key informants of these studies to cross check the remarks and comments coming from the private sector. She informed that the government is committed to ensure ecological restoration and to build responsive private sector.
- Noting that the report suggested the formation of a national skill council, Ms. Alif Rubaba from National Skills Development Authority (NSDA) informed that the government had already formed 16 Industry Skills Councils (ISCs) including those for RMG and textiles. She mentioned that 45 competency standards had been prepared with assistance from those ISCs while some of those competency standards are already in use. She informed that NSDA is legally authorized to act as the certification body for the skills sector. She apprised that NSDA is working to make its certification universally acceptable.
- The country will be able attract more FDI by extending bond facilities to a wide range of exporters.
- The study on 'Upscaling the RMG Sector' should highlight the potentials of garments accessories and packaging sector. This sector has earned USD 8.12 billion in terms of export during the last fiscal. The development of this sector has enhanced the efficiency of RMG exporters in saving lead time. However, it has never received any cash incentive.

Nevertheless, it can grow exponentially through policy incentives including utility facilities, low-interest loans, and incentives.

- The study on 'Market Access, Comparative Advantage and Export Diversification' may recommend establishing dedicated zones for products with high export potentials in the Economic Zones (EZs).
- The potential export items identified in the study on 'Market Access, Comparative Advantage and Export Diversification' may be incorporated into the upcoming Export Policy.
- The capacity of Duty Exemption and Drawback Office (DEDO) should be enhanced, so that the eligible exporters are able to receive duty drawbacks in a timely manner.
- The capacity of Bangladesh Small and Cottage Industries Corporation (BSCIC) and SME Foundation should be enhanced.
- Bangladesh should set up commercial wings in new potential export destinations.
- There is an untapped market for Bangladeshi jutes in Africa. Bangladesh needs to establish diplomatic missions along with commercial wings in the potential export destinations in Africa to tap that unexplored market.
- The provision of providing partial bond against bank guarantee needs to be implemented.
- The government should provide technical support to silk farmers to tap the full potential of this sector.
- There should be strong directives for the implementation of the National Tariff Policy 2023.
- Service sector should receive adequate focus as part of the government's drive for diversifying the country's export basket.

Speech by the Special Guests

Mr. Mohammad Ali Khokon, President, BTMA

Mr Mohammad Ali Khokon, President of BTMA and special guest, expressed his involvement in the study and his satisfaction with its comprehensive coverage of various dimensions of the RMG sector. He proposed that the report be titled "Upscaling the Textile and RMG Sector," highlighting the significance of the textile industry as a backward industry. Mr Khokon emphasised the sector's capability to meet both domestic and export demand, particularly highlighting Bangladesh's competitive edge in the global knitwear industry due to its robust textile sector. He stressed the need for special attention to this flagship sector of the country. Additionally, he underscored the importance of duty-free raw materials for manufacturing fibre and emphasised the proper management of wastage. He noted that a group of individuals exports this wastage, which hampers the local industry's demand for it. Effective management of wastage could potentially save the industry around \$4 billion and reduce the demand for cotton imports by 15 per cent.

Mr. Tapan Kanti Ghosh, Senior Secretary, Ministry of Commerce:



Mr. Tapan Kanti Ghosh, in his remarks, recommended that the study on 'Upscaling the RMG Sector' should identify some challenges that are exclusive to MMF and should come up with some specific recommendations accordingly. He recalled that although there are restrictions on the import of used PET bottles due to environmental concerns, such restrictions are not applicable for first hand PET bottles. Recalling that there is no restriction on the import of PET bottle for the industrial units operating at SEZs, he informed that the government is considering to extend the same facility to bond holders as well. Noting that the local currency had devaluated 30 percent over the last 18 months, he pointed out that the amount of cash incentives received by the eligible exporters had also increased proportionately. He cautioned that if Bangladesh continues to provide cash incentives after LDC graduation, the importing countries might also impose countervailing duties to offset that. In this context, he said that Bangladesh had to explore alternatives to cash incentives. He observed that Bangladesh needs to implement the WTO's Trade Facilitation Agreement provisions to prepare the country for post-LDC graduation scenario.

Speech by the Chief Guest - Mr. M. Tofazzel Hossain Miah, Principal Secretary to the HPM, Prime Minister's Office:

Mr. M. Tofazzel Hossain Miah, in his speech, said that timely reforms and good governance are essential for creating a business-friendly environment. He called for increased investment in human resource development by the RMG sector to meet the existing gap of managerial skills in the apparel industry. Noting that there are huge scopes for diversification within RMG, the Principal Secretary, in his speech, asked the RMG owners to focus more on diversification of their products. At the same time, he also emphasized on exploring new markets like Middle East. He emphasized on integration of the local manufacturers with the global value chain for the expansion of diversification of the country's export market.

Conclusion by the Chair - Mr. Md. Shahriar Kader Siddiky, Secretary, Economic Relations Division, Ministry of Finance:

The ERD Secretary, in his speech, said that the government is playing a facilitating role and exploring new arenas of opportunity to fulfil the goal of becoming a high-income country by 2041. He mentioned that ERD is working closely with the development partners to secure necessary funds, recognising the study's emphasis on the need for increased FDI and capital. He recalled that earlier during the time of capital crunch, the country had received huge amount of foreign assistance from the development partners which had helped to ease the situation. Underlining the importance of carrying out necessary research for the expansion of export markets, he observed that the government and the private sector need to work in unison to carry out such research. He opined that the private sector must work in close collaboration with the academic institutions to meet the gap of managerial skills in the RMG sector.

Major Recommendations

The workshop has come up with the following major recommendations:

- The study on 'Market Access, Comparative Advantage and Export Diversification' should reflect more on ways and means of diversifying the country's overseas market.
- Although the study had identified a total of 1393 potential products for export—The Study analyse possibility of continuity of 1,393 potential export products .

- There should be a thorough analysis of whether the incentives are provided to right sectors.
- The study on 'Upscaling the RMG Sector' should highlight the potentials of garments accessories and packaging sector.
- The study on 'Market Access, Comparative Advantage and Export Diversification' may recommend establishing dedicated zones for products with high export potentials in the Economic Zones (EZs).
- The studies should highlight the issues of environmental sustainability and social equilibrium.
- The studies may examine following observations and recommendations while finalizing the reports:
 - ❑ The capacity of Duty Exemption and Drawback Office (DEDO) should be enhanced so that the eligible exporters are able to receive duty drawbacks in a timely manner.
 - ❑ The potential export items identified in the study on 'Market Access, Comparative Advantage and Export Diversification' may be incorporated into the upcoming Export Policy
 - ❑ A high-powered committee should be established involving the stakeholders, including government officials, relevant to RMG sector to enhance non-cotton exports.
 - ❑ A priority list of goods/raw materials should be prepared by identifying the sectors which do not generate too much revenue but are crucial for our export. Import duty may be withdrawn or reduced for the goods included in the priority list.
 - ❑ The new Industrial Policy should ensure that the investment coming into the Economic Zones are export driven.
 - ❑ There is an untapped market for Bangladeshi jutes in Africa. Bangladesh needs to establish diplomatic missions along with commercial wings in the potential export destinations in Africa to tap that unexplored market.
 - ❑ The provision of providing partial bond against bank guarantee needs to be implemented.
- Both PRI and RAPID should examine other comments and feedback received from the guests, panellists and participants of the validation workshop and reflect those in the final study reports suitably and accordingly, revise a concise and specific action-oriented matrix.

