

Ninth Tranche of the Development Account Project

Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable Trade

COUNTRY STUDY SERIES

The Economic and Social Impact of Liberalisation through Preferential Trade Agreements in Bangladesh

The Case of the Ready-Made Garments and the Leather & Leathergoods Sectors

Ali Ahmed

Chief Executive Officer
Bangladesh Foreign Trade Institute

The Development Account is a capacity development programme of the United Nations Secretariat aiming at enhancing capacities of developing countries in the priority areas of the United Nations Development Agenda. The ninth tranche of the Development Account is aimed at supporting Member States in designing and implementing strategies and policies towards sustainable, equitable and inclusive development. Trade is an important part of this process, as expanding trade and investment has driven growth in many developing countries, leading to major reductions in poverty and overall increases in welfare. However, substantial variations in performance among countries persist and, as a consequence, not all countries - and much less all groups and individuals within countries - have been able to benefit equally from trade. In particular, the least developed countries, landlocked developing countries, and other countries with special needs, have not benefited from trade as much as some other developing countries. In order for these countries to foster further economic and social development, they need better access to markets alongside further development of productive and supply capacity.

Towards that end, the project 'Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable trade', led by the Economic and Social Commission for Asia and the Pacific (ESCAP), in partnership with the Economic Commission for Africa (ECA) and the Economic Commission for Latin America and the Caribbean (ECLAC) aims to increase the potential benefits of preferential trade agreements for a set of developing countries identified to be in crucial need for assistance. The project aims to increase the capacity of these countries in identifying the potential benefits and costs of preferential trade agreements, increasing their means to effectively negotiate development-focused preferential trade agreements, and better utilize already negotiated concessions for their benefit. The identified beneficiary countries are: Burkina Faso, Guinea, Mauritius, and Senegal (Africa); Ecuador, Guatemala, Honduras and Jamaica (Latin America); and Bangladesh, the Islamic Republic of Iran, Mongolia, Myanmar, and Viet Nam (Asia-Pacific). The project will involve capacity building national workshops in the pilot countries, followed by a capstone regional dialogue for the different countries to share experiences and learn from another. Furthermore, the training materials, in addition to background documents and other materials derived from the workshops, will be made available online through a public knowledge sharing platform for all interested users as reference material.

The most significant output of the project will be enhanced capacity among government officials and trade negotiators to formulate inclusive development-friendly preferential trade agreements so that trade arising from such policies has inclusive and equitable results: improvements in labour standards and wages; the elimination of child labour; positive impacts on gender equality; and enhanced contribution to general welfare, in particular for marginalized excluded groups.

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ACRONYMS

ADB	Asian Development Bank
APTA	Asia Pacific Preferential Trade Agreement
BCSIR	Bangladesh Council of Scientific and Industrial Research
BFLLEA	Bangladesh Finished Leather, Leathergoods, Footwear Exporters Association
BFTI	Bangladesh Foreign Trade Institute
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BIDA	Bangladesh Investment and Development Authority
BIMSTEC	Bay of Bengal Multisectoral, Technical and Economic Cooperation
COEL	Centre of Excellence for Leather Skill Bangladesh Ltd
DFQF	Duty Free Quota Free
ESCAP	Economic and Social Commission for Asia and the Pacific
EPZ	Export Processing Zone
EOI	Export Oriented Industrialisation
ETP	Effluent Treatment Plant
EU	European Union
FDI	Foreign Direct Investment
GoB	Government of Bangladesh
GSP	Generalized Systems of Preferences
GVC	Global Value Chain
ILO	International Labour Organization
ISI	Import Substitution Industrialization
LDC	Least Developed Country
LEED	Leadership in Energy and Environmental Design
LFMEAB	Leathergoods & Footwear Manufacturers & Exporters Association of Bangladesh
LRI	Leather Research Institute
MoC	Ministry of Commerce
MoP	Margin of Preference
OHS	Operational Safety and Health
OHSAS	Occupational Health and Safety Assessment Series
PSI	Pounds per Square Inch
PTA	Preferential Trade Agreement
QR	Quantitative Restriction
RHS	Green and Salted Hides and Skins

RoO	Rules of Origin
RMG	Ready Made Garments
RTA	Regional Trade Agreement
SAFTA	South Asian Free Trade Area
SAP	Structural Adjustment Policy
SEIP	Skills for Employment Investment Program
SME	Small and Medium Enterprise
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USGBC	US Green Building Council
WTO	World Trade Organization

1. The Introductory Chapter

1.1 Introduction

With the growing frustration over the stagnation at the multilateral level to conclude the Doha Round of WTO negotiations, preferential trade agreements (PTAs), also varyingly called regional trade agreements (RTAs), have increasingly acquired greater significance in international trade. Although such PTAs go against the GATT principle of non-discrimination by limiting benefits to member countries, they do offer an effective alternative to multilateralism in liberalising trade¹. PTAs also provide governments with the opportunity to expedite domestic reforms and accelerate the pace of liberalisation. Success in PTAs depends on a number of factors, such as the implementation period, product coverage, rules of origin (simple or complex), comprehensiveness, product complementarity, and customs cooperation. Likely success of a PTA increases with the higher complementarity of products among PTA members (Wolfmayr-Schnitzler, 2000). Where parties to a PTA are at different levels of economic development, a scope for gains from trade is created due to the sharing of comparative factor endowments².

By offering preferences to specific countries, PTAs contribute to increased trade among members, which in turn promote national welfare through increased revenue, income, and prosperity for the industries of all the concerned countries. PTAs also have labour market implications as increased market access to member countries generates employment through creating additional jobs³. For example, the RMG sector in Bangladesh employs 4.4 million workers, 80% of whom are women⁴, leading to their empowerment. Wages in export-intensive manufacturing industries tend to be higher than those in their non-export-intensive counterparts. Again, pressures from buyers often contribute to improving compliance and working conditions in export-oriented enterprises⁵, which in turn may lead to enhancement in labour productivity.

Wages in export-intensive manufacturing industries tend to be higher than those in their counterparts catering only to the domestic markets. It is a fact well-established that exporters pay higher wages than non-exporters (Schank et al., 2006). Trade openness is negatively and significantly related to workers' rights, while Foreign Direct Investment (FDI) inflow has a positive impact⁶. Empowerment also results from increased employment opportunity. For instance, the RMG employment is increasingly a source of power for women in Bangladesh because of its collective effects on women's citizenship (Hossain, 2012).

Not all PTAs are welfare-enhancing and development-friendly. PTAs could also have a negative impact on employment or could cause inequality when domestic producers are either displaced or suffer losses due to increased imports from PTA-partner countries. Liberalisation resulting from PTAs have both trade creation and trade diversion effects (Viner 1950 in Bagwell and Mavroidis, 2011). MERCOSUR members import less from non-members (especially in respect of trade in agricultural

¹Preferential trade agreements are concluded with a view to having greater trade and investment through the reduction or elimination of trade barriers.

²This implies that gains from trade is based on factor endowment differentials where one partner possesses a capital/technology advantage and another partner possesses a low-cost labour endowment advantage (Feaver & Wilson, 2005)

³At the sectoral level, the implementation of Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) DR- CAFTA resulted in the largest expansion in textiles and clothing industries in Central America and the Caribbean: these sectors experienced employment growth of 28 and 42 percent, respectively.

⁴<http://www.thedailystar.net/business/bangladesh-can-create-millions-jobs-rmg-workers-wb-study-1217503>

⁵ Such compliance remains forced on employers, as on the buyers who themselves impose it on their suppliers: it does not amount to a 'culture of compliance' (Hossain, 2012)

⁶ Joining a PTA tends to increase its members' net FDI inflows.

goods) due to the creation of the RTA (Korinek & Melatos, 2009). Effects of such trade creation and trade diversion could be that some businesses/industry/entrepreneurs would turn them into their benefits through trade creation while others could suffer through its diversion. While the obvious outcome is income inequality, there could also be, in some cases, gender inequality. For example, women farmers, who are mostly engaged in subsistence-oriented small-scale production, face greater risks as agricultural markets are liberalised.

1.2 Brief Timeline of Trade Liberalisation Process in Bangladesh and Its Results

Following the popular tendency among the newly-independent countries, Bangladesh, after her liberation in 1971, embarked on the import substitution industrialisation (ISI) strategy. This was characterised by high tariffs and non-tariff barriers to trade, an overvalued exchange rate system, and nationalisation of all industrial enterprises. The main objectives behind it were to improve the balance of payments position of the country and to create a protected domestic market for manufacturing industries (Bhuyan and Rashid, 1993 cf Raihan, 2008). As economic growth stagnated, Bangladesh abandoned the ISI strategy, and, instead, adopted the export-oriented industrialisation (EOI) strategy since the mid-1980s. The beginning of liberalisation can be traced back to the adoption of deregulation measures in 1976, when a new political regime had come to power and began to gradually distance itself from the ISI approach. Four notable policy reforms during this period of liberalisation were-----reduction of restrictions on investment, gathering momentum of denationalisation of public sector enterprises, limited reduction of tariffs and NTBs, and incentive packages for the emerging RMG sector. During the second half of the 1980s, more liberalising policy reforms were undertaken under structural adjustment policies⁷ (SAPs) advocated by multilateral donor agencies.

With the advent of democratic regimes in Bangladesh since 1991, wide-ranging reforms and liberalisation measures were initiated and implemented throughout the 1990s. Some of these measures include tariff reductions, elimination of a considerable number of quantitative restrictions (QRs), abolishing the import licensing system, introduction of a flexible exchange rate regime, and the provision of a range of fiscal and financial incentives for export promotion.

As a result of all these trade liberalisation initiatives, the average unweighted tariff fell from 47 per cent in 1993 to less than 16 per cent in 2004. In FY 2006-07, it decreased further to 12.21 percent (Rahman, 2011). Trade openness, measured as the trade-GDP ratio, was 33.63 percent in FY 2000-01, which increased to 41.02 percent in FY 2008-09. Furthermore, in terms of phasing out of QRs, the Import Policy Order for 1991–1993 significantly reduced the number of items on the import control list from 325 to 193. The QRs were further reduced over the years, which in 2003-2006 period, came down to 63, of which only 23 are for trade reasons. The restrictions that remain today are in large part maintained on public interest grounds, such as health and environmental concerns and for cultural and religious considerations. In the area of currency regime, taka was made convertible for the current account in 1994. In May 2003, Bangladesh opted for an open market exchange rate policy by free floating the taka (Rahman, 2013).

Apart from unilateral liberalisation, Bangladesh also liberalised its trade regime under a number of preferential free trade agreements namely, South Asian Free Trade Area (SAFTA), Asia Pacific Preferential Trade Agreement (APTA) and Bay of Bengal Multisectoral, Technical and Economic Cooperation (BIMSTEC). Under these agreements, import duties on different raw materials (such as yarn, fabrics, accessories, dyes for the RMG sector and chemicals and hides for the leather and

⁷ SAPs emphasised rationalisation of the import regime, simplification and reduction of effective protection, elimination of negative and restricted lists of industrial imports, and facilitation of imports of raw materials and intermediate and capital goods

leather goods sector) were also reduced. When combined with the general trade liberalisation initiatives discussed in the preceding paragraphs, the liberalisation measures under the PTAs helped Bangladeshi firms/ entrepreneurs procure their necessary raw materials duty-free or at reduced rates that provided them with the competitive advantage in world markets to export their goods.

Bangladesh economy has experienced a remarkable growth due to trade liberalisation and global division of labour. In particular, the labour-intensive RMG industry, jute, leather and fish have outshone the others in Bangladesh's little diversified economy due to the national and global liberalisation and an increasing demand from developed countries. Bangladesh became the second largest exporters of RMG after China. After the independence of Bangladesh, several attempts to run the tannery industry in the public sector failed and ultimately led to privatization of the sector (Strasser, 2015). Pramanik (2010) finds that trade liberalisation has resulted in improved social and economic standard of life of Bangladesh female workers. Liberalisation and reformed trade policies (such as removal of QRs at import stage, reduction of tariff rates, duty drawbacks, and other non-tariff facilities) augmented economic activities (Pramanik, 2010).

1.3 Research Objective:

Bangladesh receives preferential market access to a number of countries (such as China, India, Pakistan, Republic of Korea, Sri Lanka, Nepal, Bhutan, Afghanistan, Maldives) under two RTAs to which it is a signatory-member. These are SAFTA, and APTA (previously known as the Bangkok agreement). In addition, Bangladesh is currently negotiating BIMSTEC with India, Thailand, Sri Lanka, Bhutan, Myanmar and Nepal. Such preferential market access under PTAs creates a scope for expansion of Bangladeshi exports to other member countries. However, only 10.4 per cent of our total exports are with PTA partners⁸ (Mirdha, 2016). On the other hand, Bangladesh exports expanded mainly with the United States (USA) and the European Union (EU) countries due to unilateral Generalised Systems and schemes of Preferences (GSP) facilities, respectively, offered by them. Indeed, the preferential market access under the GSP played a significant role in the growth of Bangladeshi apparels sector.

The purpose of this country case study is to explore and understand the economic impact of liberalisation (such as the sector size and growth, production, export, import, technological development and involvement in global value chains, if applicable), and any identified spillover effect⁹ and social impact of such liberalisation (such as, employment quality and opportunities, gender equality, child labour and change in culture, if any). In order to highlight the impact of liberalisation through PTAs, this study will be confined to two sectors:

- Garments sector; and
- Leather and leathergoods¹⁰.

⁸ Source: "Bangladesh beats Asia-Pacific region in export growth", in *The Daily Star, Dhaka* 02nd Dec, 2016.

⁹ Growth of RMG sector has spawned a whole new set of linkage industries and facilitated expansion of many service sector activities. The RMG industry not only propelled the growth of spinning, weaving, dyeing and finishing industries, production of accessories and spare parts, but also rendered large externalities by contributing to other economic activities in such areas as banking, insurance, real estate, packaging, hotels and tourism, recycling, consumer goods utility services and transportation.

¹⁰ It includes raw hides, finished leather, footwear and leathergoods.

1.4 Justification for Selection of RMG and Leather Sectors, and Shortcomings of Existing Literature

This study will examine the impacts of liberalisation in the RMG and leather sector on a number of areas that includes economic growth, wages, working conditions, economic and gender equality, family structure and culture¹¹ and environment. There are a number of reasons for selecting these two sectors for the study. These are two main sectors that contribute enormously to the country's economy, employment and growth. The RMG sector is the leading export sector in Bangladesh and brings home about 82% of its export earnings from the sector, which amounted to \$28 billion in 2015-16. As mentioned earlier, more than 4 million workers are directly employed in this sector. Again, the sector's contribution to the GDP is over 10% at the moment (Dhaka Tribune, 2016).

The Leather and leather goods industry also thrived in Bangladesh due to liberalisation in the tariff regime (reduction of tariffs and other non-tariff measures) in export destinations. Expansion of the labour-intensive leather industry created considerable employment opportunities in the country.

The discussion made in the preceding sub-section reflects contributions of a considerable number of literature on the issue of trade liberalisation in Bangladesh (Hassan, 2014; Hossain, 2012; Mirdha, 2016; Pramanik, 2010; Rahman, 2013; Raihan, 2008; Strasser, 2015). But there has not been any combined study or assessment in the context of Bangladesh to understand the potential impact of PTAs in particular on working conditions, wages level, gender equality, employment quality and opportunity, child labour and other spillover effects focusing on both of these two sectors. The Country Study undertaken by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) is therefore a timely initiative in this regard.

Bangladesh is an LDC with a large population, and has seen a manifold increase in its trade volume over the last two decades. Availability of unilateral tariff preference schemes under the GSPs and the duty-free quota-free (DFQF) schemes within the framework of multilateralism, and reciprocal tariff preferences received under the two PTAs helped Bangladesh gain in fostering her economic growth and development. Increased market access, as a result of these, for the RMG and leather sectors in Bangladesh appears to have created employment opportunity for both the male and female workforces, which also has a number of other societal ramifications.

This Country Study on the impact of PTAs on selected issues(wages, culture and family structure), initiated by the UNESCAP, will help Bangladesh take necessary measures and support policies to convert the outcomes of PTA liberalisation schemes to its advantage in areas of employment and societal issues. Results from the country case study might also act as a guide for countries with similar resource endowments, and therefore other countries having a similar level of economic advancement and having similar PTAs will also be able to use the findings of the study.

1.5 Methods of Data Collection

The country case study was based on two sources of information: secondary resources and primary sources of data. While the secondary data were collected through a desk review, the primary data were collected employing qualitative data collection techniques. In-depth interviews were

¹¹ The increased employment opportunity for women and the consequential progress towards gender equality in Bangladesh helped tackle social and cultural changes that mark the 'second generation' challenges to Bangladeshi women's progress. Previously, there were widespread cultural reservations about female employment. The employment of females in export sectors, such as garments and leather has gradually resulted in cultural shifts. It is now culturally acceptable that women will work in the RMG sector. The immense cultural significance of women having gained access to the garments sectors and public space will not be understood by someone who cannot recall the Bangladesh of the 1980s or earlier.

conducted with exporters from the two selected sectors (RMG and leather), workers, women entrepreneurs, trade experts/analysts and civil society members/ journalists.

To effectively identify the implications of SAFTA and APTA on Bangladesh with regard to the selected three issues of wages, culture and family structure, 8 respondents from three groups of stakeholders were consulted. They are:

Sl. No.	Stakeholders	Number of participants
1	In-depth interview:	
	• Exporters and importers (RMG & leather industry represent both importers and exporters)	2
	• Workers/trade union,	2
	• Trade analysts/experts	2
2	Desk review: A comprehensive desk review was conducted as a part of the country study.	

The report of the Study is structured as follows: Chapter 2 provides a brief overview of the RMG sector, and the economic and social implications of liberalisation of the sector. Chapter 3 presents an overview of leather and leathergoods sector, trade and investment scenario in the sector and the economic and social impact of liberalisation on the sector. Chapter 4 concludes by focusing on potential future development in these two sectors and their implications for the country's development.

2. Chapter 2: Sectoral Review: The RMG Sector

This chapter begins with highlighting the origin and growth of the RMG sector in Bangladesh and the trade and investment scenario related to it. It then explores the economic and social implications of trade liberalisation undertaken in the sector.

2.1 Trade and investment in RMG sector

The RMG industry has now emerged as the largest manufacturing and export industry in Bangladesh. The country's flagship industry began its journey in the early 1980s with the pioneering initiative of late Mr. Nurool Quader Khan. In 1979, Mr. Khan sent 130 trainees to the Republic of Korea, where they learned how to manufacture RMG (Hassan, 2014). Since then, the industry grew and developed in all respects (including quality, design and marketing) in such a massive scale that it is now the highest source of foreign exchange earnings in the country. Bangladesh's garment exports increased from USD 6.8 billion in 2005 to USD 19.9 billion in 2012, recording a compounded annual growth rate (CAGR) of 16.6 per cent. As of now, apparel export stands at USD 24 billion, accounting for about 82% of all exports. It is predicted that this labour-intensive industry will cross the USD 50 billion export mark within the next 7 years. The RMG industry currently contributes 13% to Bangladesh's GDP (GoB, 2010). The remarkable success of the sector can be attributed to a number of factors, such as liberalisation of the import tariff rates resulting in reduced cost of inputs (see Table 2.1), facilities provided to the sector through Special Import Regimes (such as special bonded warehouse facilities, drawback facilities, cash incentives, export processing zones, etc.), back-to-back letter of credit facility, low labour cost, and entrepreneurship of the RMG manufacturers.

Table 2.1: Reduction in Tariff for Inputs of RMG

Description	H.S. Code	Operative Tariff (FY 1992-93)	Operative Tariff (FY 2016-17)
Woven fabrics of cotton	5208.11	60%	25%
Woven fabrics of carded wool	5111.11; 5111.19; 5111.20	75%	25%

Table 2.1 reveals that there has been a significant cut in the tariff rates for cotton and wool fabrics used as inputs by the RMG sector during the last 2 decades through autonomous liberalisation. Such gradual reduction in import duties for RMG inputs resulted in reducing the cost of production. In addition, there has been significant tariff reduction under SAFTA for RMG inputs, such as yarns and fabrics. For instance, under SAFTA, import tariff for Woven Fabrics (H.S Code 5112.19) came down to 5% in 2014 from 25% in 2006, for Raw Cotton (H.S Code 5203.00), it came down to 3.6% in 2014 from 6% in 2006. APTA is another agreement under which Bangladesh liberalised its own import regime. Due to the low cost imports under autonomous and free trade agreements, the country's RMG sector gained competitive advantage in terms of reducing cost of production.

Although Bangladesh's RMG products do not get significant preferences under APTA's List of General Concessions (for example, margin of preference for Men's or boys' anoraks, wind-cheaters of H.S. Code 6201.93.90 is 30%), it does receive significant duty preferences at varying rates under APTA members' Special List of Concessions. For example, Women's or girls' jackets of silk or silk waste (H.S. Code 6204.39.10) enjoys 100% margin of preference (MoP) under China's Special List of Concessions for Least Developed Countries (LDCs), while the same item enjoys only 27% MoP under its General List of Concessions (UNESCAP, 2009). The same applies to The Republic of Korea. For

example, Women's or girls' jackets of silk or silk waste (H.S. Code 6204.39.10) enjoys 50% MoP under the Republic of Korea's Special List of Concessions for LDCs, while the same item enjoys 37.7% MoP under its General List of Concessions. As an LDC, Bangladesh also gets DFQF market access in China and the Republic of Korea. Such duty free market access under FTA (e.g. SAFTA), RTA (e.g. APTA) and unilateral facility (e.g. DFQF) immensely helped the country's RMG sector to boost its volume of exports. Moreover, unilateral market access facilities (e.g. DFQF, GSP) offered by others, e.g. the EU, Japan, Australia, etc. also significantly contributed to the development of this sector.

Liberalised trade policies of the Government of Bangladesh (GoB), including participation in PTAs, have been able to attract foreign investments in the RMG sector. Such investment also enhances employment opportunity. Total foreign investment in the RMG sector (textile and wearing) now stands at US\$ 529.89 million (gross inflow) and \$366.44 million (net inflow) (Bangladesh Bank, 2016). Although the GoB welcomes FDI, and offers a number of incentives to promote investment, the FDI in the RMG sector is not always welcome by domestic RMG firms. The Bangladesh Garments Manufacturers and Exporters Association (BGMEA) reportedly urged the Ministry of Commerce (MoC) and the Bangladesh Investment and Development Authority (BIDA) to impose restrictions on foreign investments in the sector¹² (Kathuria et al., 2016: p.258). This is not unusual given the capacity of local entrepreneurs to invest more provided the infrastructural constraints are adequately addressed. Local RMG entrepreneurs are fearful that increased FDI into the sector will hurt local factories through wage inflation, as foreign companies hire workers and pay them more, and the use of limited infrastructure, especially power and gas (Kathuria et.al., 2016).

Foreign investors from the Republic of Korea currently dominates FDI in Bangladesh. A total of 120 Korean companies, including 62 in the export processing zones (EPZs), were in operation in Bangladesh in 2008. These factories located in EPZs produce mainly textile products, paper and plastic. The amount of the Republic of Korea's investment in the EPZs in 2008 was US\$ 900 million (The Daily Star, Dhaka, 2008). The exact amount of investment in the RMG sector, however, could not be ascertained.

2.2 Economic Impact of Liberalisation on the Sector

2.2.1. Sector Size and Growth

The country's RMG industry grew by more than 15 per cent per annum on average during the last 15 years. Currently, there are more than 4,000 RMG firms in Bangladesh. With the exception of those in EPZs, more than 95 per cent of the firms are locally owned (Hasan et. al, 2016).

The size of the sector in terms of production for the last 5/6 years are shown in Table 2.2.

Table 2.2 Production of RMG products (Quantity in Million Dozen PCs)

Fiscal Year	Total RMG	Knitwear		Woven wear		Compound annual Growth rate (GAGR %)		
		Quantit y	%Share RMG	Quantit y	%Share of RMG			
09-10	465.5	292.7	63	172.8	37	13	14	19
10-11	688.31	441.03	64	247.28	36			
11-12	722.85	444.23	61	281.62	39			
12-13	784.81	478.19	61	306.27	39			
13-14	852.88	512.23	60	340.65	40			

¹² Local business associations often publicly lobby for discouraging FDI in garments industries.

14-15	950.57	550.40	58	400.17	42			
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Source: BKMEA

The export performance of the RMG sector is shown Table 2.2(a) below:

Table 2.2(a): Exports (in million USD)

Financial Year	Knit (HS Chapter 61)	Woven (HS Chapter 62)	Total
2012-13	10,475.88	11,039.85	21,515.73
2013 -14	12,049.81	12,442.07	24,491.88
2014-2015	12426.79	13064.61	25491.4
2015-16	13355.42	14738.74	28094.16
2016-17 (July-April)	11254.17	11883.14	

Source: Export Promotion Bureau, MoC, GoB

2.2.2. Technological development in the RMG sector

The sector adopted the latest technologies to remain competitive in the global market, as a considerable number of factories have moved from semi-automatic to automatic production system. For example, in sweater production, the introduction of automatic Zaquard machine increased speed and productivity. It, however, created tensions among workers as they became redundant and were retrenched (an RMG entrepreneur interviewed on 04 May 2017). Other new machines (e.g. the JK-900E sewing machine) were also introduced. Thread-cutting has become more accurate with the sensor that was added to JK-900E sewing machines. Significant development in technology have already encouraged RMG entrepreneurs to use low liquor dyeing machine, ozone washing machine, Zaquard machine and the latest SAP and ERP technologies and software (Uddin, 2016).

Another example of technological upgradation is the use of lasers by denim factories to make 'greener' denim. Traditionally, a pair of jeans was faded by washing the material in a chemical bath. Now it is done within a second with a simple automated laser ray. This allows the rate of production in a factory to increase, without impacting upon the quality. The new technology also reduces risks of accidents to workers (www.thethirdpole.net). A large RMG group (the DBL group) has installed a Monforts Montex 6500 stenter last year, and it is currently constructing new factory buildings and installing new equipment that includes three Monforts Montex 8000 stenters (<http://www.knittingindustry.com/>). The group also uses energy efficient machinery in all its factories to have less environmental impact. Each of the new Montex 8000 units is equipped with an Eco Booster HRC. The Eco Booster is an intelligent heat recovery module with automated cleaner that can save up to 35% energy costs. Moreover, many RMG factories are using cleaner technologies and producing garments in a caring and responsible way to preserve environment for future generations. So far, thirty-five garment, textile and washing factories in Bangladesh have received LEED certificates from US Green Building Council (USGBC) for their green practices. The top three environment-friendly garment and textile factories in the world are located in Bangladesh. These are - Envoy Textiles, Remi Holdings and Plummy Fashions.

2.2.3 RMG Sector's Involvement in GVC

A Global Value Chain (GVC) is a chain of activities divided among different firms in multiple geographical locations. As a country, Bangladesh's overall participation in the global value chain is not much. But the RMG sector has a significant level of participation in Global Apparel Value Chain, especially in knit garments (with about 75-80% fabrics supplied from local sources). Again, in the

earlier years accessories of apparels were mostly imported. Now, about 90% of the total demand for apparel accessories (e.g. button, zipper, hanger, interlining, back boards, neck boards, stickers, hang tags, barcodes, size tags, price tags, etc.) are supplied by local industries, for which a large number of factories have sprung up in Bangladesh. For instance, YKK, the world-renowned zipper manufacturer, has established its factory in Dhaka EPZ, and supplies zippers to local RMG manufacturers. Similarly, many button¹² and interlining factories have been established in Bangladesh (an interviewee, interviewed on 15th May 2017) to cater to the needs of export-oriented garments industry. Local manufacturers cater to about 60% of the total requirements for buttons. RMG accessory makers have also started exporting directly, and earned around US\$ 1.22 billion in the last fiscal year, 2015--16, by directly exporting different accessories and packaging materials. Accessory makers also earned another US\$ 4.88 billion from deemed exports, i.e. accessories and packaging materials that were used in export-oriented RMG industries. Eighty (80) percent of the total accessories are supplied to the RMG sector from internal sources (Mahmud & Ahmed, 2017).

Its local value addition is estimated, on average, to be about 75 per cent annually between FY10 and FY16. Again, during the last 2 decades, Bangladesh has been able to build a strong backward linkage industry in the production of yarn and knit fabrics. Moreover, most accessories, such as cartons, hangers and zippers, dependent earlier on imports, are now produced locally by SMEs. Relaxation of the EU's Rules of Origin (RoO) requirement from three stages to two stages (yarn to fabrics, fabrics to apparels) in 2004 also stimulated the private sector investment in backward linkage activity (Rahman, 2011). Development of such backward linkage industry has reduced dependence on imported inputs, and thus increased the share of domestic value addition in exports of knit and woven garments. Although Bangladesh started at the lowest segment of the value chain, that is, Cut, Make and Trim (CMT), over the years it has been able to move to Original Equipment Manufacturing (OEM) and is on its way to Original Design Manufacturing (ODM) and Original Brand Manufacturing (OBM) (Fernandez-Stark et. al, 2011).

2.2.4 Development of the RMG Sector and its Spillover Effects

As RMG exports consist of nearly 82 per cent of our total exports, we may conclude that the sector is the key driving force behind the GDP growth in Bangladesh. The meteoric rise of the RMG sector has not only helped creation of employment for approximately 4.2 million workers and improve the country's balance of trade position, it has also had significant beneficial spillover effects. Creation of a huge employment opportunity by the industry has also led to the decline in the incidence of poverty from just below 50 percent in 2000 to around 31.5 percent in 2010 (ILO, 2013) to an estimated 24.5% in 2015 (GoB, Planning Commission). Increased employment opportunity also creates women empowerment. For instance, employment in the RMG sector has become a source of power for women in Bangladesh, because of its more collective effects on women's citizenship (Hossain, 2012). Heath & Mobarak (2012) found that the growth of the garment industry in Bangladesh increased schooling for younger girls.

Again, as explained in sub-chapter 2.2.3, the development in the sector has led to a silent revolution in the accessories industry. The RMG accessory makers and packaging producers supply 34 types of products, and has made Bangladesh self-sufficient in this area. An RMG owner (interviewed on 2nd May 2017) indicates that they can indeed source 100 percent accessories from local sources, but due to specifications provided by foreign buyers to use buttons/zippers with their respective monograms, they have to import about 10 percent of their total needs. Montrims Ltd, the largest accessories maker in Bangladesh (a concern of Mondol Group of Industries), produces around 25 accessory items, that includes, *inter alia*, woven labels, leather badges, stone and metal motives, rubber patches, gum tapes, satin and cotton ribbon hangers.

The development of the RMG sector also made indirect contribution to the growth of other sectors that cater to the needs of garments workers. These include low-priced sandal shoes, low-priced soaps, shampoos and cosmetics (such as lipsticks) and tiffin carriers. Furthermore, the RMG industry not only propelled the growth of spinning, weaving, dyeing and finishing industries, but also rendered large positive externalities by contributing to other economic activities in such areas as banking, insurance, real estate, packaging, hotels and tourism, recycling, consumer goods, utility services and transportation. Due to the huge expansion in RMG, demand for real estate to accommodate offices and factories for over 5000 garment units has increased considerably. Again, demand for one room houses and slum-like residences known as ‘messes’ to house garments workers has also increased. House rents in Savar, Ashulia, Tongi, Gazipur and Jatrabari/signboard areas (especially low-quality houses meant for workers) has increased due to the relocation of RMG factories from main Dhaka city to these locations (One interviewee, interviewed on 1st April, 2017).

2.3. Social Impacts of Liberalisation

The growth of the RMG industry has also caused an immense social impact, most of which are positive except a few. Creation of a huge employment opportunity discussed in the previous sub-chapter is the most significant contribution of the sector. The following sub-chapters detail the employment quality and opportunities in the RMG sector.

2.3.1. Employment Quality and Opportunities

In 1980, there were 50 factories in the country, which employed a few thousand people (Kabeer and Mahmud, 2004). At present, there are 5,400 factories in the country and over four million workers (BGMEA, Members’ Directory 2013-2014). More than 85 percent of the production workers are women (Islam and Zahid, 2012) with very little or no formal education or vocational training. Farhana et.al. (2015) observed that RMG owners prefer female workers not only because they are cheaper to hire and abundantly available, but also because they are more vulnerable, compliant/docile, and manageable than male workers. Although the RMG sector provides large employment, the employment quality is not very satisfactory, as evident in the existence of poor health and safety conditions. Production is run in factories which are not up to the mark in terms of fire safety and building integrity. Recent incidents of factory collapse (The Rana Plaza collapse in 2013 killed at least 1,135 people, injuring more than 2,500 others most of whom were RMG workers) and fire incidents (The Tazrin Fashion fire in 2012) and many other factories were examples of lack of safety in RMG factories.

Again, even though there has been a substantial increase in wages of garment workers in Bangladesh from Tk. 3000 to Tk. 5300, the minimum wage is still low compared to what the International Labour Organization (ILO) terms ‘Decent Work’¹³. Again, workers still live in slums and messes (tiny rooms) with no or minimum ventilation and inadequate sanitation and toilet facilities. About 20-30 persons have to share one toilet which is not only problematic but also unhygienic. Supply of adequate water is also an issue. About 61.1% workers get water but not sufficient for their bath and washrooms. They are also unhappy with the quality of drinking water (Farhana et. al, 2015). Thus it can be argued that the growth of the RMG sector has not necessarily led to satisfactory wage and standard of living of workers.

¹³ Decent work includes the following: employment opportunities; adequate earnings and productive work; decent working time; combining work, family and personal life; work that should be abolished; stability and security of work; equal opportunity and treatment in employment; safe work environment; social security; and social dialogue, employers’ and workers’ representation (ILO 2012: 15)

Furthermore, employees in the RMG sector have to accept long and late working hours, including overtime on weekends to the detriment of their comfortable life. Farhana et. al (2015) citing a study of ILO states that 50% workers in the RMG sector work for 10 hours while another 17% have to work 11-12 hours a day. The characteristics of export manufacturing employment in Bangladesh include - late working hours, inadequate transport and insecurity in the commute between work and home. Most women find it difficult to balance care work with garments employment, which involves long working days and unpredictable over-time; facilities for childcare are also rare. The aforesaid statements are corroborated in Hussain (2010): “Female garment workers suffer from bad working conditions, few rights, and no social security or sustainable livelihood” (pp. 328). Workers cannot work in the garment industry for a long tenure because of occupational hazards. Employers also do not prefer aged and experienced workers in their factories because they are more expensive than fresh workers with low remuneration (Farhana et. al, 2015). Again, workers’ unions are not also in a position to raise their voice for improvement in working conditions. Factionalism of workers’ unions is one of the major obstacles to workers’ voice in Bangladesh. Moreover, meaningful freedom of association is still questionable due to the violent intimidation workers unions face in their attempt to organise workers into their workplaces (Berliner et. al, 2015).

2.3.2. Measures to improve workplace safety

After the unfortunate accidents of Rana Plaza and Tazrin Fashions, several initiatives have been taken to improve the workplace environment. The labour law of the country has been amended and the right to form trade unions in factories, including in those in the EPZs, has been approved. In April 2013, European retailers formed the Accord on Fire and Building Safety in Bangladesh and North American retailers, including top brands Walmart and Gap, formed the Alliance for Bangladesh Worker Safety to improve safety standards in the RMG sector from where they source products (Ovi, 2017).

They undertook a five-year plan setting timelines and accountability for inspections and training, improve working conditions in garment factories and workers’ empowerment programmes. The Alliance has so far inspected 870 factories while Accord inspected more than 1,600 RMG factories. During inspections both Alliance and Accord found serious structural faults in 106 factories and sent the list of the units to the government-set review committee suggesting immediate evacuation. Out of 106 factories 35 were closed as per recommendations (Textiles Today, 2017). In addition to initiatives by Accord and Alliance, there is another platform to inspect factories. The GoB in cooperation with the ILO formed this platform called National Initiative (NI) to inspect the factories not covered by Accord and Alliance to improve safety standards. Significant progress has been made so far in improving the RMG sector working conditions, partly because of the realisation of the importance of safe working environment by industry players and support from the GoB and partly because of the advocacy and pressures from buyers and brands to improve compliance.

Although Accord and Alliance have contributed significantly to improve the building and workplace safety, some of their actions created burdens on the RMG sector. One RMG official complained that Accord and Alliance at times suggest retrofitting of factory buildings out of suspicion which are actually safe and do not need any retrofitting (an Interviewee, interviewed in May 2015). In this respect, the following newspaper report seems relevant: “The Accord suggests more expensive retrofitting options in spite of availability of cheaper local sources. For instance, the Accord engineers asked for Taka 70 lakh for retrofitting which local engineers could deliver for Taka 20 lakh only... In addition, the Accord and Alliance often arbitrarily decide safety and security standards from a Western point of view ignoring local specificities. For example, BUET engineers recommended

concrete strength to be 2400 PSI for stone structure and 2100 PSI for brick structure whereas Accord engineers proposed 1750 PSI¹⁴ for brick structure.” (Tanjeem, 2017).

With regard to the quality of employment, it can be said that garments workers and employees are not satisfied with the quality of their jobs. One RMG employee mentioned on condition of anonymity that they face tough work schedule (often 14-16 hours a day) in a relatively warm and closed factory room. Around 20 staff have to share one bath room. It is also to be noted that RMG workers often have to endure verbal and other forms of abuse within factories. Such abuses were found to be negatively affecting the productivity of almost half of the surveyed workers (Siddiqi, 2003). Sexual harassment and others sources of threats to personal security are actually more common during travel to and from than in the workplace, although some workers also feel insecure at home, particularly if they live in ‘mess’ arrangements.

2.3.3. Gender Equality

The growth in the RMG sector has contributed considerably to break down the deep-rooted social mores that determine how women see themselves, both in their families and at work. While the RMG sector emerged as the largest employer for female workers, women are valued in the RMG factory floors. Again, the scope for employment and income earnings in the RMG and microfinance activities have significantly improved gender equality in Bangladesh. A recent study by the World Bank on gender in Bangladesh observed that -

Bangladesh stands out as the shining new example in South Asia of a poor country achieving impressive gains in gender equality ... a country that had been famously written off by Henry Kissinger as a ‘basket case,’ which now dwarfs India and Pakistan in many areas. Between 1971 and 2004, Bangladesh halved its fertility rates. In much of the country today, girls’ secondary school attendance exceeds that of boys. The gender gap in infant mortality has been closed. The micro-credit revolution continues to boost women’s solidarity groups and earning potential, and vast numbers of young women are leaving their villages to work in garment factories where, in earlier generations, young women were rarely seen outside their homes (World Bank: Bangladesh Development series----Paper 22, 2008:p.3).

The RMG sector is closely linked through backward linkages with the textiles and the accessories sectors. It has also important backward linkages with electricity, gas, and machinery and spare parts suppliers. The development of the sector has also given rise to the development of a buying house sector creating significant business and employment opportunity for the people. All these together play an important role in enhancing gender equality in the country.

2.3.4 Role of RMG in Shaping Bangladesh’s Culture and Traditional Attitude towards Female Employment and Wage Rates

In Bangladesh, like in other countries, there were wage differentials between men and women. Women used to earn less than men, and this wage- gender differential was a product of social norms and beliefs. But these persistent inequalities are gradually changing with more and more women getting employment and having access to, and control of, resources. Even people with disabilities are now getting jobs in the RMG sector (an RMG entrepreneur interviewed in April, 2017). Due to the nature of jobs in the export-oriented RMG sector, social norms and cultural traditions are gradually being transformed in Bangladesh. Prejudices against employment of women are also challenged. Perceptions of co-workers and factory management are changing too. More encouraging is the fact that women are now being elevated to supervisory positions.

¹⁴ PSI stands for Pounds per Square Inch

We know that purdah (veil) is a “cultural constraint”, upheld by rules and norms specific to the Bangladeshi culture. Female workers were previously stigmatised as their daily contact with men is seen to compromise their virtues (Kabeer, 1991, p.137). But with the increased participation of females in the RMG sector, this cultural outlook has been transformed to a large extent as observed by an interviewee:

“Female workers in the RMG sector are no more looked at with a surprised eye. Furthermore, the traditional Patriarchal norms and the *culture of son preference is getting lessened when parents see their daughters are also earning for them*”. (An Interviewee, who was interviewed in May, 2017).

3. Chapter 3: Sectoral Review: The Leather Sector

This chapter highlights the results of the sectoral review of the leather and leather goods sector, referred to herein as the leather sector, in Bangladesh. It begins with providing an overview of the sector, and examining the trade and investment scenario there. It, then, highlights the economic and social impact of trade liberalisation undertaken in the sector.

3.1 The Leather Sector: Trends in Trade and investment Flows and Patterns over Time

The leather sector in Bangladesh essentially consists of four sub-sectors. These are - Tanning & Finishing, Footwear & Footwear Components, Leather Accessories, and Leathergoods (bags, wallets, belts, accessories, etc.). Of them, the leather and leathergoods sub-sectors are the main contributors in the export arena. Slaughtering of significant numbers of cattle and goats during Eid-ul-Azha (the 'Festival of the sacrifice') as well as slaughtering of cows and goats throughout the year provide a ready and steady supply of hides, which are the raw materials in the leather supply chain.

Such locally available raw hides provide 95 per cent of the raw materials required for the leather industry. Only about 5 per cent of the raw hides are imported.

Import tariffs on raw hides brought in from overseas were gradually reduced over the years as part of the country's trade liberalisation programme discussed in the introductory chapter. An example of such tariff reduction is provided here. In FY 1992-93, the effective import duty on two leather sector raw materials, i.e. Cow crust leather (HS Codes 4107.19.00; 4107.99.00) and Camel wet blue leather (HS Code 4104.19.00) was 60 per cent in both cases. But through a gradual liberalisation process over the years, tariffs in both of these cases have now come down to 25 per cent. Under the SAFTA Agreement, the tariff is even lower (0 per cent in both cases). Similarly, tariff rates on chemicals needed for the leather sector (HS Codes 3506.99.00; 2827.10.00; 3405.10.00; 29302000; 3906.90.00, etc.) were also reduced from 45 per cent in FY 1992-93 to between 5 and 15 percent in FY 2016-17. But the export-oriented leather factories are currently entitled to import raw materials and chemicals free of duty and taxes under bonded warehouse facilities. Such liberalisation in import duties on necessary inputs and raw materials of leather and leathergoods industry contributed in reducing costs of production. The expansion and flourishing of this sector were due to a number of factors, such as availability of raw hides (raw materials) from local sources, liberalisation of trade (i.e. reduction in tariffs on import of inputs and raw materials) resulting in reduced costs of inputs, low labour costs, and GoB incentives provided through special import regimes (such as bonded warehouse facilities, duty drawbacks, cash incentives¹⁵ and EPZs) enormously helped the country's leather and leather goods sector to gain competitiveness in export markets.

Market access, through duty-free or preferential duty rates available under the PTAs, such as SAFTA and APTA, also helped the Bangladesh leather sector enhance its volume of exports. For instance, footwear made of leather or composition leather uppers (HS Code 6405.10.00) gets 50 per cent MoP under China's General List of Concessions under APTA. Again, as an LDC, Bangladesh also enjoys DFQF facility in China and the Republic of Korea under the WTO Hong Kong Ministerial Declaration 2005. Moreover, unilateral market access facilities offered by the EU, Japan, Australia and a number of other countries also significantly contributed to the development of this sector.

¹⁵ Under the FE Circular no 24 of Bangladesh Bank dated 20 September 2016, leathergoods are entitled to receive 15 per cent cash incentives.

The leather sector has also been able to attract a significant amount of FDI. In 2016, FDI in the leather and leathergoods industry amounted to US\$ 35.86 million. Annex 1 shows the list of Foreign Investors, their nationality, product type and location of factory in Bangladesh. Although total investment in the leather and leathergoods industry could not be known with certainty, current investment in the tannery industry is estimated at Taka 2.5 billion, of which government or bank finance is about Tk. 1.2 billion (<http://leatherbulletin.com/1143-2>).

In recent times, many globally-renowned companies, such as USA-based Timberland, Germany-based PICARD, Republic of Korea-based Youngone and, most notably, Taiwan Province of China-based Pou Chen Group (one of the world's largest shoemakers, producing shoes for Adidas, Reebok, Nike, Puma, etc.) have shifted their production into Bangladesh. Bata Shoe is one of the oldest investors, commencing their industrial operation in Bangladesh in 1952, which continues to be the largest shoe maker in the country together with tanning facilities and auxiliary items, such as PVC, TPR, EVA and normal leather-based shoes (<http://www.weltann.com/bangladesh-a-potential-leather-sector/>).

3.2 Economic Impact of Liberalisation on the Leather Sector

3.2.1. Sector Size, Growth, Production, Export and Import

Apart from the RMG sector discussed in the preceding chapter (Chapter 2), the leather sector is one of the main economically significant sectors in Bangladesh. There are 205 tanneries and 450 commercial exporters of leather in Hazaribagh. About 35,000 workers are currently engaged in the sector (*The Daily Sun*, 2017). The leather sector, including its allied sectors, employs nearly 8 lakh people directly or indirectly. Fifty-three (53%) percent of the workforce are women in the leather products industries (LFMEAB, 2016). Liberalisation of the sector and the resultant growth in its size are prime movers behind this employment opportunity. A study by Raihan (2008) found that the leather sector was the only industry in which trade openness had a positive and significant impact on the labour demand.

Bangladesh produces between 2% and 3% of the world's leather (BIDA website: <http://bida.gov.bd/leather-and-leather-goods>). Average annual output of hides and skins is 15 million square metres. Most of the livestock base for this production is domestic. Livestock comprises an estimated 1.8 % of the world's cattle stock and 3.7 % of the goat stock. Bangladeshi hides and skins have good international reputation. About 100 modern tannery units are now in operation in the industry, which are located mostly in the Hazaribagh area of Dhaka city (Ahamed, 2013). Statistics related to leather goods production in Bangladesh is presented in Table 3.1.

Table 3.1: Leather Goods Production and export from Bangladesh

Year	Leather Footwear (in Million USD)	Leather goods (in Million USD)	Non Leather Footwear (in Million USD)	Total Footwear	Leather goods+ Footwear	Annual growth rate of Leathergoods and Footwear (%)
2011-12	335.51	99.36	-	335.51	434.87	-
2012-13	419.32	161.62	-	419.32	580.94	33.59
2013-14	550.11	240.09	-	550.11	790.2	36.02
2014-15	483.81	249.16	189.46	673.27	922.43	16.73
2015-16	494.83	388.22	219.18	714.01	1102.23	19.49
July-April 2016-17	378.46	313.49	194.99	573.45	886.94	14.05

Source: Export Promotion Bureau (EPB)

Bangladesh accounts for 3% of the global leather & leathersgoods market. About 95% of leather and leather products from Bangladesh are marketed abroad, mostly in the form of crushed leather, finished leather, leather garments, and footwear (BFTI, 2016). International brands like Adidas, Aldo, Timber Land, Marks & Spencer, Steve Madden, Espirit, ABC Mart, Nike, K-Mart, Sears, etc. source leather goods and footwear from Bangladesh. The compound annual export earnings crossed a billion dollar mark in 2013-2014. China is the largest export destination for Bangladesh's hides and skins (17.7% of total leather). Table 3.2 shows that leather and leathersgoods exports from Bangladesh are on the rise. Exports of leather and leathersgoods were \$1.13 billion in 2014-15, compared with \$1.12 billion in the previous fiscal year, making it the second highest contributor to national exports after RMG. Leather exports accounted for 4.20 percent of the country's total exports worth \$30.00 billion in 2013-14. Italy, the United Kingdom, Belgium, Spain, France, Germany, Poland, the US and Canada, and Japan were the large destinations for the sector (Mirdha, 2015).

Table 3.2 Bangladesh's Export of Leather & Leathersgoods (Value in Million US\$)

Items	Year	2011-12	2012-13	2013-14	2014-15	2015-16
(4) Leather & Leather Products (41-43 & 6403)		663.5	866.46	1124.17	1130.51	1160.95
(a) Leather (Chapter 41)		330.16	399.73	505.54	397.54	277.90
(b) Leather Products (42-43)		99.36	161.62	240.09	249.16	388.22
(c) Leather Footwear (6403)		233.98	305.11	378.54	483.81	494.83
Growth Rate (%)		20.06	30.59	29.74	0.56	2.69

Source: Export Promotion Bureau (EPB), Dhaka.

In 2014, Bangladesh imported about USD 130.332 million worth of leather of other animals, leather of bovine/equine animal, raw skins of sheep or lambs, chamois leather, etc. But in 2015, its dependence on imported leather was decreased by USD 15.10 million. The industry now imports leathersgoods, such as trunks, suit-cases, camera cases, handbags, etc. of leather, plastics and textiles articles of apparel and clothing accessories, and of leather or composition leather. (BFTI, 2016).

3.2.2 Technological Development in the Leather Sector

Bangladeshi leather industry started its journey with a limited scale. Gradually, its size grew due to increased demand. From early 1990s the leather industry moved to the industrial scale production, with which came new software, machines and technology with a view to increasing the quality of products with modern designs, production efficiency and reduced costs. Table 3.3 shows a list of software machinery arrived and used recently in the factories that are members of the Leathersgoods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB):

Table 3.3: List of Software Machinery Recently Used by the Leather Sector

Software	Modern machines
<u>Design and development software</u> CAD CAM software: <ul style="list-style-type: none"> ▪ 2D for shoe pattern engineering ▪ CAD CAM software for the design of sole and sole-mould & pattern engineering ▪ Hi speed 3D color scanner ▪ Plotter 	Machinery used in cutting section <u>Leather Cutting Machines:</u> <ul style="list-style-type: none"> ▪ Laser Cutting M/C ▪ Traveling Head Cutting M/C ▪ Leather Splitting M/C ▪ Leather Sole Splitting M/C ▪ Cutting Board Shaving M/C ▪ Sewing Arm Cutting M/C ▪ Toe Puff Skiving M/C

	<p><u>Cutting Section (mostly used):</u></p> <ul style="list-style-type: none"> ▪ Swing ARM Clicking Press 20 ton ▪ Swing ARM Clicking Press 25 ton ▪ Moveable Trolley Clicking press 25 ton + Feeder ▪ Cutting Board Planning ▪ Stripes Cutting Machine - 300 mm

The LFMEAB, in partnership with the Centre of Excellence for Leather Skill Bangladesh Ltd (COEL), established a digital pattern facility centre that provides grading services with minimum cost. The leather sector not only introduced new technology and machinery to remain competitive in the export market, it also took necessary quality improvement measures to implement ISO 14001: 2015 (EMS). Eco-labelling has also been introduced for the leather sector in Bangladesh. Furthermore, by introducing better technologies and improving the skills of the workforce via training, the Re-Tie Bangladesh project have been able to reduce environmental threats in the Bangladeshi leather industry to some extent. The project 'Re-Tie Bangladesh (Reduction of environmental threats and increase of exportability of Bangladeshi leather products)' supported the industry in sustaining the conversion of locally available raw hides and skins into exportable products (UNIDO, 2015: p.96). Furthermore, water consumption was minimised and utilisation of chemicals were optimised by implementing state-of-the-art process management. Waste water pollution from liming was also minimised through the introduction of hair-save liming process technologies (p. 97). Again, it is encouraging to report that the leather research institute (LRI) at the Bangladesh Council of Scientific and Industrial Research (BCSIR) has invented chromium-free eco-friendly leather tanning agent (glutaraldehyde) for lease out to entrepreneurs. The institute has also designed heat reactivation device, diabetic footwear for the SME footwear and leather goods industries (www.theguardianbd.com/leather).

3.2.3 Leather and Leather Goods Sector and Global Value Chain

Raw hides and skins (RHS)¹⁶ are the main raw materials for leather industry in Bangladesh. According to Bangladesh Finished Leather, Leathergoods, Footwear Exporters Association (BFLLEA), the country's bovine and ovine livestock satisfy approximately 75 per cent of the leather industry's demand. The rest of the demand is covered by imports. The country's 21 temporary and permanent wholesale markets have a strong position in supplying tanneries and commercial leather exporters with preserved RHS (Strasser, 2015). Since the raw materials for the leather sector are locally available owing to the significant slaughter of cattle and goats for the festival of Eid al-Azha, as well as the slaughter of cattle and goats for consumption throughout the year, the leather goods value chain can be largely captured domestically.

3.2.4 Spillover effects of the Leather Sector

The leather and leathergoods sector is considered as a significant polluter of environment. US-based environment watchdog the BlackSmith Institute and GreenCross Switzerland finds that Hazaribagh, the home of 270 registered tanneries in Bangladesh, is one of the top 10 polluted places in the world. (Yusuf, Akhtar and Burhan, 2013). Thousands of Bangladeshi lives are blighted by the millions of litres of waste that pour, untreated, from the tannery district gutters, and into Dhaka's main river *Buriganga*. Chromium, lead, organohalogens and other toxins with more than the statutory

¹⁶ Here RHS is used to refer to both green and salted hides and skins.

maximum levels had been poisoning Hazaribagh's wells (The Guardian, 2012). It is reported that untreated toxic wastes discharged from tanneries (206 tanneries) at Hazaribagh, Dhaka, have created a major health hazards for the public in the area once known as “garden of thousands flowers” (Motlagh, 2013 cf Belal, 2015).

Foreign buyers also issued warnings that if leather producers do not improve working conditions and environmental issues, they will stop buying leather goods from Bangladesh. For instance, in 2013, the Bengal Leather Corporation Ltd. (BLC) invested substantially in developing samples for the Italian leather goods company, Geox. The buyers verbally committed to an order of 2.5 to 3 million square feet of finished leather for the production of their 2015 winter line being satisfied with the quality of the product. But before the completion of the order, the Geox board cancelled the purchase order on the grounds that leather produced in Bangladesh is not environmentally friendly due to the lack of an Effluent Treatment Plant (ETP) (The Asian Foundation, 2016).

However, things have dramatically improved in 2017 with the closure of all leather and tannery industries at Hazaribagh. The GoB has established the Savar Industrial Park in 2017 with a central ETP. The new Park will house more than 250 tannery and leather industries and thus remove the nagging environment problem caused by the leather sector.

3.3. Social impacts of Liberalisation of the Leather Sector

The leather and leathergoods sector is an important source of employment. The sector contributed slightly above USD 1.00 billion during the last financial year to the country's export figure. Again, as mentioned earlier, there are about 800,000 semi-skilled and skilled workers employed in this sector. Necessary programmes are there to increase their skills. For instance, since 9th May 2016, the LFMEAB has been implementing Skills for Employment Investment Programme (SEIP) for the leather sector under the auspices of Ministry of Finance and Asian Development Bank (ADB). Through this partnership, a total of 5,090 workers in LFMEAB member factories are being trained in apprenticeship & upskilling training. The LFMEAB, in conjunction with COEL, has provided training to more than 12,500 people to achieve skilled workers and mid-level management for leathergoods & leather footwear factories.

The leather and leathergoods sector is also a great source of health hazards. According to the World Health Organization, 90% of Hazaribagh's tanning factory workers would die before they are 50 due to gastrointestinal, dermatological and other diseases resulting from the serious pollution caused by the tanneries (Maurice, 2001). Tanners use different chemicals to process leather at various stages. Once the hair from cow and goats' hides is removed, they use chromium¹⁷ sulphate with other chemicals to tan the hides but chromium stains the skin of workers. Although it is less toxic than the very dangerous hexavalent chromium (from which it is derived), chromium sulfate is the cause of serious skin and respiratory irritation of workers. A large number of tannery workers are suffering from adverse health conditions, such as premature ageing, discoloured, itchy, peeling, acid-burned, and rash-covered skin, fingers corroded to stumps, aches, dizziness and nausea, and disfigured or amputated limbs (Emergingrating, 2016). Taking cognisance of the dangerous polluting activities of the tannery industry, the High Court ordered tanneries to relocate their production to Tannery Industrial Park at Savar. The High Court also ordered the authorities concerned to shut down utility services, including gas line, power and water lines of the 154 tanneries which damage the environment.

17 Chromium turns the leather blue-known as “wet blue”.

However, initiatives are underway to improve the health and safety conditions in leather and leather goods sector (An Interviewee from the Leather sector, interviewed in May 2017). The working condition in leather goods and footwear factories under the LFMEAB is getting more compliant, following all national standards. Under the banner “Compliance for Success Programme” LFMEAB has taken the move, since June 2013, to make its members compliant. Managements of its member factories were trained on various Operational Safety and Health (OSH) issues, labour laws, structural & fire safety and national standards with the aim of equipping the member factories to ensure workplace safety issues within their respective factories. The LFMEAB has also implemented with GIZ and PICARD Bangladesh on Occupational Health and Safety Assessment Series (OHSAS), which enhanced the capacity to follow the standard for the development, implementation and maintenance of world class health and safety management system. A member of LFMEAB states that “LFMEAB has implemented factory improvement program[sic] other than regular compliance activities. Initially, we have completed social compliance assessment in 50 member-factories under collaboration agreement with GIZ. Under this factory improvement program in next phase further 100 member factories will avail technical assistance such as advice on social compliance enhancement, training social standard and awareness training on Business Social Compliance Initiative (BSCI)” (An Interviewee, interviewed in May 2017).

3.4 The question of Child labour

At the earlier stages of the RMG Industry, the question of child-labour was a vexing problem. But it is no longer there in the RMG sector, and both the buyers and the ILO appear satisfied with the above-noted stand of both the manufacturers and the government. And although leathergoods manufacturing sector, including the footwear factories are now free from child labour, some of the tanners may still employ some child labourer. But both the government and the Industry people appear determined to get rid of this curse.

4. Chapter 4: Conclusions

The above study is the result of a brief research on the social and economic effects of liberalisation on the RMG and leather and leathergoods sectors. It revealed that various trade liberalisation measures undertaken by the GoB, and more specifically the PTAs concluded by the GoB with other regional countries in the form of SAFTA and APTA, have had significant positive economic impact in areas, such as expanding the size of the sectors, enhancing their domestic production, boosting exports, inducing technological improvement, and enabling meaningful participation in global value chains. The study also revealed that there were positive spillover and social effects of such engagement in such trade liberalisation initiatives, which were evident from instances of enhancement of employment opportunity, increasing gender equality, and inducing change in culture.

The Study will conclude by focusing on potential future development in the RMG and leather and leathergoods sectors and their implications for the country's development, and suggesting future areas of potential research in these two sectors in the following two sub-chapters.

4.1 Potential Future Development in RMG and Leather Sectors and their Implications

The RMG sector in Bangladesh is going through a transition from a low compliant sector to a possibly fully compliant one. The sector has done well in tackling the aftershocks of the gutting of Tazreen Fashions and the collapse of Rana Plaza, which caused international uproar about the safety of RMG workers and the security of RMG factories. As discussed in Chapter 2, brands and buyers in the name of Accord and Alliance as well as the ILO extended their hands to Bangladesh RMG sector in the form of financial and technical assistance to improve its workplace health and safety. RMG industry owners and the GoB also took necessary measures to ensure building and fire safety and improve overall occupational health and safety in Bangladesh. Owners in the RMG sector invested over US\$ 1 billion to renovate and retrofit their factories as per the demand of buyers, retailers and brands¹⁸ (Mirdha, 2017). All these helped the RMG sector to weather the negative image and ensure compliance.

The RMG sector has immense prospects of achieving the seemingly ambitious target of export earnings of US\$ 50 billion from the sector by 2021 (The New Age, 2016). This target is based on the reality that the cost of sourcing of RMG from Bangladesh is still the lowest in the world because of comparatively low prices and low wages of workers. Statement made by Enzo De Renzo, manager (import) of European retailers CAPRI and Alcott, seems pertinent to be quoted here: "We [buyers] are not leaving Bangladesh and going to other countries for sourcing RMG products" (Ovi, 2013). Moreover, the rising labour costs in China and the relocation of production facilities to Bangladesh also offer a significant growth potential for the sector. The immense export potential of the sector, significant employment opportunity it creates and the resultant positive effects on the growth of other backward and forward linkage industries will come as a boon for Bangladesh. However, there remains few challenges for the sector. Ensuring constant supply of necessary gas and electricity, political stability, development of trade infrastructure and availability of skilled manpower will be critically important for the sector to grow and achieve the export target.

The leather and leathergoods sector also has very bright prospects in Bangladesh. As raw materials for the sector can easily be procured from local sources, and as there is an abundant pool of labour,

¹⁸ However, in the opinion of 1st Vice President, BKMEA, Mr. AH Aslam Sunny, in his speech in an Export Promotion Bureau Programme in Narayanganj, near Dhaka on 13 May, 2017, they have invested US\$ 3 billion.

the sector has a comparative advantage to grow. Policy supports from the GoB in the form of reduced tariff on import items of leather sector coupled with bonded warehouse facilities and cash incentives offers competitive advantage to this labour-intensive sector (leather products and footwear). However, this sector needs to improve its compliance records with environmental standards in order to remain relevant in global markets. This will require immediate relocation at the newly-established Savar Leather Industrial Park, and resumption of tanneries' production at the Park in an environment-friendly way through the use of Central Effluent Treatment Plant¹⁹ (CETP), which has already been built there. Otherwise, international buyers may abandon Bangladesh as their source for leather and leathergoods products.

4.2. Suggestions for Future Research

Although a few interviews were conducted for the limited purposes of this Research Study on two significant production and export sectors in Bangladesh, it is based predominantly on secondary data and resources. As such, this Study may suffer from a lack of adequate robustness. Moreover, the Study did not use sophisticated quantitative research techniques to understand the social and economic impacts of the sectors reviewed. Therefore, a nuanced understanding of the social and economic impact of the RMG and the leather and leathergoods sector than the current one will require an in-depth quantitative study in future. In particular, such future study may consider the following:

1. How did employment in the RMG sector change the household role of women in Bangladesh? Did employment of a women in the RMG/ leather sector contribute to the welfare of the family?
2. Despite representing the biggest export earning sector, why were not RMG entrepreneurs careful enough about workplace safety and health conditions before the Rana Plaza disaster? How and why compliance in the RMG sector is different from other prominent sectors, such as Leather and Pharmaceuticals?
3. What are the determinants of Compliance in the RMG sector?
4. What are the possible strategies and needed initiatives to reach the export target of US\$50 billion by 2021? Is there any scope for Public Private Partnership in achieving the export target?
5. What are the impending challenges (including institutional constraints, if any) and way forward in achieving the desired development in the leather sector in Bangladesh?
6. Is there any Revealed Comparative Advantage (RCA) for Bangladesh Leather and leather goods sector in comparison to other selected countries, i.e. its competitors? If there is RCA for Bangladesh, what could be Bangladesh's strategy to diversify its product base and enhance exports to existing as well as new markets?

¹⁹ In this regard, it is notable to mention that CETP is not a panacea. CETP will not solve all the problems in the sector, such as poor occupational health conditions, hazardous child labour and the existing industrial pollution of Hazaribag. Further steps, such as improved workplace conditions for tannery workers and improved environmental conditions for the residents of Hazaribagh, and users of the Buriganga River will be required in the long run.

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Annex 1: List of Foreign Investors, Nationality, Product type and their location of factory in Bangladesh²⁰

Here is a list of FDI in footwear and leathergoods sector in EPZ areas as per available information to us:

List of FDI in Leather goods & Footwear Industry in EPZ Area of Bangladesh				
Serial No	Company Name	Location	Investing Country	Product type
1	Bengal Pelli (BD) Ltd.	Adamjee Epz	Portugal	Footwear & Leathergoods
2	Bumsei Co., Ltd.	Adamjee Epz	Republic of Korea	Footwear & Leathergoods
3	King Kong Leather Ware (BD) Ltd.	Adamjee Epz	Malaysia	Footwear & Leathergoods
4	Korean Leather Tech Co. Ltd.	Adamjee Epz	China	Footwear & Leathergoods
5	Super Protective Shoes (Pvt.) Ltd.	Adamjee Epz	Ukraine	Footwear & Leathergoods
6	Cosmos Shoes International Limited	Chittagong Epz	Taiwan Province of China	Footwear & Leathergoods
7	Bonshoe Bangladesh Limited	Chittagong Epz	Taiwan Province of China	Footwear & Leathergoods
8	Nurani Accessories Limited	Chittagong Epz	Republic of Korea	Footwear & Leathergoods
9	Papella Ltd.	Chittagong Epz	Taiwan Province of China	Footwear & Leathergoods
10	Patenga Footwear (Pvt.) Ltd.	Chittagong Epz	Taiwan Province of China	Footwear & Leathergoods
11	UFM (BD) Limited	Chittagong Epz	Republic of Korea	Footwear & Leathergoods
12	J B Networks Co. Ltd.	Comilla Epz	Japan & Bangladesh	Camera case, Leather Bags, Weaving Strap
13	Golden Moon (Bangladesh) Ltd.	Comilla Epz	Netherlands	Footwear

²⁰ Although the researcher tried to collect the figure of FDI in Semi tanned or finished Leather industry, the respondent could not provide the figure.

14	Xin Chang Shoes (BD) Ltd.	Comilla Epz	Taiwan Province of China	Footwear
15	Austan Ltd	Dhaka Epz	Australia	Footwear & Leathergoods
16	Donga Leather Limited	Dhaka Epz	Republic of Korea	Footwear & Leathergoods
17	A & A Travelling Goods Bangladesh Limited	Ishwardi Epz	Republic of Korea	Footwear & Leathergoods
18	Bangladesh Pou Hung Industrial Limited	Karnaphuli Epz	Hong Kong,China	Footwear & Leather goods
19	Genfort Shoes (BD) Limited	Karnaphuli Epz	Taiwan Province of China	Footwear & Leather goods
20	Paolo Footwear (BD) Ltd	Karnaphuli Epz	China	Footwear & Leather goods
21	Park (Bangladesh) Company Limited	Karnaphuli Epz	Republic of Korea	Footwear & Leather goods
22	Sheng Tseng Enterprise Co., Ltd.	Karnaphuli Epz	Taiwan Province of China	Footwear & Leather goods
23	Strong Footwear Ltd.	Karnaphuli Epz	Japan	Footwear & Leather goods
24	Xin Chang Shoes (BD) Limited	Karnaphuli Epz	Taiwan Province of China	Footwear & Leather goods
25	M/S Master Leather Ltd	Mongla Epz	Republic of Korea	Ladies hand bag, Luggage, Travel Bag, Book cover, Pencil Case, Hand Phone Case, Leather
26	M/S Rich time Enterprise	Mongla Epz	China	Finishing Leather, Shoe and Bag
27	Kin Selection Products Manufacture (BD) Ltd.	Uttara Epz	China	Footwear & Leather goods
28	Ventura Leatherware MFY (BD) Ltd.	Uttara Epz	China	Footwear & Leather goods

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