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- 12 – SEBA Manpower Export Report
- 13 – SEBA Specialized Crafts Report
- 14 – SEBA Policy Report

Abbreviations and Acronyms

ADB	Asian Development Bank
ATC	Agreement on Textiles and Clothing
ATDP	Agro-Based Industries and Technology Development Project
BAIRA	Bangladesh Association of International Recruiting Agencies
BARI	Bangladesh Agriculture Research Institute
BDS	Business Development Services
BDXDP	Bangladesh Export Diversification Project
BFFEA	Bangladesh Frozen Foods Exporters Association
BFTI	Bangladesh Foreign Trade Institute
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BMET	Bureau of Manpower, Employment, and Training
BOESL	Bangladesh Overseas Employment Services Ltd.
BTC	Bangladesh Tariff Commission
CBI	Centre for the Promotion of Import from Developing Countries
CDC	Council for the Development of Cambodia
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CPD	Centre for Policy Dialogue
DAM	Department of Agricultural Marketing
DEP	Department of Export Promotion
DFID	Department for International Development
DIP	Department of Industry Promotion
DTC	Design and Technology Centre
EDB	Export Development Board
EMTAP	Export Management Technical Assistance Project
EPB	Export Promotion Bureau
EPD	Export Promotion Department
FGD	Focus Group Discussion
EPZ	Export Processing Zone
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GKF	Grameen Krishi Foundation
GTZ	Gesellschaft für Technische Zusammenarbeit
HVC	Higher Value Added Crop
ICT	Information and Communication Technology
IFDC	International Fertilizer Development Center
ILO	International Labor Organization
IT	Information Technology
JOBS	Job Opportunities and Business Support
KII	Key Informant Interview
LCG	Local Consultative Group
LDC	Least Developed Country

MDG	Market Development Group
MFA	Multi-Fiber Agreement
MSME	Micro, Small, and Medium Enterprises
NBR	National Board of Revenue
NGO	Non Governmental Organization
NOHMEX	Northern Handicraft Manufacturer and Exporter Association
OTOP	One Tambon One Program
PFI	Private Financial Institution
PPE	Personal Protective Equipment
PSD	Private Sector Development
RAKUB	Rajshahi Krishi Unnayan Bank
RDRS	Rangpur Dinajpur Rural Services
RMA	Ready-Made Garments
SAARC	South Asian Association for Regional Cooperation
SDC	Swiss Agency for Development and Cooperation
SEDF	South Asia Enterprise Development Facility
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprise
SPF	Small Projects Facility
SSOQ	Shrimp Seal of Quality Program
TIC	Trade Information Center
TNA	Trade Needs Assessment
WSSV	White Sport Syndrome Virus
WTO	World Trade Organization

Executive Summary

The Multi Fiber Agreement (MFA), which guaranteed access to lucrative markets by less efficient and smaller producers of ready-made garments (RMG) products, expired at the end of 2004. For the last two decades Bangladesh has relied heavily on the preferential benefits provided by the MFA regime for the development of its RMG export sector, which has grown to encompass 75% of total exports from Bangladesh. In 2001, the country earned nearly \$5 billion in export revenue from woven and knitted garments, making its significance to the growth of the country difficult to ignore. Additionally, the growth of RMG exports has led to direct employment creation for an estimated 1.8 million workers, 85% of them women, plus many more jobs through backward and forward linkages.

With the completion of the phasing-out of MFA in 2005, the country has been faced with the scenario whereby other low-cost but more efficient countries may take over Bangladesh's share of the European and North American markets. There is across-the-board agreement that Bangladesh has so far been complacent in responding to both the challenges and opportunities of a more integrated world economy and that priority must be placed on expanding the export basket of the country so that there is less concentrated reliance on RMG exports.

Against this backdrop, this report seeks to identify at least seven sectors that represent potential for export diversification and growth by utilizing Bangladesh's comparative advantages – local raw materials, labor, existing industries, and resources – in the context of the post-MFA competitive world marketplace. The report not only identifies and analyzes high-potential export sectors for the country, but primarily outlines modalities for sector development with an emphasis on practical, specific recommendations with clear human development implications that can be easily implemented by a donor organization.

As a complement to the main sector identification and analysis of the report, the study begins with a stocktaking of export diversification projects and organizations operating in Bangladesh. Recognizing that the country's chances do not rest on its internal efforts alone, this study also takes into account the reality of the interlinked world economic environment and the competition for market access posed by such regional neighbors as Vietnam, Cambodia, Sri Lanka, Thailand, and Pakistan. Following an evaluation of competitor country export promotion mechanisms, as well as competitor vulnerabilities in the face of post-MFA, it then becomes possible for Bangladesh to learn from their successful efforts, strategically adopt appropriate policy measures in light of their posturing, and to invest in export sectors in Bangladesh that bear competitive advantage. A review of cross-cutting policy issues affecting the country's export performance, including recommendations, rounds out the secondary research portion of the report and prepares the way for the highlighted sector identification and analysis.

There are a number of organizations that are currently or have in the recent past worked towards the diversification of Bangladesh's export basket. While several donors have mapped small and medium enterprise development initiatives and private sector

development programs, there has so far been little explicit attention towards taking stock of organizations involved in and activities dealing with export diversification. Especially now in the first few months without the MFA, when all stakeholders are stressing the imperative of exploring and investing in new products and markets, it is important to have an understanding of the variety of programs commissioning new studies and undertaking interventions in new sectors. With already some overlap existing, it is worthwhile to coordinate activities, and at the very least ensure that not all programs are choosing the same limited handful of thrust sectors. The first chapter of this report provides an overview of key export diversification projects and export promotion organizations. One of the most significant contributions coming out of this is the elaborate collection of secondary sources researched and collected in the process.

The export promotion activities of Bangladesh's regional competitors offer a number of strategies worth emulating. Some of the best ideas that Bangladesh may want to adopt include establishing a fund to undertake professional market research prior to entering a market, coordinating the participation and image projection of firms during international trade fairs so that quality is consistent and the character and heritage of Bangladesh is presented, and grouping exporter support services according to experience level. In this way, new exporters will receive more basic business planning, management, and accounting training, while the more experienced will receive marketing training and assistance with international trade fair participation.

Following the increasing trend of trade liberalization during the past decade, Bangladesh's on-the-books policy appears at first glance conducive to exports and growth. However, the policy towards international trade remains distorted, with a highly protective import policy coexisting alongside a proclaimed export-oriented growth strategy. The third chapter offers a number of policy reform measures that would expedite the growth of the country's export industries. For example, continued import liberalization is required with a reduction and simplification of the tariff structure, along with the development of a more cohesive and integrated trade policy, including the prioritization of FDI. While current provisions, such as duty neutralization schemes and bonded warehouses, help to mitigate the anti-export bias, these must be made more effective and extended beyond the RMG sector. Finally, plans for a regional South Asia trading block should continue with full cooperation from Bangladesh.

The heart of this study employs a three-pronged sector selection approach to identify opportunities that represent high employment and export potential. Using secondary research, focus group discussions and key informant interviews, and further analysis based on IRIS' experience in sector development through the JOBS Project, ten potential sectors were identified. As the research team progressed through each stage of the selection methodology, it became apparent that sole reliance on the *process* would lead to results that experience had already shown were not necessarily the best options. So while the process-driven approach remained intact, this was tempered by further analysis and the combined insight of IRIS and its partners, CBI and ITC. In the end, the following ten sectors were identified:

1. Agro-processing
2. Generic spare parts/light engineering
3. Herbal medicine and medicinal plants
4. Home textile
5. Jute diversified products
6. Manpower export
7. Specialized crafts – including handmade paper and leaf baskets
8. Leather goods and footwear
9. Personal protective equipment (PPE)
10. Information and communication technology (ICT)

Consistent with obligations to UNDP, only the first seven were subjected to further analysis and modality development.

The sector analysis section has served as an initial piece of work towards what it is hoped can be implementable recommendations for realizing the export and employment potential of the seven identified sectors. In devising mechanisms for bringing these sectors online, and in identifying appropriate stakeholders with which to collaborate, it is reasonable to consider injecting assistance to all seven at the same time. There will not be one miracle sector to take the place of RMG, and by focusing attention on a number of smaller but potential sectors now, there is more chance in the future that a diversified export base will enhance the country's growth, provide jobs for the millions currently unemployed, and positively impact poverty. There exist cross-cutting institutional and capacity gaps that affect all sectors, enabling the implementation of certain broad measures that will be beneficial across-the-board. It is also worth pointing out that all of the seven sectors put forward exhibit similar constraints and require a similar development model.

The capacity of the country to continually diversify into new products and markets is severely lacking, and so this is one of the first cross-cutting issues that can be addressed. The international trading arena is fast-paced and ever changing, requiring innovation, exploration, cutting-edge information, and quick thinking. The examples of Bangladesh's neighbors in the region, as discussed in the second chapter of this report, are illustrative of where the country should be heading in terms of export promotion support. As one component of an export diversification support program, the capacity of the Export Promotion Bureau must be enhanced so that it is capable of providing specialized support to its priority and development list of sectors. A capacity development program should train EPB permanent staff on market forecasting, market research, and strategic presentation of the country's products abroad.

This report also indicates that capacity development of service providers should occur simultaneously with direct export and marketing support for entrepreneurs. Only in this way can a real understanding of the sectors be gained and sustainability ensured. Entrepreneurs require access to market information, and training on identifying destinations for their products. More recent exporters also require basic management and

financial training. While the EPB's capacity to provide these services is being built, direct support for entrepreneurs should continue through business support organizations.

The third broad approach requires training for grassroots level producers. Local NGOs can take the lead in clustering producers, providing technical training, and linking clusters with lead exporters.

As an overall strategy for sector development, this report indicates that support must be injected at all three levels concurrently for the largest possible impact. Following from this model, more specific sectoral constraints can be addressed.

1. Introduction

This study was undertaken by IRIS Center at the University of Maryland as one portion of a multi-phase project of UNDP Bangladesh whose ultimate audience will be the Ministry of Commerce of the Government of Bangladesh. The report seeks to identify at least seven sectors that represent potential for export diversification and growth by utilizing Bangladesh's comparative advantages – local raw materials, labor, existing industries, and resources – in the context of the post-MFA competitive world marketplace. The report not only identifies and analyzes high-potential export sectors for the country, but primarily outlines modalities for sector development with an emphasis on practical, specific recommendations with clear human development implications that can be easily implemented by a donor organization.

As a complement to the main sector identification and analysis of the report, the study begins with a stocktaking of export diversification projects and organizations operating in Bangladesh. Recognizing that the country's chances do not rest on its internal efforts alone, this study also takes into account the reality of the interlinked world economic environment and the competition for market access posed by such regional neighbors as Vietnam, Cambodia, Sri Lanka, Thailand, and Pakistan. Following an evaluation of competitor country export promotion mechanisms, as well as competitor vulnerabilities in the face of post-MFA, it then becomes possible for Bangladesh to learn from their successful efforts, strategically adopt appropriate policy measures in light of their posturing, and to invest in export sectors in Bangladesh that bear competitive advantage. A review of cross-cutting policy issues affecting the country's export performance, including recommendations, rounds out the secondary research portion of the report and prepares the way for the highlighted sector identification and analysis.

1.1. Background of Project

The Multi Fiber Agreement (MFA), which guaranteed access to lucrative markets by less efficient and smaller producers of ready-made garments (RMG) products, expired at the end of 2004. For the last two decades Bangladesh has relied heavily on the preferential benefits provided by the MFA regime for the development of its RMG export sector, which has grown to encompass 75% of total exports from Bangladesh.

Arguably, the tremendous take-off of RMG in the country starting in the 1980s played no small role in the laudable poverty reduction progress made during the 1990s. While the exact relationship between increased international trade, growth, and poverty alleviation remains contested, recent work seems to indicate that the three often do go hand-in-hand.¹ Added to that, Bangladesh's history seems to demonstrate that greater integration with world markets has been beneficial. Throughout the 1990s, the Bangladesh government has pursued an export-led growth strategy characterized by increased liberalization and the removal of both export and import restrictions, as well as policy incentives especially for the RMG sector.

¹The standard bearer for empirical evidence is Dollar, David and Aart Kraay, *Trade, Growth, and Poverty*, *Finance and Development*, 38 (3): 16-19, 2001. See also Cline, William R., *Trade Policy and Global Poverty*, Center for Global Development and Institute for International Economics, 2004, World Bank, *Trade Policies in South Asia: An Overview*, 2004, and UNCTAD, *Linking Trade with Poverty Reduction*, 2004. For a review of methodologies and additional citations see Khondker Bazlul, *Draft Potential Human Development Implications of MFA Phase-out: The Case of Bangladesh*, UNDP, 2005.

Throughout the 1990s the result has been a rising and then steady GDP growth rate coupled with an impressive decrease in the incidence of poverty. Additionally, the growth of RMG exports has led to direct employment creation for an estimated 1.8 million workers, 85% of them women, plus many more jobs through backward and forward linkages. This has created a tremendous shift in the population from rural areas to the urban factories, and has been cited as the catalyst for greater acceptance of women in the workforce. In 2001, the country earned nearly \$5 billion in export revenue from woven and knitted garments, making its significance to the growth of the country difficult to ignore (Gherzi and PPMA 2003).

With the completion of the phasing-out of MFA in 2005, the country has been faced with the scenario whereby other low-cost but more efficient countries may take over Bangladesh's share of the European and North American markets. A number of studies have sought to estimate the costs to the country come January 2005, with most of them painting a gloomy picture of the battering to Bangladesh's economy and the social upheaval that will result from so many displaced workers.²

While it is as yet too early to tell if the doomsday predictions are being played out, some recent newspaper reports have decried the smaller percent increase in garment exports compared to competitor countries. Either way, there is across-the-board agreement that Bangladesh has so far been complacent in responding to both the challenges and opportunities of a more integrated world economy and that priority must be placed on expanding the export basket of the country so that there is less concentrated reliance on RMG exports. Bangladesh has numerous comparative advantages which have been untapped due to the historical focus on one or two major industrial sectors. It is particularly important for Bangladesh to look into the expansion of relatively new sectors that with modest inputs and technical assistance represent significant potential for export earnings. Similarly the country should look into new geographical opportunities outside of the western markets.

The government's Poverty Reduction Strategy Paper highlights the importance of trade to economic growth while also recognizing that a concomitant focus on employment creation is also necessary to mitigate the potential for rising inequality. Bangladesh has a very large unemployed populace that increases by 2 million per year. Worse yet, a majority of unemployed individuals are below the age of 25. It therefore becomes necessary to consider the capacity of foreign exchange earning sectors to also absorb some of the country's excess youthful labor force.

According to the GEMINI Enterprise Survey, 40% of the working age population is employed by micro, small, and medium sized enterprises (MSMEs), while MSMEs contribute 20-25% of the nation's GDP (Daniels 2003). Additionally, a study commissioned by JOBS found that SMEs constitute 80% of industrial employment in the country, and that 90% of industrial units are SMEs (Hossain 1998). Keeping this information partnered with the necessity of employment creation, it becomes practical for the country's export diversification strategy to look into those sectors that are friendly to the advancement of SMEs and with lower entry barriers, rather than on relatively larger enterprises that do not have such an explicit capacity to absorb labor. Given their concentrated presence in the industrial sector and their geographical spread in rural areas, SMEs play a vital role in the backward linkage to raw material supplies and manpower. They also represent a necessary link in value addition efforts.

² See Mlachila, Montfort and Yang, Yongzheng, *The End of Textile Quotas: A Case Study of the Impact on Bangladesh*, IMF Working Paper, 2004, Nordas, Hildegunn Kyvik, *The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing*, WTO Discussion Paper No. 5, 2004, and *Phasing Out of the Apparel Quota – Addressing Livelihood Concerns in Bangladesh*, Centre for Policy Dialogue, 2003.

For the past five years, IRIS has been exploring new sectors and piloting production units which will serve as alternate sectors of export and employment growth for Bangladesh. Our efforts are based on the firm belief that Bangladeshi enterprises can develop and compete in a level playing field. We also have confidence that Bangladeshi workers are second to none and should not be pigeonholed into limited potential production such as the RMG sector. In line with this belief, IRIS has broken rank with the existing donor mitigation efforts of working with relatively larger enterprises which do not have a direct and explicit employment focus. Most of the sectors we work with are focused on the advancement of SMEs with a heavy employment focus.³

Based on IRIS' experiences, we believe that there are numerous sectors with the potential to progress. These sectors are based on local raw material supplies, have varied and sustainable export markets, and are highly labor intensive. IRIS strives to develop these sectors through a market-led, export oriented approach. The prime goal of the intervention is to assist in the growth of these enterprises through partnering arrangements with key stakeholders and creating the vital linkages in the production chain between the producers/working groups ("clusters"), the lead buyers, and the markets.

The measurable outcome of this approach has been significant for the socio-economic development of the targeted region as well as the cluster members. Since inception IRIS has gained valuable and myriad experience in sector identification, analysis, and design services to facilitate the growth of sectors. In 2004, IRIS facilitated the development of 16 sectors such as handicraft, footwear, leather goods, home textiles, handmade paper, agro-based products, and light electrical, among others. IRIS has also generated over \$100 million in domestic and international sales, trained more than 13,000 companies, educated over 32,000 entrepreneurs, generated over 40,000 jobs, and implemented over 1000 projects and activities covering over 70 percent of the geographical area of Bangladesh. IRIS has also documented around \$70 million in export sales, while the new sectors like personal protective equipment and handmade paper have created thousands of new jobs.⁴

Further to the employment and income generating capability of traditional manufacturing sectors, IRIS realizes that ICT has a critical role to play in the overall development of the economy of Bangladesh. Since late 2000, we have been involved in developing various aspects of ICT, including e-governance, e-commerce, e-policy and e-human resources development. To this end, IRIS has assisted the Law Commission of Bangladesh to draft the proposed Information Technology (IT) Act. The project has also organized various conferences on e-commerce and IT, which have led to the development of a policy agenda and ICT Action Plan to be implemented by the government. The project is also working to develop the capacity of the ICT private sector entities as well as the associations; creating linkage programs with US and European companies; studying Bangladesh's potential for ICT enabled services; assisting government organizations to incorporate and implement ICT in their operations; developing individual private sector concerns through product development and market linkage support programs, and playing a critical role in the establishment of the internationally recognized CISCO certification program in Bangladesh.

This breadth of experience in the development of the ICT sector has made IRIS acutely aware that without the development of a "high-end" labor force based on ICT, any other sector development gains will produce marginal impact on the overall economy. In the end, Bangladesh should strive to be a "source of qualified labor" for manufacturing and services, not

³ Paragraph taken from IRIS' proposal to UNDP for Identification of Employment Oriented Export Sectors Project.

⁴ Figures taken from JOBS Newsletter, Vol. 2 Issue 1, February 2005.

only a “source of cheap labor.”⁵

It is clear that the post-MFA regime brings many challenges to Bangladesh. To exacerbate the negative impact of the end of MFA, there are other national, regional, and international developments that are cause for further concern and need to be addressed:

- “Eye of the Tiger” is gone. Due to extensive “subsidization” – preferential treatment, duty free access, and extensive donor funded support – the entrepreneurs at large in Bangladesh have lost the competitive spirit and edge.
- The flow of FDI has not been promising, and the law and order situation appears to be cast negatively in the world media. The poor image of the country internationally has probably further contributed to the decline of FDI.
- Bangladesh is also being cast in the national and international media as a country where Islamic fundamentalism is on the rise, with highly publicized and damaging articles being published in the international press. In the post 9/11 world, and learning from the example of Pakistan, this particular stigma can dampen any further investment in the country.
- Efforts are underway at SAARC to create a South Asian Free Trade Area. Such an area could open the Bangladeshi RMG market to further competition from its South Asian neighbors who possess a comparative advantage due to indigenous raw material supply.

In light of the above, the approach and strategy of the government and its partners has to be comprehensive and holistic. There is clearly a need to tackle the issue of the retrenched workers of the RMG sector, bring up sectors that can generate income and employment for the ever increasing workforce, create an intellect based society where the ICT sector can flourish, and create a positive country image to increase FDI into our industry.

While this study does not pretend to provide an answer to all of the issues pointed out above, it remains important to keep in mind that post-MFA is not the only challenge facing the country. In the interest of ensuring that Bangladesh makes it through these difficulties and finishes on top, it is prudent to consider the recommendations that come out of this report in tandem with the other issues that have just been raised. Only then can a holistic strategy be put in place.

1.2. Objectives and Scope

The main objective of this study is to identify and analyze seven export-oriented and employment intensive sectors that can be further developed to ensure that Bangladesh remains competitive in the quota-free global marketplace. Additional criteria for selecting sectors encompass the ready existence of a market, the unutilized potential of the sectors, their potential for growth, IRIS and its partners’ (CBI and ICT) practical research and experience, research available on the sectors, use of local raw materials, and potential for the creation of backward linkages.

Further objectives include:

1. Stock-taking of export diversification projects and export promotion organizations in the country.

⁵ From IRIS’ proposal to UNDP on Identification of Employment Oriented Export Sectors Project.

2. Analysis of investment and policy climate.
3. Evaluation of expected impacts of MFA expiration on competitor countries.
4. Analysis of competitor country products, markets, and export promotion policies.
5. Formulation of modalities for sector development, with a focus on human capacity building.

This project, while well-researched and methodologically rigorous, goes beyond an academic study. It offers a fresh, hands-on analysis and solution for sectors that can be brought “on-line” in the shortest possible time based on years of experience and practitioner interaction with entrepreneurs of the country.

1.3. Methods and Approach

The study begins with an overview of some of the key export diversification projects and export promotion organizations in the country. With the highly publicized ending of the MFA, a variety of donor projects have been developed to stimulate new trade areas and support export-oriented SMEs. Other existing SME support projects have transformed their focus to export diversification in light of the new threats and opportunities posed by the changing world trade regime. This study therefore understands that there is no need to duplicate efforts and that comprehensive recommendations for export sector promotion must be made in light of full awareness of similar promotional and support activities. Research for this chapter was undertaken by examining the websites, annual reports, and project documents of each organization, and in most cases was complemented by interviews with key personnel. One of the most significant contributions of this project is the elaborate collection of secondary sources researched and collected in the process.

Chapter two considers the possible implications of post-MFA competition on Bangladesh’s regional neighbors, and then moves on to offer an analysis of export promotion schemes pursued by the governments of competitor countries. Information was obtained from the Export Promotion Bureaus of the respective countries, as well as through a number of in-country interviews with government export officials and export entrepreneurs. The chapter offers some indication of where Bangladesh stands vis-à-vis its immediate competition, and points to successful strategies that Bangladesh may want to adopt as part of its own export policy.

The third chapter provides an analysis of the export and import policies of Bangladesh along with an evaluation of the business investment climate. Following the increasing trend of liberalization in the past decade, the on-the-books policy appears at first glance conducive to exports and growth. However, stated policy is in many cases not enforced, while other issues such as infrastructure, governance, and energy supplies are not reliable and act to mitigate the benefits of good policy. Additionally, on closer examination there remain protections for domestic-oriented industry that act to dampen export readiness. Making use of existing studies on Bangladesh’s trade policy and investment climate, this chapter provides an analysis of the various factors at play in defining the constraints and supports available to exporters. It offers recommendations in the policy arena that will further export readiness and employment creation with a focus on overcoming SME entry barriers and reaching new export markets.

The heart of this study employs a three-pronged sector selection approach to identify seven opportunities that represent high employment and export potential. The research team made use of secondary sources and IRIS Bangladesh’s close partnership with the International Trade Centre, Geneva and the Centre for the Promotion of Imports from Developing Countries (CBI),

The Netherlands to classify potential sectors into a matrix based on their sector size and information availability. This technique allowed IRIS to arrive at an initial list of sectors that was then added to and ranked in an attractiveness matrix during a Focus Group Discussion (FGDs). A control FGD was later held to generate and rank another list of possible sectors. The final selection of sectors included those that were ranked highest in both FGDs, were verified during Key Informant Interviews (KIIs), and were deemed attractive based on IRIS's experience. One sector that did not receive much attention during the FGDs, agro-processing, was added to the list during this last stage based on a combination of KII interest in the sector, a significant amount of literature commending its possibilities, and IRIS Bangladesh's experience-driven sense that it remains an important sector for the country. From this process, the following sectors were identified:

1. Agro-processing
2. Generic spare parts/light engineering
3. Herbal medicine and medicinal plants
4. Home textile
5. Jute diversified products
6. Manpower export
7. Specialized crafts – including handmade paper and leaf baskets
8. Leather goods and footwear
9. Personal protective equipment (PPE)
10. Information and communication technology (ICT)

Researchers undertook an analysis study for seven of the sectors. The analyses make use of existing sector studies, as well as a combination of FGDs and KIIs. The report particularly examines modalities leading to the further development of each sector, with an emphasis on training requirements.

1.4. Time Frame

This study was undertaken during a four month period from January – April 2005.

2. Stakeholders Analysis

There are a number of organizations that are currently or have in the recent past worked towards the diversification of Bangladesh's export basket. While several donors have mapped small and medium enterprise development initiatives and private sector development programs⁶, there has so far been little explicit attention towards taking stock of organizations involved in and activities dealing with export diversification. Especially now in the first few months without the MFA, when all stakeholders are stressing the imperative of exploring and investing in new products and markets, it is important to have an understanding of the variety of programs commissioning new studies and undertaking interventions in new sectors. With already some overlap existing, it is worthwhile to coordinate activities, and at the very least ensure that not all programs are choosing the same limited handful of thrust sectors.

Following is an overview of the major export diversification projects and export promotion organizations operating in the country, including a snapshot of their key sectors and intervention areas, and major publications of each. The organizations that will be documented include:

Completed Projects

1. Agro-based Industries and Technology Development Project (ATDP) Phase I
2. World Bank's Bangladesh Export Diversification Project (BDXDP)

Current Projects and Export Promotion Organizations

1. Job Opportunities and Business Support (JOBS)
2. Danida Private Sector Development Program
3. ATDP II
4. Asian Development Bank's (ADB) Northwest Crop Diversification Project
5. Katalyst
6. South Asia Enterprise and Development Facility (SEDF)
7. European Commission's Asia Invest and Small Projects Facility
8. GTZ's Progress for the promotion of private sector SMEs in the post-MFA era
9. Export Promotion Bureau (EPB)

2.1. Completed Projects

2.1.1. Agro-based Industries and Technology Development Project Phase I

Agro-based Industries and Technology Development Project (ATDP) Phase I was initiated in 1993 with the objective of creating "competitive markets for agricultural and agribusiness inputs, outputs, and related technologies."⁷ Funded by USAID, the project was implemented by the International Fertilizer Development Center (IFDC) with various ministries of the government and NGOs also involved.

The project included five major areas of activity:

1. Technology Transfer Assistance
2. Finance and Credit Provision
3. Enterprise Development Assistance

⁶See SEDF's SME and PSD Donor Map, and NORAD's Study on Private Sector Development, May 2002.

⁷ From USAID Economic Growth Project List, 2001.

4. Policy Analysis and Reform Assistance
5. Management Information Collection and Dissemination

ATDP's Management Information System Unit was responsible for overall monitoring of the fertilizer sector since the inception of the Market Monitoring & Information System (MMIS) was set up by the Government of Bangladesh under the Ministry of Agriculture in November 1995.⁸

PRAN, the country's largest food-processing company has been positively impacted by the technical support and critical interventions provided by ATDP. ATDP assistance started when the company embarked on its expansion program and began pioneering ventures in agro-processing, and has been continued up to the present. ATDP has supported PRAN through technical consulting, training of personnel, exposure to agro-processing technologies, credit facilities, policy dialogues with the government, and as a general catalyst for change (Sikder 2003).⁹

2.1.2. World Bank's Bangladesh Export Diversification Project (BDXDP)¹⁰

The World Bank in Bangladesh initiated the Export Diversification Project in June 1999 with the main goal of accelerating "Bangladesh's integration into the world economy by expanding net export production value through product and market diversification, including increased value added (BDXDP Project Appraisal 1999). The project also emphasized developing private market solutions for exporter needs, as well as new export product and market development. Subsidiary objectives encompassed an improved business environment along with employment creation and GDP growth. Originally scheduled to end in 2002, the \$48 million project was extended until June 2004.

BDXDP implemented two project components and multiple sub-projects. Key components included:

1. Product and market development support to private firms
2. Trade management capacity building in the public sector

The private sector support component administered a Matching Grant Facility (MGF) that was designed to enhance usage of private sector export service providers. It was a temporary measure that covered 50% of expenses for exporters or export promotion organizations in the areas of quality improvements, product development, and marketing. The MGF disbursed \$11.2 million to nearly 1,100 projects. A survey at the close of the project indicated that the assisted firms had been more successful than non-assisted firms in new product and market development.

Public sector support under component two focused on customs modernization and capacity building of the Bangladesh Tariff Commission (BTC) and Ministry of Commerce. A Coordination and Development Unit facilitated the implementation of other components and initiated sub-projects.

⁸ Market Monitoring and Information Systems, Ministry of Agriculture, FADINAP Bangladesh <www.fadinap.org/Bangladesh/about.htm>

⁹ Sikder, A. S., Country Paper: Bangladesh. *Development of Agribusiness Enterprises*, 68-7, 2003. Retrieved March 7, 2005, from <<http://www.apo-tokyo.org/00e-books/12.DevAgriBusiness/07.Sikder.DevAgEnt.pdf>>

¹⁰ Summarized from BDXDP Project Appraisal Document, 1999 and BDXDP Implementation Completion Report, December 2004.

A significant achievement of BDXDP was the automation of customs clearance with the installation of ASYCUDA ++, which led to demonstrably quicker customs turnaround. To ensure sustainability, a training center was established in the National Board of Revenue (NBR). A specialized Bond Commissionerate was also established. Less effective was the capacity building of public officials in BTC since newly trained staff frequently relocated.¹¹

Under the sub-projects heading, three Business Promotion Councils (BPCs) for ICT, Leather, and Light Engineering were established as public-private partnerships under the Ministry of Commerce. An ICT marketing office was also opened in Silicon Valley to support the Bangladeshi software export industry. There are plans to open three more BPCs in agro-product processing, herbal and medical plants, and pharmaceuticals. Poultry is also being considered as an option. Some support was provided for the establishment of the Bangladesh Foreign Trade Institute (BFTI) in 2003, where BDXDP documents are currently housed, including a number of sub-sector and issue-based studies.

The Export Management Technical Assistance Project (EMTAP) will follow-up on initiatives of the BDXDP that require further monitoring.

2.2. Current Projects

2.2.1. Job Opportunities and Business Support (JOBS) Project

The Job Opportunities and Business Support (JOBS) Project is an integrated private sector development program funded by USAID to the tune of \$12.5 million and implemented by the Center for Institutional Reform and Informal Sector (IRIS) at the University of Maryland. Since 1997, the Project has worked to assist Bangladeshi enterprises to expand their sales in domestic and international markets through a variety of interrelated activities, including:

1. Identifying sub-sectors that offer significant growth potential
2. Selecting and building the capacity of small and medium enterprises to manufacture diversified export products
3. Coordinating skill development training for workers
4. Coordinating the provision of international technical assistance
5. Assisting in product development and improvement
6. Developing international and domestic markets
7. Facilitating loans
8. Coordinating technical assistance to the government to develop a supportive policy and regulatory environment

Since its inception, the JOBS Project has been assisting in the development of various sectors, including leather goods, footwear, floor coverings, and diversified jute products. Most recently, JOBS has also focused attention on handmade paper products, diversified coconut products, personal protective equipment, electrical products, and information technology. Sectors are selected based on the following criteria:

1. Products are exportable
2. Labor-intensive production chains
3. Locally procurable raw materials

¹¹ According to the Project Implementation Completion Report.

4. Potential to double or triple their worker's compensation
5. Generate employment for women

In looking for ways to integrate its work with both micro-enterprise clients and larger enterprises, JOBS became an early pioneer in the cluster approach to sector development. Under this approach, SMEs contract with local micro-enterprises for intermediate products that they then use to produce end products. By providing training to SMEs and micro-enterprises in a cluster, the JOBS Project helps SMEs to meet market demand while creating employment and generating income for micro-enterprise workers. Through this process, JOBS has generated over \$100 million in domestic and international sales, generated over 40,000 jobs, and implemented over 1000 projects and activities covering over 70 percent of the geographical area of Bangladesh.

In keeping with its focus on economic development, JOBS is working in various fields of ICT, including e-governance, e-commerce, and e-human resources development. To this end, JOBS has assisted the Law Commission of Bangladesh to draft the proposed Information Technology (IT) Act. JOBS has also organized two major conferences on e-commerce and IT, which have led to the development of a policy agenda to be implemented by the government. JOBS works to develop the capacity of the three ICT associations and is studying Bangladesh's potential for ICT enabled services, assisting government organizations to incorporate and implement ICT in their operations, and working to establish an internationally recognized CISCO certification program in Bangladesh.

JOBS boasts an effective business management and capacity development training module for community-based micro-entrepreneurs and peri-urban small businesses. So far, 13,000 companies and 32,000 entrepreneurs have enhanced their business management, marketing, technical, and financial management skills through JOBS training program. JOBS facilitates access to credit for SMEs by working closely with commercial banks and advancing their capacity to understand the financing needs and opportunities in lending to SMEs. Finally, JOBS works to create an enabling policy environment, and expands access to local and foreign markets by organizing trade fairs, assisting with the preparation of marketing materials, and maintaining a market information center for client use.

2.2.2. Danida Private Sector Development (PSD) Program¹²

Danida's Private Sector Development (PSD) Program is a DKK 150 million per year, multi-country effort that supports business-to-business cooperation between Danish businesses and companies in the developing world. Bangladesh became a country program in 1999 during the second phase of the project. Danida operates in Bangladesh by facilitating long term commercial cooperation between Danish companies and local businesses with an immediate objective of improving the local business partner's success. The program also intends to promote private sector development by setting examples for workable collaborations and stimulating new investment ideas.

Companies interested in cooperating must be formally willing to commit to the initiative either through a joint venture, license agreement, sub-supply agreement, or management contract. Danida offers financing to assist with initial study visits, technology transfer, and feasibility

¹² Information taken from Danida website at <www.psdbangladesh.com> and conversations with Danida coordinator.

reports, as well as a start-up facility and project support through training, technical assistance, and strategy development.

Danida has successfully facilitated a significant number of joint ventures in Bangladesh and numerous other forms of cooperation in a variety of sectors, including integrated knitwear, dying and printing, apparel design, digital mapping, web development, ready-to-cook rice, and medical equipment. One example of Bangladesh's potential to tap into the ICT export market is the joint venture between Adpeople and Adcomm for back office advertising services. In this instance, Bangladeshi desktop publishers complete standard issue Dell computer brochures. The venture has demonstrated that Bangladesh can provide quality output in this area, since a worldwide brand such as Dell does not allow room for error and in fact imposes severe monetary penalties if the output is not satisfactory and on time.

The current project pipeline encompasses:

1. GIS Services
2. Slaughter House
3. Cleaning Services
4. Ambulance Services
5. Knitwear Dyeing and Printing
6. Shrimp Processing Machinery
7. Herbal Medicines for Export
8. Waste Water Treatment Plants
9. Outsourcing of Software Development
10. Internet Based Mobile Phone Solutions
11. Recycling of Used Automotive Batteries

While the organization has been successful in enhancing foreign exchange earnings for Bangladesh and assisting with technology, organizational management, and market knowledge transfer to local firms, its work is limited to what can be accomplished within a business-to-business framework. Because of such issues as corruption, uneven power supplies, political violence, and poor infrastructure, foreign firms are often reluctant to invest in the country. Those that do are attracted by the low costs of production, the growing domestic market, and the ability to experiment with new business models.

2.2.3. ATDP II¹³

The Agro-based Industries and Technology Development Project – Phase II is a \$10 million USAID funded project implemented by the Louis Berger Group, Inc. in partnership with Cargill Technical Services and Land O' Lakes. Mandated to promote the growth of private sector agribusinesses in Bangladesh, ATDP II began in 2001 with a scheduled end date of December 2005. Project activities are divided into the following areas:

1. Agribusiness: Aquaculture (Finfish), Poultry, Grains, Horticulture, and Livestock
2. Shrimp Seal of Quality Program (SSOQ)
3. Policy, Agribusiness Support Institutions, and Government Relations
4. Market Research and Export Promotion

¹³ Information summarized from ATDP II Annual Report FY 2004, October 2004 and ATDP II brochure.

ATDP II works with the private sector on a cost-sharing basis and initiates interventions according to client requests for assistance. Within its six thrust sectors, ATDP II provides a wide range of services, including improved technology, packaging and monitoring, product diversification, quality assurance, market linkages, and technical and management training. All of the project's assistance maintains a decided orientation towards export growth.

One notable initiative involved facilitating BRAC's European Union Retail Parties Good Agricultural Practices (EUREPGAP) certification, which is expected to make it the first such certified company for fruits and vegetables in South East Asia, and will enable BRAC to increase exports to Europe. ATDP II has also worked with Bonoful and Co. to establish an automated bread factory in Sylhet in an attempt to comply with international cleanliness and quality standards.

The Shrimp Seal of Quality program works to promote voluntary compliance with international food safety, environmental, and social standards, and thereby increase shrimp exports through an improved image for Bangladeshi shrimp abroad. The program has been successful in confirming the existence of the White Spot Syndrome Virus (WSSV) and increasing production yields through the use of WSSV model farms manned by trained extension workers. A new method for stocking disease free larvae also provides the potential for increased productivity.

ATDP II has worked with the American International University of Bangladesh (AIUB) and the University of Wisconsin to introduce an agribusiness MBA program. The organization has also played an instrumental role in the creation of the Bangladesh Shrimp Foundation and the Bangladesh Shrimp Development Alliance.

Under the 'Bangladesh Bazaar Brand,' ATDP II has assisted client exhibitions in such international trade fairs as Dubai Shopping Festival, Hotel and Food Asia in Singapore, and the Bangladeshi Trade Show, Toronto. A search engine, www.krishiquest.biz, maintains a collection of ATDP II sector studies, market information, and policy reports.

2.2.4. Asian Development Bank's Northwest Crop Diversification Project¹⁴

The Asian Development Bank's Northwest Crop Diversification Project is a \$66.2 million project aimed at helping farmers in 16 districts of the northwest region improve their socio-economic condition through diversification into higher value added crops (HVCs). With an end date of 2008, the project is being executed by the Department of Agricultural Extension (DAE) of the Ministry of Agriculture and Bangladesh Bank, as well as through partnership with four local NGOs.

The northwest region is characterized by a higher poverty incidence and has mostly been growing traditional crops like rice and wheat to ensure the food security of the region. With the region now having a rice surplus, but remaining a net importer of agricultural produce, the project has realized the import substitution potential of HVCs, such as potatoes, taro, and other tuber crops, that provide a higher return per hectare.

Against this background, the project involves the following six components:

1. Farmer training and extension
2. Farmer mobilization and credit

¹⁴ Summarized from *Report and Recommendation of the President*, October, 2000.

3. Adaptive research
4. Marketing support
5. Pilot credit line for post harvest agribusiness support
6. Support for project management

Nearly 200,000 farmers owning or operating .2 – 1.2 hectares of land will receive training on growing and marketing HVCs throughout the life of the project. Both the DAE and participating NGOs will select the participating farmers, who will attend either institutional training sessions at ADB’s Horticulture Training and Demonstration Centers and other NGO facilities, or a village-based training program. 600 professional DAE and NGO staff will also receive training to ensure the quality of their assistance to the farmers.

BRAC, Proshika, Grameen Krishi Foundation (GKF), and Rangpur Dinajpur Rural Services (RDRS) have been tasked to identify farmers for the credit component and supervise disbursement of \$16 million. A \$1 million credit line supervised by Bangladesh Bank and on-lent through Rajshahi Krishi Unnayan Bank (RAKUB) is reserved for medium-sized agribusiness support firms involved in cold storage, feed mills, packing and packaging, seed processing and storage, and specialized transport.

The project is working in partnership with the Bangladesh Agriculture Research Institute (BARI), universities, NGOs, and the private sector to research new technologies and adapt HVC varieties to conditions in the northwest region. The project is also working with the Department of Agriculture Marketing (DAM) to update price information for farmers through regular radio broadcasts and by strengthening local marketing channels. A target has been set to upgrade 60 primary village markets while also constructing 16 large growers’ markets.

2.2.5. Katalyst¹⁵

Katalyst was scaled up to its present form in 2001 from the BDSP project of DFID, SDC, and SIDA. Implemented by Swisscontact, Katalyst’s efforts follow the BDS guidelines and emphasize the development of more effective markets for business services to enhance small enterprise business competitiveness towards the ultimate goal of poverty reduction. The organization has focused its interventions away from direct service provision to facilitation of markets and the facilitation of private sector support services.

Katalyst’s activities are organized into the following three operational divisions:

1. Services
2. Industry and Rural Services
3. Centers of Expertise and Regulation

The Services Division seeks to develop six cross-sector business services markets by undertaking assessments of demand and supply side in the sub sectors of accounting, finance, and taxation, legal, IT enabled services, PR/advertising, and quality management services.

Industry and Rural Services Division works in selected sectors, clusters, and rural markets. The plastics molding cluster is centered in Lalbagh/Islambagh, agro tools and machinery in Old Dhaka, Bogra, Dinajpur, and Jessore, and knitwear in Narayanganj. The Division also works in Greater Faridpur, Greater Rangpur, and Greater Rajshahi areas. Prior to initiating an

¹⁵ Summarized from Katalyst project document, website, and conversations with Katalyst staff.

intervention in a given area, Katalyst undertakes a baseline and need assessment study to identify measures that can be taken to establish a conducive business environment in those areas. As one example of Katalyst's methods, the organization is working with the district development and coordination committees to facilitate SME coordination through a public-private partnership.

Katalyst has recognized that a number of issues affect all business services across sectors, clusters, and locations. The Centers of Expertise and Regulation work with the other divisions on fostering an enabling environment and media services, and on cross-cutting issues of gender and socially and environmentally responsible business.

While most of Katalyst's efforts are concentrated on developing business services markets in the domestic arena, it has recently initiated a project on two export-oriented development sectors.

2.2.6. South Asia Enterprise and Development Facility (SEDF)¹⁶

South Asia Enterprise and Development Facility (SEDF) is a multi-donor initiative implemented by the International Finance Corporation (IFC) to promote small business development in Bangladesh, Nepal, Bhutan, and North East India. Funders include the Royal Netherlands Government, DFID, European Commission, CIDA, NORAD, and the Asian Development Bank (ADB). The five-year, \$34 million budgeted project began in October 2002.

Major activities of SEDF are grouped according to:

1. Access to finance
2. Access to business services and sub-sector development
3. Business enabling environment
4. Special Projects

SEDF offers direct assistance to Private Financial Institutions (PFIs) for SME-friendly product development, increased efficiency and lending practices, and industry analysis. SEDF's technical assistance helps these partners development MIS and implement credit scoring. SEDF also works with non-banking financial institutions to offer generic training and to promote SME lending.

Given the importance of sound business management for SME success, SEDF works to develop local service providers and training institutions so that they can offer relevant support to SMEs. SEDF efforts in this regard are concentrated in the garments, agribusiness, information technology/software, and light engineering sectors along with several others. Poultry has also recently been added as a thrust sector. The organization undertakes sector studies, SME mapping, technical assistance, and training.

Following the signing of a free trade agreement between Bangladesh and Canada in 2003, SEDF organized garments fairs in Montreal and Toronto, resulting in significant export orders under discussion. In order to provide information and marketing support to SMEs, two knowledge centers have been established in the Dhaka and Chittagong Chambers of Commerce and Industry, with information updates being provided by SEDF staff.

¹⁶ SEDF Annual Report 2003.

SEDF also initiates programs to create an enabling business environment for SMEs. One such effort involves assisting firms to obtain trade licenses, while concurrently discussing improved procedures with regulatory body representatives. At the request of the Ministry of Commerce, SEDF is working on an improved company registration strategy.

2.2.7. European Commission's Delegation to Bangladesh

The European Commission implements a variety of trade related programs in Bangladesh, and allocates more assistance in this area compared to all other Asian countries.¹⁷ The European Commission is a key donor of the South Asia Enterprise Development Facility (SEDF) implemented by the International Finance Corporation, and has contributed Euro 10 million out of SEDF's project budget of Euro 30 million.

The Small Projects Facility (SPF) started in late 2003 with a \$3 million budget for grant financing to promote civil society dialogue and facilitate cooperation between EU and Bangladeshi organizations in the areas of trade, technology transfer, vocational training, and training of media professionals.¹⁸

Bangladesh is a program country of the Asia Wide Asia Invest Program. Asia Invest offers assistance to intermediary organizations to promote business to business match-making opportunities and partnership building, enhance private sector development, and increase institutional capacity, networking, and dialogue between EU member states and South Asia, South-East Asia, and China, with a special focus on SMEs. All Asia Invest projects must match an intermediary organization from a program country with an EU organization for a mutually beneficial cooperative project. Asia Invest was initiated in 1997, with the current and second phase scheduled to run from 2003-2007. It has a total budget of Euro 35 million.

Asia Invest II in Bangladesh has filled two calls for proposals. Under the Asia-Venture instrument of the program, Euro-Bangla Apparels 2005 was approved for an 18 month partnership between the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Association for the Promotion of International Relations (APRI) in Belgium to encourage exports and imports of apparels from small scale exporters in Bangladesh to Belgium, Greece, and Spain. It is a Euro 80,000 project that began implementation in February 2004.

Also under the Asia-Venture instrument, the Euro-Bengal Frozen Foods began in September 2004. It is a cooperation between the Bangladesh Frozen Foods Exporters Association (BFFEA) and the Association of Young Entrepreneurs of Zaragoza (AIJEZ) in Spain that involves trade mission visits, attendance at international trade conferences, and development of electronic company profiles and a product catalogue.¹⁹

The European Commission has recently initiated a Trade Needs Assessment (TNA) study that will analyze constraints to improved trade and investment, and offer an action plan that will help the EC, the Ministry of Commerce, and other donor agencies to prioritize cooperation activities. The Bangladesh Quality Support Program, which will work to improve quality

¹⁷ European Commission, Bangladesh handout, "TRTA and Economic Cooperation of the European Commission."

¹⁸ "SME & PSD Donor Map," prepared by SEDF and BEI, 2003.

¹⁹ Asia Invest Program 2003-2007 brochure and Asia Invest website at www.europa.eu.int/comm/europeaid/projects/asia-invest

management systems and improve exports in textiles, garments, fisheries, and horticulture, is scheduled to begin within the next few months.²⁰

2.2.8. GTZ Progress

Progress is GTZ's latest SME promotion program that focuses on BDS markets and value-chain development in the post-MFA context. With a program cycle of 2003-2007, Progress is an outgrowth of GTZ's earlier Promotion of Private Sector Project, and has retained some of its earlier components within the expanded Progress design. With a five year total budget of Euro 12.9 million, Progress is made up of the following six components²¹:

1. Enabling Environment and Donor Cooperation
2. Business Management Training – formerly PPS-B
3. Design and Product Development – formerly PPS-C
4. Enterprise Information Services
5. Skills Development - planned
6. Social and Environmental Standards - planned

The first component comprises Progress's work in export diversification. While it primarily focuses on assistance to the RMG industry, other sectors that display export potential and the ability to absorb out placed workers are also receiving attention. To this end, Progress has undertaken leather and silk sector studies, with the intention to also initiate work in handicrafts and light engineering.

The Business Management Training component was carried over from the previous project and is currently scheduled to end in 2005. A significant initiative of this component, BS-Net, has transferred ownership to ensure its sustainability upon project completion. BS-Net is a facilitator network of NGOs that assists its members to provide efficient services to micro, small, and medium business clients, with a focus on commercially offered human resource development services. Although BS-Net has become a separate entity, Progress will remain involved in an advisory capacity. The Design and Technology Centre (DTC), also a component of the earlier project, has likewise transferred ownership to private stakeholders.

The Enterprise Information Services component seeks to provide a database of market information to export-oriented entrepreneurs. A sector study on Enterprise Information Services has been completed, and progress is underway to finalize agreements with the Khulna, Rangpur, and Chittagong Chambers of Commerce. Progress aims to complement the work of other organizations assisting the chambers, and therefore concentrates on organizational development assistance leading towards service delivery and information management.

2.2.9. Export Promotion Bureau (EPB)²²

The Export Promotion Bureau works as a semi-autonomous organization under the Ministry of Commerce and is responsible for implementing a variety of trade support and export promotion activities. It is administered by a Board of Management comprising 13 individuals from Chambers of Commerce, trade associations, and nominated high officials of the Government of Bangladesh. The Minister of Commerce serves as the ex-officio chairman.

²⁰ Upcoming projects were discussed during conversations with EC staff.

²¹ Information for this section was gathered from a presentation made at the MDG workshop in February 2005, GTZ-BDS for MSE News bulletin of March 2005, and conversations with Progress managers.

²² Summarized from EPB website.

The EPB has its head office in Dhaka with five other offices in Chittagong, Khulna, Rajshahi, Sylhet, and Comilla. The organization's specific activities are divided among the following divisions:

1. Policy and Planning
2. Commodities Development
3. Information
4. Fairs and Display
5. Administration and Finance
6. Textiles
7. Informal units for Statistics and Research and ICT

EPB is involved in coordinating private sector input and formulating the country's export policies in cooperation with the Ministry of Commerce. In the current Export Policy of 2003-2006, it has identified a number of thrust sectors and supplementary special development sectors. Thrust sectors include software and ICT products, agro-products and agro-processing products, light engineering products (including auto-parts and bicycles), leather products, and high priced RMG. Also in the policy arena, EPB contributes towards bilateral and multilateral trade negotiations and other trade related issues. It maintains relationships with international trade bodies and negotiates trade related technical assistance proposals.

The Bureau maintains a Trade Information Center (TIC) and distributes a monthly export statement. Some of the information is also available on its website at www.epb.gov.bd. The Bureau organizes Bangladeshi participation in trade fairs, and cooperates with foreign missions to identify new export markets. In addition, EPB runs the National Export Training Program to develop the capacity of private sector and government individuals involved in exporting and trade negotiation. Due to Bangladesh's heavy tilt towards ready-made garments exports, a separate textile cell monitors bilateral textile agreements, and issues GSP certificates and certificates of origin.

2.3. Thrust Sectors by Organization

Project Name	Sectors
ATDP I	1. Agribusiness
BDXDP	Worked to improve exports in all sectors with a special focus on: <ol style="list-style-type: none"> 1. ICT 2. Leather 3. Light Engineering 4. RMG 5. Textiles
JOBS Project	<ol style="list-style-type: none"> 1. Footwear 2. Leather goods 3. Gift and craft 4. Home textile 5. Handmade paper 6. Personal Protective Equipment (PPE)

	<ul style="list-style-type: none"> 7. Floor coverings 8. Light electrical 9. Diversified jute products 10. Agribusiness and livestock 11. ICT
Danida	<ul style="list-style-type: none"> 1. All sectors but focusing on individual business-to-business linkages
ATDP II	<ul style="list-style-type: none"> 1. Aquaculture/finfish 2. Poultry 3. Grains 4. Horticulture 5. Shrimp 6. Dairy and Livestock
Asian Development Bank's Northwest Crop Diversification Project	<ul style="list-style-type: none"> 1. Agribusiness support 2. Seed processing 3. High value added crops
Katalyst	<ul style="list-style-type: none"> 1. Plastics 2. Fertilizers 3. Agro-tools and machinery 4. Private health care 5. Furniture 6. Vegetables 7. Maize 8. Bamboo 9. Poultry 10. Pond fishery 11. Seeds 12. Knitwear 13. Onions 14. Potatoes 15. Silk 16. ITES
SEDF	<ul style="list-style-type: none"> 1. Light engineering 2. RMG 3. Fertilizers 4. Vegetables 5. Poultry 6. Agro-tools and machinery 7. Aquaculture 8. Shrimp 9. ICT
European Commission	<ul style="list-style-type: none"> 1. All sectors
GTZ Progress	<ul style="list-style-type: none"> 1. RMG 2. Leather 3. Silk 4. Handicrafts 5. Light engineering
Export Promotion Bureau	Identified Thrust Sectors:

	<ol style="list-style-type: none">1. Software and ICT products2. Agro-products and agro-processing products3. Light engineering products (including auto-parts and bicycles)4. Leather products5. High priced RMG <p>Special Development Sectors:</p> <ol style="list-style-type: none">2. Pharmaceutical products3. Cosmetics and toiletries4. Luggage and fashion goods5. Electronic products6. C.R. Coil7. Cards and calendars8. Stationery products9. Silk cloths10. Handicrafts11. Herbal medicines and medicinal plants
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2.4. Key Activities by Organization

Project Name	Market Research	Policy	Access to Credit	Financing	Training	Technical Assistance	Business Linkages
ATDP I	X	X	X		X	X	
BDXDP	X	X		X	X	X	X
JOBS	X	X	X		X	X	X
Danida				X	X	X	X
ATDP II	X	X	X		X	X	X
ADB	X		X	X	X	X	
Katalyst	X	X			X	X	X
SEDF	X	X	X		X	X	X
EC		X		X	X	X	X
GTZ Progress	X	X			X	X	X
EPB	X	X			X	X	

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PIP for Software Project Final

PIP for WTO Cell Final

TAPP BDXDP for Extension Period

PIP for Establish Foreign Trade

PIP for Software Project Silicon Valley Final

PIP for Trade Portal

PIP Leather Study

PIP for Establishment of Bangladesh ICT Business Center

PIP RMG

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Draft JOBS/IRIS 19-05-05

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3. Comparative Export Strategy Analysis

3.1. Introduction

Like Bangladesh, a number of other countries in the South and Southeast Asian region have taken advantage of the quota system to become significant exporters of textile and ready-made garments. In determining Bangladesh's options post-2005, it becomes prudent to understand the prospects and responses of its competitor countries. In this chapter the emphasis is not so much on discovering how Bangladesh can better compete with its neighbors, but on what it can learn from them. In this context, the analysis focuses on the practical export promotion activities practiced by each country's relevant government agencies that can be realistically emulated by Bangladesh's Export Promotion Bureau.

Competition countries were not chosen simply based on their similar product and market range, but more so based on their similar size and development progress. The idea is to consider the strategies of countries that Bangladesh can realistically strive to catch up with. Based on this logic, obvious competitors in the textile industry such as China and India were deemed too large and too far ahead of Bangladesh for them to be considered realistic models to follow.

Country	Total Exports	Total Imports	GDP (current US\$)	GDP growth (annual %)	Population, total	Population growth (annual %)
Bangladesh	7.478	10.03	51.9	5.33	.138	1.74
Thailand	87.91	80.24	143	6.74	.062	.65
Sri Lanka	5.306	7.265	18.5	5.5	.019	1.18
Pakistan	15.07	14.01	68.8	5.82	.148	2.41
Vietnam	23.72	26.31	39.2	7.24	.081	1.1
Cambodia	2.311	3.129	4.3	7.64	.013	1.58

2003 figures, in billions. *Source: International Trade Centre and Human Development Indicators, World Bank.* Export and Import figures are 2004. *Source: World Fact Book (f.o.b.).*

Based on the relative consistency of figures in the chart above, the following countries' export promotion activities will be analyzed in order to arrive at the lessons that Bangladesh can learn from their example:

1. Thailand
2. Sri Lanka
3. Pakistan
4. Vietnam
5. Cambodia

3.2. Thailand

For the past decade, Thailand has been a large exporter of textile products. In 2003, the country exported \$5.46 billion in textile and garment products – almost the same amount as Bangladesh. Textile industry exports account for 4.5% of total GDP, with over half of total exports going to those countries covered by the textile quota, and thereby in direct competition for the same market as Bangladesh. The same year, the industry employed an estimated 1.08 million people (Lotharukpong 2004). Necessarily, the full implementation of the Agreement on Textiles and Clothing (ATC) has caused some re-thinking of strategies in Thailand as elsewhere, though not to the same degree. Unlike Bangladesh's significant reliance on textile exports, the industry comprises just below 7% of Thailand's export profile. Yet there are still some concerns that smaller and less efficient exporters will have difficulty surviving the expected increase in competition from China, Indonesia, and Vietnam.

3.2.1. Government Response

The government's response has been to propose six strategies intended to complete the missing link in the textile business structure and increase Thailand's competitiveness. These include:

1. Developing Thailand as the center of the fashion business in South and Southeast Asia
2. Upgrading the value and increasing the variety of products
3. Improving productivity and management
4. Ensuring supply chain connectivity
5. Supporting the dyeing, printing, and finishing industries
6. Personnel development
7. Improving the roles of the public and private sectors²³

There is also present emphasis on technical textiles for industrial use, which includes textiles in transport, medical and health products, and agriculture. The Department of Export Promotion estimates an expected annual growth rate of 4% in production capacity to reach 310,000 tons by 2010. It commissioned a study on industrial textile exports and found an expected market growth of 40%+ each in South Asia, South America, and Northeast Asia.

3.2.2. Branding and Innovation

In addition to Thailand's strategies for the textile and garment industry, the Department of Export Promotion (DEP)²⁴ has instituted a wide array of services intended to enhance the image of all Thai products and services internationally and foster an attitude of

²³ See Lotharukpong (2004) for a listing of detailed projects both implemented and planned to make the Thai textile industry more competitive, as well as a more comprehensive analysis of the industry in Thailand and possible impact post-MFA.

²⁴ <www.thaitrade.com> Unless otherwise noted, information from this section was taken from the website.

innovation among manufacturers. Since 1999, DEP has been promoting Thailand's Brand with a seal that reads "Thailand – Land of Diversity and Refinement." Over 1,000 businesses have been quality cleared to use the brand along with their own company logo. For the past ten years, the Prime Minister's Export Award has been honoring manufacturers and service providers using their own design with awards in five categories: Best Exporter, Thai Owned Brand, Thai Owned Design, Service Provider, and Most Recognized Service. In finalizing the awards, emphasis is placed on product design and quality standards.

In arriving at its present emphasis on innovation and branding, DEP's activities evolved through the following three stages:

1990-1995 → creating awareness of importance of product design and displaying ideas from overseas

1995-2001 → commissioning studies on potential markets and customers, developing human resource capacity, and learning product design management

2002-2007 → establishing Thai brands and trademarks

3.2.3. Market Diversification

Thailand has made market diversification a key strategy, and supports it through a number of initiatives. In 2003 a Special Task Force was established in order to help penetrate new markets as well as expand Thailand's share of exports in existing markets. The DEP has set the target to achieve a 60% market share in existing markets and a 40% market share in new markets by 2005. In fact, by 2004 Thailand had already achieved a 39.3% share in new markets outside of the country's usual product destinations of US, EU, Japan, and ASEAN. This is up from 33.9% in 2002, which indicates that Thailand's strategy has been successful and may be worth emulating. DEP has identified the key target markets of China, India, Middle East, Africa, Russia, and the Commonwealth of Independent States (CIS), and has established six research groups for each of these regions to develop market penetration strategies. Trade missions are organized each month in key cities in the six markets, giving Thai exporters an opportunity to provide samples from a range of products along with the appropriate documentation. Additionally, in 2003 DEP participated in 77 overseas exhibitions of Thai products. The 53 international offices of DEP play a significant role in helping to track trends and identify trading partners.

The Intertrader initiative complements the market diversification strategy of DEP by preparing exporters to offer new products and providing Thai businesses with a more direct role in exploring new trade channels. It places exporters into four categories ranked according to their export readiness and potential as well as trade experience. DEP then accordingly offers training, links exporters with four of the leading banks, organizes trade missions, and puts exporters in touch with visiting foreign importers.

Started in 2000 by the Department of Industry Promotion (DIP) under the Ministry of Industry,²⁵ the One Tambon One Program (OTOP) uses seasoned traders to assist grassroots businesses with the export process, and to identify small and medium enterprises with the most potential to develop innovative products. OTOP identifies the best products from each tambon, or sub-district, based on such criteria as quality standards, regular production processes, and portrayal of Thai history and image. Goods are awarded 1-5 star ratings to encourage quality improvement, and within six product categories are further divided into four levels based on export readiness and the amount of support required. In this way, DIP can formulate the appropriate strategies to increase the number of exporting SMEs, and ensure that SME products reaching the major domestic and international markets maintain minimum standards and are consistent with the branded image of Thai products.

The government maintains a business-to-business website, thaitambon.com, to facilitate promotion of sub-district goods and provide them with export opportunities. OTOP products are prominently displayed during international trade fairs and there were plans in 2004 to set up an OTOP shop to attract the attention of visiting importers. The Department of Export Promotion considers this program a resounding success, and cites contracts for OTOP products with such notable organizations as Selfridges and Blue Elephant and Coca Thai restaurant chains, and with major importers in the Netherlands, Japan, and South Korea.

An additional SME strategy of DIP is to encourage voluntary industrial cluster formation among entrepreneurs to reduce production costs and encourage efficiency. The government acts as a facilitator, training provider, and motivator. In partnership with private sector actors, such as financial institutions, research organizations, and trade associations, government agencies provide networking, product development, and innovation support to SMEs in rural areas. One example is the public-private partnership between the Northern Handicraft Manufacturer and Exporter Association (NOHMEX), DIP, and the government-owned but privately managed Northern SME Centre to exhibit the work of provincial manufacturers during nationally and internationally held trade fairs. The Northern SME Centre and NOHMEX members jointly cover costs, while displaying their products using a similar design concept to distinguish Thai products.²⁶

3.2.4. Lessons for Bangladesh

From the Thai experience, Bangladesh can learn substantially to further increase its competitiveness in the post-MFA world. While Bangladesh remains many years behind Thailand in the ability to brand its products, innovative design and the necessity of value addition are continually cited by Bangladeshi entrepreneurs as the major competitiveness-enhancement strategies that exporters must adopt.²⁷ Thailand's history is instructive in

²⁵ <www.smethai.net>

²⁶ Examples are taken from presentations made during the Fifth Annual BDS Seminar in Chiang Mai from September 27 – October 1, 2004.

²⁷ The sector selection methodology in Chapter 3 involved in-depth interviews with a wide range of exporters. A copy of the questionnaire is in the annex.

providing Bangladesh with a timeline of activities to mimic. Presently Bangladesh is about ten years behind Thailand, and is only now realizing the importance of design innovation. Taking Thailand's example, the next step therefore is to invest in human capacity building and provide training in product design management, while at the same time investigating and accumulating data on wider market opportunities whose tastes can be catered to.

Bangladesh can also take more pro-active measures to identify and categorize promising SME exporters and ensure country-wide coverage. Bangladesh can engage further with the private sector, and following Thailand's lead, manage the image of the country by monitoring product standards and facilitating a common platform for the presentation of Bangladeshi goods abroad. Establishing regional centers for SME support in cooperation with the trade associations and other private sector actors may be one strategy. Another lesson learned from Thailand is the importance of using e-Commerce to generate interest and knowledge of local products globally. By showcasing carefully screened product groups and businesses online, Bangladesh can provide new export opportunities for its small businesses while also tailoring its image and promoting the cultural and historical richness of the country.

A round-up of lessons learned is presented below:

1. Branding
2. Innovation and design
3. Marketing and presentation
4. Image maintenance
5. Quality standards
6. Variety of export services based on readiness-level of SMEs
7. Partnerships with trade associations and the private sector
8. e-Commerce

3.3. Sri Lanka

The apparel industry in Sri Lanka accounts for just over 50% of manufacturing exports and 5.6% of GDP. Of the approximately 300,000 workers directly employed in the industry, 87% are female (Institute for Policy Studies, Colombo). The post-MFA scenario has caused less concern about impact to the economy and more about the human development implications. With 53% of GDP coming from trade in services, Sri Lanka's economy is not as reliant on manufacturing as is Bangladesh's. The concern post-MFA is for the estimated 40-50% of small factories that will close, costing an expected 100,000²⁸ job losses among women. There is added speculation that with fewer jobs, labor conditions will also deteriorate (Oxfam Briefing Paper 2004).

²⁸ Other estimates place the expected job losses at 30,000. See *Sri Lanka Development Policy Review*, World Bank, 2004.

3.3.1. Government Response

It has been difficult to obtain extensive information from Sri Lanka. However, anecdotal evidence suggests that the government of Sri Lanka has been active in supporting their industry in a post-MFA environment. A strategic plan has been developed for 2003-2005 with apparels remaining the top industry, but diversification also a priority. The Board of Investment maintains a strong role in promoting export led growth through an open investment climate.

3.3.2. Exporter Support

Sri Lanka recognizes the need to not only diversify its manufacturing export base, but also to focus on assisting employment-intensive regional SMEs. The Export Development Board (EDB)²⁹, established in 1979 under the Ministry of Internal and External Trade, Commerce, and Food, is tasked with implementing Sri Lanka's export-oriented growth strategy. It hosts an online Trade Information Network that offers research on potential markets, information on trade procedures and statistics, and a trade directory allowing product and company searches.

EDB's services strategy is to segment exporters according to their potential for export success. The top 1% of exporters plus potential winners from the next 9% are placed in the premium segment, comprising 33% of Sri Lanka's export income. The developmental segment encompasses the next 9% of exporters along with potential winners from the bottom 90%. Half of EDB's customer focus rests on this exporter group. The emerging segment covers the bottom 90% of exporters and potential exporters. EDB assists the premium and development segments with new market penetration, product development, branding, and efficiency, while emerging exporters receive more general informational assistance on how to export and identify markets.

3.3.3. Market and Product Diversification

Sri Lanka was the first country in the region to begin liberalizing trade policy and pursuing export-oriented growth complimented by an open investment climate. With a trade-to-GDP ratio of 77% compared to 33% for Bangladesh, Sri Lanka remains the most open economy in the region (Chowdhury and van der Geest 2004), which may account for its nearly sustained GDP growth rate despite civil unrest. In line with its liberalizing history, Sri Lanka has given priority to identifying new markets and is mapping opportunities and barriers in the region. With Free Trade Agreements (FTAs) already signed with India and Pakistan, Sri Lanka is looking to expand regional cooperation and is particularly interested in finding opportunities in China and India (EDB Policy and Planning Division Strategic Plan 2003-2005) to complement its regional trade with Maldives.

EDB's business focus divides its export sectors into primary, secondary, and developmental categories, with apparel and tea receiving the highest priority. IT services

²⁹ <www.tradenetsl.lk/edb/> Unless other noted, information from this section is taken from the website.

remain in the developmental category, even while the Board of Investment (BOI)³⁰ has simultaneously prioritized the sector and hopes to achieve \$1 billion in exports in software and IT by 2008. To facilitate this, the traditionally strong BOI is pushing investment opportunities in software development, e-Commerce, IT training, and IT infrastructure while offering tax holidays and duty concessions on all hardware imports.

Sri Lanka boasts nine Export Processing Zones (EPZs) and two industrial parks, along with five regional economic development commissions that focus on increasing rural exports and developing the export potential of SMEs. The special project for regional SME development of EDB works to develop the supply capabilities and skills of export-oriented SMEs, while also establishing an institutional network to assist them in reaching the international market. Additionally, the EDB provides SMEs with productivity and quality improvement assistance.

3.3.4. Lessons for Bangladesh

Sri Lanka's strategy of grouping exporters and offering targeted services accordingly is similar to Thailand's grouping of exporters in the Intertrader program. Bangladesh may also want to take this approach, which would assist the country to make better use of scarce resources and provide more meaningful support to the many exporters and small enterprises that are in different locations along the learning curve. Segmenting services by export readiness also gives enterprises a clear view of what they must do in order to graduate to the next level and assures them that support is available commensurate with their changing needs.

Following Sri Lanka's example, Bangladesh may want consider adopting a number of strategies:

1. Continued liberalization
2. Increased focus on regional trade
3. Tailored export services
4. Regional export-oriented SME support
5. e-Commerce

3.4. Pakistan

In the past five years, Pakistan has increased its export earnings from \$7.2 billion to \$12.8 billion with an additional goal of reaching \$24 billion in the next 5 years (Statement of Prime Minister of Pakistan reported in the Press), helped in large measure by its export of cotton products (RMG and textiles) comprising 68% of exports (Trade Policy 2004-5). As one of the largest cotton producers after the US, Pakistan has not been critically concerned about the expiration of the MFA. In fact, the Minister of Commerce has been opposed to its extension, while at the same time ensuring that the country is aggressively prepared to compete with China (Shauket and Ahmed 2004).

³⁰ <www.boi.lk>

From 1999, Pakistan has invested \$2.6 billion in the modernization of the cotton sector in preparation for the post-MFA scenario through its Textile Vision 2005.

3.4.1. Government Response

Textile Vision 2005 recognizes that Pakistan has been too engaged in low-end production. The new strategy is to shift towards value-addition, diversify into women and woven garments and man-made fabrics, and expand the country's spinning capacity to enhance quality. Textile Cities have been set up in Karachi, Lahore, and Faisalabad to attract investment and help build the image of the country through value addition.

3.4.2. Product and Market Diversification

In conjunction with Pakistan's continued reliance and investment in the textile sector, the country is also taking measures to diversify its export product and market base. It has strong sector selection criteria and has divided sectors into core and developing categories with targeted strategies for each. In 2000, the target was to increase exports in its core product group by 10% by value. The Export Promotion Bureau (EPB) has created a separate fund for market research by professional international firms, such as Price Water House Coopers, when targeting a new export market to ensure quality research and long-term results (Shauket and Ahmed 2004). By paying attention to the needs of global buyers, Pakistan hopes to penetrate markets in nearby China, as well as Africa, Brazil, Mexico, and Argentina (Trade Policy 2004-5).

In a further effort to reach these new markets, the EPB has facilitated exhibitions in 80 international trade fairs characterized by strategic representation of the country's products to enhance its image and branding potential. The fairs for participation are selected after extensive research and long-term planning on the part of the organizations participating. Policy incentives have been created to reach new markets and enhance exports of non-traditional products. In 2003 a 25% freight subsidy was made available for products whose annual exports were less than \$5 million or to markets where annual exports were less than \$10 million. This resulted in a 30% increase in exports to eligible countries (Trade Policy 2004-5).

Pakistan has mapped out long run, medium run, and short run policies to enhance its global competitiveness. Long run efforts relate to improving the law and order situation, reducing corruption, and improving labor force quality. Medium run policies seek to lessen bureaucratic hurdles, improve infrastructure, and research new markets, while short run initiatives encompass regular interactions and cooperation between the EPB, the Ministry of Commerce, and lead exporters.

3.4.3. Information Technology

EPB has recognized the utility of IT in promoting trade through its information-rich website.³¹ It offers export statistics and market research reports as well as databases of

³¹ <www.epb.gov.pk>Unless otherwise noted, information for this section was taken from the website.

exporters and international buyers that are regularly updated. Export procedures, trade policies, and other trade-related publications can also be downloaded. Additionally, all EPB departments are computerized and online.

Pakistan's Software Export Board, an independent body created by the government, also maintains a separate website.³²The organization runs three software technology parks in Islamabad, Karachi, and Lahore as well as an open source resource center. The Board assists IT companies to achieve standard certification and undertakes ICT sector studies and marketing promotion. The website also contains a searchable database of IT companies in Pakistan and business set-up guidelines.

3.4.4. SMEDA

Pakistan takes a sector-based approach to involving small and medium enterprises in export-oriented industries. The Small and Medium Enterprise Developing Agency (SMEDA) has been set up as a separate unit to link grassroots entrepreneurs with the larger value chain. Established in 1998, SMEDA serves as a one-stop-shop for SME clients with main leadership coming from the Commerce Minister. The unit maintains a machinery and supplier database and posts sector pre-feasibility studies online for public consumption. It maintains a strong collaboration with UNIDO, ITC, and CBI, and has adopted a cluster-based approach to SME export development to take advantage of economies of scale and specialization (Shauket and Ahmed 2004). Some examples of this approach include an electric fans cluster in Gujrat and a cutlery cluster in Wazirabad that provide government-sponsored services such as training, testing facilities, bonded warehouses, and marketing support (Trade Policy 2004-5).

3.4.5. WEXNET

In order to promote women exporters, another cell called WEXNET has been formed. The cell helps women entrepreneurs in preparing catalogs, new products, and business plans. In the second stage of assistance, it is mandatory for newly registered members to exhibit in three local trade fairs in Karachi, Lahore, and Islamabad to accustom them to trade fair participation. Following this three years of preparation, the EPB then facilitates the women entrepreneurs' participation in international trade fairs (Shauket and Ahmed 2004).

3.4.6. Lessons Learned

Based on Pakistan's experience, Bangladesh may want to invest in high quality market research and use the information to strategically prepare for participation in a greater number of international trade fairs. Compared to Pakistan's 80, Bangladeshi firms have so far only exhibited in around 20 each year (Shauket and Ahmed 2004). At the same time, identifying and prioritizing new export markets would enable Bangladesh to focus its research and trade fair participation, and develop a focused market diversification strategy rather than continuing to rely on the US or EU markets.

³² <www.pseb.org.pk>

Pakistan remains ahead of Bangladesh in terms of ICT preparedness. Bangladesh should outfit its own EPB with computers and develop an online database of exporters and buyers. While Bangladesh has also prioritized ICT, there has so far been little coordinated initiative to identify all of the stakeholders and track new investment opportunities.

Overall, Bangladesh could consider the following from Pakistan's example:

1. Professional market research
2. Priority new markets
3. Significant trade fair participation
4. Short term and long term planning
5. Computerized EPB
6. Database of buyers and sellers
7. Separate cell to facilitate female export-oriented entrepreneurs

3.5. Vietnam

Vietnam began "doi moi" reforms away from a centrally planned economy in 1986, with a focus on export-oriented growth, improving the investment climate, and strengthening legal and governance systems. Reforms have generally been considered a success, and have contributed to a 7% growth rate from 2000-2003. Although garments and textile exports from Vietnam have represented a small share of world trade,³³ the industry accounts for around 14% of Vietnamese exports and reached a turnover of \$4.3 billion in 2004. This is a \$2.32 billion increase over the previous year, indicating that Vietnam is fast becoming a global competitor (Trade Promotion Agency website). The country is not yet a member of the WTO, and therefore is not directly affected by the lifting of quotas in January 2005.³⁴ Vietnam signed a bilateral trade agreement with the United States in 2001, but still faces quota restrictions on garment and textile exports. Despite the continued restriction, Vietnam is in negotiations for WTO membership and is being viewed as the up-and-coming Asian tiger.

3.5.1. Government Response

As a complement to Vietnam's WTO ascension plans and continued export-led growth strategy, the Vietnam Trade Promotion Agency (Vietrade)³⁵ under the Ministry of Trade is working with the International Trade Centre (ITC) in Geneva to implement a three year project titled "Support to Trade Promotion and Export Development in Vietnam." The project is aimed at developing a national export strategy and improving Vietrade's ability to facilitate a national trade development network of government agencies, trade support institutions, and exporting enterprises. The project has devised four intended results and assigned specific activities to achieve them. One highlight of the project is an initiative

³³ Vietnam had under 1% share in the global apparel market in 1997 (Martin, date unknown).

³⁴ Under a different arrangement quotas are being lifted for the EU and Canada in January 2005.

³⁵ <www.vietrade.gov.vn> Unless otherwise noted, all information for this section is from the website.

to update assessments of eight export products along with corresponding export marketing guidelines for enterprises. The project has also prioritized human resources development for trade support institutions and export enterprises, with a target of at least 30% training participation by women (VIE/61/94 Vietrade website).

In a more direct response to the phasing out of quotas for Vietnam's competitors, an Interministerial Garment and Apparel Administration Division has been established with membership from the Ministry of Trade and Ministry of Industry. The Division is responsible for managing quota allocation for textile and garment exports to the US in 2005, and ensuring that quotas are allocated to the most efficient firms.

Vietnam has also instituted legal and governance reforms to improve the investment climate, and is seriously continuing with the process of negotiating WTO ascension. Three Export Processing Zones are in operation, and in 2001 the Foreign Investment Law was revised to simplify the registration process for foreign investors establishing export enterprises (Martin date unknown). The Enterprise Law was also established in 2000, facilitating the growth of private sector SMEs through easy registration. Since its enactment, 160,000 new enterprises and 3 million family businesses have been registered. The law is being further revised to continue enhancing private sector participation in export industries. Of additional import for domestic firms is the establishment of a secured transactions registration agency in Hanoi and Ho Chi Minh City (Martin date unknown).

Vietnam signed the UN Convention Against Corruption in December 2003 and a decree on the accountability of the heads of government agencies has been drafted. Legal action against some senior government officials suggests that Vietnam is serious in curbing crime and corruption (Nga 2004).

3.5.2. Trade Promotion

The Ministry of Trade has set an export target for 2005 of \$31.5 billion, and in order to achieve this goal has infused \$20 million this year into trade promotion activities. Vietrade maintains a website with breaking news and trade fair information, as well as buy and sell offers searchable by product category. The Vietnam Trade Information Center also has a separate website profiling export firms and offering market research.³⁶ Furthermore, regional Trade Promotion Centers are also online and profiling local export products and firms.

3.5.3. Market Diversification

In 2003, 54% of textile and garment exports went to the US market. With China's ascension to the WTO, Vietnam has also been targeting the Chinese market for increased exports. In an effort to identify further market opportunities for Vietnamese goods, the Ministry of Trade has established separate departments for each targeted region. The

³⁶ <www.asemconnectvietnam.gov.vn>

four departments are focusing on the export markets of Asia-Pacific, Europe, America, and Africa, West and South Asia.

3.5.4. Lessons Learned

Vietnam is currently being compared to China in terms of its aggressiveness in pursuing export growth and its dedication to learning and taking advantage of opportunities. Bangladesh could benefit significantly from adopting a similar hardnosed, can-do attitude rather than waiting for donor handouts and concessions. The International Trade Centre is also operating in Bangladesh, but has not met with the same kind of enthusiasm and readiness to commit as in Vietnam.

Vietnam and Bangladesh both suffer from perceived high levels of corruption and poor investment climates. Rather than debating the merit of that perception, Vietnam has embraced the need to improve and is continually implementing reforms. By signing the UN Convention Against Corruption, Vietnam also indicated to international investors that it is cognizant of the problem and is actively working to change it. Bangladesh might also want to demonstrate its seriousness in tackling the poor investment climate by taking publicized action against corrupt officials and pushing through needed legal reforms.

Overall, Bangladesh may want to consider the following from Vietnam's example:

1. Online presence for all export promotion agency branches, thereby highlighting regional products.
2. Pro-active approach to forming partnerships with international export support agencies such as ITC.
3. Prioritize new export markets and assign responsibility within EPB.
4. Foster can-do attitude among exporters rather than hand-out dependent attitude.

3.6. Cambodia

Of Bangladesh's main competitors, Cambodia has the youngest textile and garment sector, dating back only 10 years. In 2003, the country exported \$1.6 billion in garments and textiles, accounting for 80% of total exports. The sector employs around 230,000 people, mostly women, and supports many more through remittances to the rural areas. The sector in Cambodia is almost 100% driven by foreign investment and has relied significantly on preferential access, especially recent increases in quota allocation from the United States (ADB 2004).

With the end of the MFA in 2005, there are fears that foreign owners in the sector will make decisions about where to locate their factories based solely on cost competition, with little loyalty to the country. This concern is exacerbated by the reality that the sector is almost completely reliant on imported yarn, fabric, accessories, and packaging, and domestic value added only accounts for 28.6% of garment exports. One study has

estimated that unless policy measures are taken immediately to support the sector, post-MFA competition could result in the loss of approximately 32,000 jobs and the annual loss of 1.5% of real GDP growth (ADB 2004).

3.6.1. Government Response

With the above scenario in mind and recognizing the high costs of doing business in the country, Cambodia has instituted a Government Action Plan (GAP) that focuses on jumpstarting private sector growth, improving the investment climate, and reducing poverty. The reforms cover everything from law, taxation, and public administration, to military demobilization, mainstreaming gender, and population policy. The government has expressed a wish to reduce its reliance on GSP exports (National Poverty Reduction Strategy paper) and plans to rid itself of the status of Least Developed Country (LDC) by 2020 (Somongkol 2003). In keeping with the competitive spirit exhibited through these goals, Cambodia became the first LDC to receive approval for WTO membership in 2003. The government has also been taking seriously the findings of a recent World Bank Investment Climate Assessment study, as seen by the formation of the Special Inter-Ministerial Task Force on Trade Facilitation and Investment Climate and the continued support to the Government-Private Sector Forum (World Bank 2004).

3.6.2. Inter-Ministerial Task Force on Trade Facilitation and Investment Climate

The Task Force is chaired by the Minister of Economy and Finance and Vice-Chaired by the Minister of Commerce. It has identified four major tasks that were scheduled for implementation beginning in 2004 with expected completion by the end of 2005:

1. Formation of a reform team with membership from across all agencies
2. Consolidating customs inspection procedures into a one-stop location
3. Automating the sharing of information between agencies
4. Simplifying procedures for business registration

Overall, the Task Force aims to reduce duplication and red tape, and streamline investment procedures to stimulate private sector led growth (World Bank 2004).

3.6.3. Government-Private Sector Forum

Initiated in 2000, the Forum is a twice yearly meeting between the Cabinet and private sector representatives, and is chaired by the Prime Minister. The Forum aims to build trust between the government and private sector, and facilitate interaction to foster private sector investment. The Forum has formed seven Working Groups aimed at tackling private sector frustrations:

1. Law, Tax, and Governance
2. Agro Business and Agro-processing
3. Energy and Infrastructure
4. Banking and Financial Services

5. Tourism
6. Manufacturing and SMEs
7. Export Processing and Trade Facilitation

Although corruption and law enforcement remain problems, the Forum has been commended for initiating high level dialogue, facilitating negotiations on cost reform at the Port of Sihanoukville, and installing private sector monitors in the customs department (World Bank 2004).

3.6.4. Brand-Security Marketing

In addition to government efforts to improve the investment climate and curb corruption, Cambodia is marketing itself as the destination for garment buyers concerned about labor rights and corporate social responsibility. The government has agreed to a joint venture with the international community, including donors, NGOs, and the private sector, to establish labor rights verification mechanisms that will help Cambodia to stand out as an ethical choice for textile and garment buyers deciding on a sourcing location. The project, called “Seizing the Global Opportunities,” was highlighted during a high-level summit in Phnom Penh in February 2005. The ILO monitors Cambodia’s adherence to labor standards, while the project seeks to advertise this fact to the international community through promotion of the “Cambodia Model” for ethical labor practices in the apparel industry.³⁷

3.6.5. Trade Promotion

Cambodia’s Export Promotion Department (EPD) is a relatively new organization working under the Ministry of Commerce.³⁸ The department website offers an export directory by category as well as a list of trade fairs and trade news. Beyond what is on the website, there is very little information available about the EPD’s activities and the department does not appear to be very active. More involved in trade facilitation is the Council for the Development of Cambodia (CDC), which is responsible for stimulating investment in the country and has been involved in wider government efforts to promote private sector growth.

3.6.6. Lessons Learned

Like Bangladesh, Cambodia is constrained by high levels of corruption and bureaucratic inefficiency. Cambodia has faced the problem and accepted international calls for reform by simplifying legal procedures and engaging with the private sector. The country has displayed a pro-active attitude and a willingness to compete for its place in the world market through WTO membership and by signing on to other bilateral and regional trade agreements. Bangladesh could learn much from Cambodia’s quick response to negative realities, and adopt a similar willingness to work cooperatively with the private sector and donors to solve the problems.

³⁷ More details about the project can be found at <www.globalfairness.org>

³⁸ <www.epd.gov.kh> Started in 1997.

Moreover, Bangladesh may also want to advance its image internationally by offering more than its cheap labor as an attraction for investment. Whether Bangladesh can also adopt the corporate social responsibility approach, or find some other unique selling point, Cambodia's example serves to stimulate the flow of ideas for Bangladesh's image marketing strategy.

A recap of lessons learned from Cambodia includes:

1. Improve and highlight labor and environmental practices
2. High-level collaboration between government, donors, and the private sector
3. Willingness to accept tough realities and becomes serious about improvement

4. Policy Analysis

This chapter considers a number of cross-cutting policy issues that affect the growth and stimulus of exports from Bangladesh. An analysis of the import and export policies of the country, as well as the nature of the investment climate, all serve to define the constraints and opportunities that are in place for exporting firms. The focus is on broad policy issues that affect all sectors; policy measures related to individual industries will be considered in Chapter 6.

There are a considerable number of recent studies that have focused on Bangladesh's trade policy and the evolution of its liberalization efforts since the early 1990s. The analysis here does not pretend to offer a decidedly new look at these issues, but rather to present in concise and easy-to-understand language an overview of the major issues that have been discussed elsewhere in more technical detail and that have bearing on the overall objectives of this study.³⁹ Most importantly, the chapter offers a compilation of what seems to be the collective consensus of the policy reforms that are necessary to further stimulate exports in a range of sectors.

The analysis begins with a rationalization of the link between Bangladesh's import policy and the success of its exports, as well as the connection between foreign direct investment (FDI) and export-led growth. A closer look at Bangladesh's tariff structure and use of quantitative restrictions (QRs) reveals a continued anti-export bias through the protection of import substitution industries. Yet at the same time, Bangladesh claims to be pursuing export-oriented growth characterized by a number of incentives for exporters, most of them related to the RMG industry. The result is a distortion between the stated goals of the country's export policy and the effects of its protective import regime. Rather than having one cohesive trade policy, the country has a number of separate policy documents that act in contradiction.⁴⁰ The chapter continues with an analysis of the efficacy of the export policy, including whether its provisions can be realistically implemented and where inadequacies exist, and the nature of the investment climate. At its conclusion, the section offers a compilation of the various recommendations to reform Bangladesh's trade policy.

4.1. Linking Import Policy, Export Growth, and the Investment Climate

Prior to taking a more specific look at Bangladesh's import and export policies, it is useful to establish the ways in which the two are connected, and how a protective import policy acts to dampen exports. Import protections can take the form of customs duties, para-tariffs and additional taxes, quantitative restrictions on which products can be

³⁹ Information in this chapter was summarized from five main sources. See World Bank, *Trade Policies in South Asia: An Overview*, 2004, World Bank, *Bangladesh Growth and Export Competitiveness*, 2005, European Commission, *Draft Trade Needs Assessment*, 2005, Bangladesh Enterprise Institute and World Bank, *Improving the Investment Climate in Bangladesh*, 2003, and Chowdhury, Omar Haider, and Willem van der Geest, eds., *Economic Reform and Trade Performance in South Asia*, BIDS, 2004.

⁴⁰ The draft *Trade Needs Assessment* report funded by the European Commission makes the observation that there is an import policy, an export policy, and an industrial policy when instead there should be a more integrated trade policy.

imported, licensing requirements, and bureaucratic hurdles. All of these mechanisms hinder exports in the following ways:

1. The high cost of imports due to tariffs and taxes increases the costs to firms that are processing the imports for re-export. The additional cost makes their prices less competitive in the international market.
2. The high cost of imports means that domestically produced goods have less competition and can be sold in the local market at artificially high prices. This increases the incentive for producers to focus on the domestic market where prices are higher and quality can be poorer than in the more cut-throat international arena.
3. By placing restrictions on imports, which are bought with foreign currency, the demand for local currency is higher than it otherwise would be. This acts to keep the local currency artificially appreciated and lowers the profits of an exporter vis-à-vis the local currency.⁴¹

With these rationales in mind, it becomes apparent that the openness of Bangladesh's import regime has a decided impact on the strength of its export sectors. This is true not only in an abstract, academic sense, but has been borne out during the preceding decade of Bangladesh's trade history. In 1990 Bangladesh's trade ratio was 26.7% with an average GDP growth for the next five years of 4.15% and an export propensity of only 8.3%. After nearly a decade of increasing international openness measured by a 2000 trade ratio of 42.1%, GDP growth by 2000 reached over 5% and export propensity had increased to 17.5%.⁴² The importance of an open import environment should also be obvious for the RMG sector which, while it is more than 75 percent of the export basket, is heavily dependent (up to 70%) on imported raw materials.

Foreign direct investment (FDI) has also been increasingly recognized as one additional component that enhances the export prospects of a country and serves as an important engine of development. It introduces a country to new technologies and improved production techniques, as well as quality control and advanced marketing skills (World Bank 2004). The transfer of new management skills and network linkages are also a crucial benefit of FDI (Chowdhury and van der Geest 2004).

4.2. Bangladesh's Continuing Anti-Export Bias

Emerging from a highly closed economy in the early 1990s, Bangladesh joined the liberalizing bandwagon along with the rest of the region. The import policy of the country had been characterized by a many-tiered tariff structure that varied markedly between industries and also varied between products within one industry. There were also a large number of quantitative restrictions (QRs) and other non-tariff barriers such as

⁴¹ Summarized from explanations in the World Bank's *Trade Policies in South Asia: An Overview*, 2004 and Maxwell Stamp's *Bangladesh: Trade Protection, Comparative Advantage and Competitiveness*, 2003.

⁴² Export propensity = (exports/GDP) as a percentage of GDP and Trade ratio = (exports plus imports)/GDP*100 as calculated by Chowdhury, Omar Haider and Willem van der Geest, eds, *Economic Reform and Trade Performance in South Asia*, BIDS, 2004, pp. 32 and 58.

import licensing requirements, time delays, and many concessions and exemptions (Chowdhury and van der Geest 2003). For most of the decade, Bangladesh markedly reduced the number of QRs, continued to rationalize its tariff structure, and reduced customs rates. The liberalizing tendency was stalled momentarily in the mid-1990s, but picked up again after the turn of the century.

Despite the achievements in reducing tariffs, Bangladesh still remains the most protected economy in South Asia and the 5th most protected economy in the world (World Bank 2005). A number of para-tariffs, or protective taxes, are levied in addition to customs duties in a non-transparent and discretionary manner that increases the opportunity for rent-seeking behavior. They are such a significant amount that from 2000-2001, 1/3 of customs collections came from these para-tariffs. Put another way and with a more recent statistic, “Bangladesh’s average protective rate in FY05 is 62% higher than its unweighted average Customs duty” (World Bank 2004). There are three primary para-tariffs in use in Bangladesh:

1. Infrastructure Development Surcharge (IDSC) – a discretionary general para-tariff
2. Supplementary Duties (SD)
3. VAT

There had been additional regulatory duties, but these were just eliminated in the most recent budget. VAT is usually not considered a protective tax, but a number of VAT exemptions for domestic products serve to place it in the para-tariff category for the case of Bangladesh (World Bank 2004). The country continues to have a relatively complicated tariff structure, though has made improvement by reducing it from a four-tiered to the most recent three slab structure. Currently, the highest tariff rate is 25% (Draft Trade Needs Assessment 2005). While very recent improvements have taken place, the tariff system remains complicated and is difficult to negotiate.

Additionally, a number of quantitative restrictions remain in place, making Bangladesh the only country in South Asia to continue using traditional QRs on imports (World Bank 2004). Import licensing was abandoned in 2003; however, an importer registration requirement, which is costly and time consuming due to bureaucratic red tape and corruption, acts in nearly the same way as import licensing would. The import policy of the country also makes use of import bans and import restrictions, many of which are related to the textile and agricultural sectors. At present there are 63 items that are controlled by the import policy, and while the majority of these are on the restricted list, the administrative procedures for acquiring permission are cumbersome and costly, involving a web of permits, clearances, and approvals (Trade Needs Assessment 2005).

4.3. Provisions for Exporters

Because of the continuing protective nature of the import regime, a number of mechanisms have been put in place to reduce costs for exporters. These include:

1. Duty Drawback Scheme

2. Bonded Warehouses
3. Export Processing Zones

These measures take into account the reliance of exporters on imported inputs, and allow firms to either circumvent import tariffs and other taxes or receive a refund of duty paid. The difficulty with these options is that they primarily serve the established RMG and leather industries, making it difficult for new export industries to materialize, and partially explaining the highly concentrated nature of the country's export products.

The duty drawback scheme allows exporters and partial exporters to receive a refund of duties and taxes paid on imports used for the production of completed export goods. Claims must be submitted to the Duty Exemption and Drawback Office (DEDO) and must include an export proceed realization certificate and the bill of landing. DEDO uses a flat rate based on input-output coefficients to determine the drawback amount (Chowdhury and van der Geest 2004).

The system is generally considered a positive way to encourage exports, yet in practice it does not work as efficiently as it does on paper. Again, the administrative hurdles are a decided disincentive, with rebates in some cases taking up to a year to receive and flat rates not being applied to non-traditional sectors (Trade Needs Assessment 2005). Additionally, oversight problems lead to distortions, with exporters in some cases receiving a lower rebate than expected. In other instances, exporters request and receive a full refund on import duties and taxes, even though only some of the final production may have been exported while a smaller share was dumped in the domestic market (World Bank 2004). The duty drawback system seems to work well enough for established firms, but for the above reasons continues to be a barrier to newer and smaller exporters.

Bonded warehouses are available, again mostly for the RMG sector, for the free import and storage of raw materials and other inputs used by 100% export firms. Approval for the use of bonded facilities is given within a very narrow set of qualifications, and is again a hindrance for small and start-up entrepreneurs. A further problem is oversight, with leaks to the domestic market occurring just as with the duty drawback scheme.

There are two Export Processing Zones (EPZs) in Bangladesh, located in Chittagong and Savar, and there are plans underway to create six more. They operate as free trade zones and also provide adequate infrastructure in terms of electricity, gas, water, and telecommunications. Required customs procedures within the EPZs are kept to a minimum and are speedily processed, with import/export permits provided within 24 hours. A 10 year tax holiday is also offered to firms operating within the zones. The EPZs are maintained by the Bangladesh Export Processing Zones Authority (BEPZA), and are also a major location for FDI in the country. The EPZs appear to be a relatively effective means of promoting exports.⁴³

⁴³ Information for this paragraph taken from the EPB website at <www.epb.gov.bd>

4.4. Evaluation of Export Policy

In addition to the schemes already evaluated that attempt to neutralize Bangladesh's import substitution policies, a separate export policy offers another set of incentives and promotion measures. The Export Policy 2003-2006 identifies five highest priority sectors and another ten special development sectors. Facilities offered for these sectors include low interest loans, use of bond facilities, reduced air transport, and assistance with marketing and product development.

Additional export subsidies encompass low interest loans from an Export Development Fund, and cash incentives. A number of sectors are eligible for cash compensation of 15-25% of export value. These cash subsidies are illegal under WTO rules, and will have to be phased out eventually (National Policy Review Forum 2003). Beyond this, the system is vulnerable to fake subsidy claims.

Both the export and import policies require back-to-back letters of credit opened in favor of a foreign bank. This restrictive measure limits the options of some larger firms who may want to pursue alternative contracting arrangements. It also limits potential export destinations, since some countries, such as the United Arab Emirates, do not want to import products from Bangladesh based on L/Cs.

Overall, the export policy of Bangladesh has been becoming more conducive to export growth with more attention paid to diversification efforts. The difficulty is that some policy measures, such as assistance with marketing and product development, are decidedly vague. Other measures, like setting up world trade centers in Dhaka and Chittagong, seem more like wishful thinking. This is borne out by the experience in Chittagong, where initial efforts towards building a world trade center have been continually thwarted by political bickering. If the positive measures that are found in the export policy are to be of any use, the capacity of the Export Promotion Bureau or a similar organization needs to be improved.

4.5. Intraregional Trade Policy

Total intraregional trade among South Asian countries is currently as little as 2%.⁴⁴ India has dominated the region in what trade exists, with the majority of Bangladesh's imports coming from India throughout the 1990s. However, India's borders remain almost closed to Bangladeshi products. There are restrictions in transit activities between the two countries, and land customs clear only a limited number of products (World Bank 2004). Trade within India to its north east portion cannot easily cross through Bangladesh.

Discussions are under way for a South Asian Free Trade Area, which stands to benefit Bangladesh enormously. The country is giving positive signals of its readiness to move forward. During negotiations, one of the issues Bangladesh will need to address are the several discretionary para-tariffs already discussed, and limiting the number of items on

⁴⁴ See *Promoting Intraregional Trade in South Asia*, a draft discussion paper submitted to USAID by Nathan Associations as part of the TCB Project.

the negative list. It is advisable that Bangladesh continue working towards the regional trading agreement so that it can take advantage of prospective markets locally.

4.6. Industrial Policy

The Industrial Policy of Bangladesh has been considered fairly liberal and foreign firms are provided with a number of incentives. These incentives include tax exemption for 5-7 years, full repatriation of invested capital, profit, and dividend, avoidance of double taxation, and provision for either wholly owned or joint venture businesses. Other incentives relate to visas for expatriate workers, citizenship for large investments, and duty exemption for export oriented goods. Foreign firms are required to register with the Board of Investment and receive assistance with utility connections, permits, and obtaining industrial plots.⁴⁵

Despite the relatively open investment policy, Bangladesh remains unsuccessful at attracting large amounts of FDI. The World Bank has estimated that FDI inflows into Bangladesh rank only 137 out of 141 countries based on gross FDI inflows to GDP ratio (World Bank 2005). Such a poor ranking is understood to be the result of a myriad of weak infrastructural, regulatory, and governance issues that increase uncertainties for foreign investors and lead to questions about the stability of the country. The difficulties in attracting more foreign investment have been detailed elsewhere,⁴⁶ so it is sufficient here to simply mention that electricity, water, and telecommunications connections, port and customs inefficiencies, and poor law and order all contribute to the disappointing FDI performance. At the same time, there appears to be a feeling among some quarters in Dhaka that the current Industrial Policy is too liberal and makes it too easy for foreign investors to send their profits out of the country.⁴⁷ While advice to tighten the investment policy will probably not be heeded, such undercurrents still serve to undermine foreign investor confidence in the country.

4.7. Policy Recommendations

Nearly all analyses of Bangladesh's trade policy offer recommendations that are expected to decrease the remaining anti-export bias and reduce distortions among import and export policies. This section offers a recap of the most frequently cited policy improvements:

1. Eliminate quantitative restrictions – if necessary these can be replaced with more transparent tariff mechanisms.
2. Reduce maximum tariffs – this will make export-oriented firms more competitive in the international market and reduce reliance on duty neutralization schemes. Lower tariffs also lead to a lower exchange rate, which makes exports from the country cheaper and more attractive internationally.

⁴⁵ From the Board of Investment website <www.boibd.org>

⁴⁶ See Bangladesh Enterprise Institute and the World Bank, *Improving the Investment Climate in Bangladesh*, June 2003, and *Final Constraints Report*, Bangladesh Export Diversification Project.

⁴⁷ See *New Age* newspaper on May 12, 2005.

3. Rationalize the tariff structure – the current three-tiered tariff structure remains confusing and information about how it works is difficult to find. Eventually, this should be transformed into one low, uniform rate.
4. Eliminate para-tariffs – Supplementary Duties and the Infrastructure Development Surcharge are discretionary and lack transparency. Customs duty should be the only protective import tax, making the system simpler and less vulnerable to corruption. At the same time, the tax collection system must be improved, since approximately 22% of total government revenues are collected from protective import duty revenues (World Bank 2004). Any attempt to quickly reduce these additional import taxes will leave an already cash-strapped government even less capable of providing necessary services.
5. Apply VAT equally to domestic and export firms.
6. Eliminate compulsory back to back L/Cs – some export destinations do not like this mechanism, and therefore offer very limited access or are closed to Bangladeshi exporters. A more flexible arrangement should be approved that does not hamper larger firms that have a more stable financial base.
7. Improve export financing facilities – simplify procedures of Export Development Fund and retain low interest rates.
8. Eliminate direct cash compensation of export sectors.
9. Improve administration of duty drawback and bonded warehouse schemes – eliminate leaks to the domestic market, quicken processing times, and incorporate new sectors.
10. Establish centrally bonded warehouse – will make it easier for new and small export enterprises to take advantage of duty exemption.
11. Ensure integration and consistency of import policy, export policy, and industrial policy.
12. Improve trade facilitation – reduce customs and port inefficiencies, and improve transportation networks.
13. Improve investment climate – reduce corruption and ensure law and order.
14. Continue investing in capacity development of Export Promotion Bureau, Customs Department, and National Board of Revenue.
15. Continue towards the development of a South Asian Free Trade Block.

While this is a rather long list of recommendations, and some, such as reducing corruption, have been stubbornly difficult to correct, it gives some indication of where to concentrate future policy efforts. Additional sector specific policy issues will be identified and discussed in a subsequent chapter.

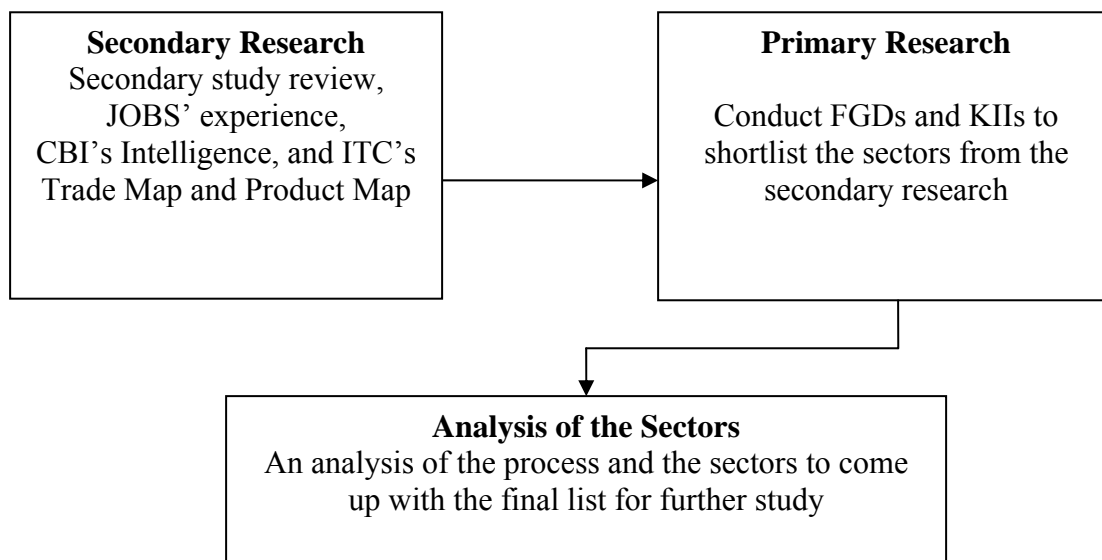
5. Sector Selection

5.1. Background

During the sector selection and sector analysis phase of the research, the IRIS team worked with several consultants, whose full reports can be found in the annex. In preparing the following two sections of this report, IRIS used a combination of desk research, selective information from consultant reports, and the practical experience gained through eight years of implementation of the JOBS Project.

5.2. Methodology

As the heart of this study, IRIS was commissioned to undertake a rigorous action research exercise to identify sectors according to the primary criteria of employment creation potential and export potential. Additional criteria were added during the three step process of secondary research, primary research, and experiential analysis of the sectors to arrive at a final list of ten sectors.



Three steps of sector selection process

The secondary study was initiated to generate a first list of potential sectors for Bangladesh that could be further filtered through the primary study in the following step. The secondary study involved:

1. Reviewing almost 200 studies completed on a range of sectors and trade related topics of Bangladesh by different stakeholders, combined with the project analysis and mapping of sector work in Chapter 1.

2. Making extensive use of JOBS' expertise in export sector development for the last eight years.
3. Consultation with Center for Promotion of Imports From Developing Countries (CBI).
4. Utilizing the huge database of International Trade Center (ITC) to discover trade flows and the potential sectors for Bangladesh.

Using all of the information gathered from the sources listed above, a matrix was created to reflect the relationship between the current size of the sectors and the amount of information available on the sectors. In generating the initial list, IRIS was conscious of the need to identify alternative sectors that are not necessarily on the national radar and that represent significant growth potential. Accordingly, a sector such as shrimp, while fitting the main selection criteria, was filtered out of the list because it is already an obvious choice with a significant amount of research to its name. The intention was not to "reinvent the wheel," but to use IRIS' experiences, partnerships, and research to look at possibilities beyond those that are immediately apparent. The matrix was also useful at this first stage in providing a strong analytical background to sector issues, constraints, and opportunities.

Following the finalization of the primary list of sectors, a Focus Group Discussion (FGDs) was held to add to the list of sectors provided by IRIS and to place sectors in an attractiveness matrix based on the key criteria of employment and export potential. A second Focus Group Discussion acted as a control group, whereby participants were asked to generate and rank a list of sectors starting from scratch. A number of sectors common to both FGDs were identified and helped to narrow down the list that came out of the secondary research. The research team recognized that the analysis had every possibility of being subjective and dependant on the information provided by the focus group participants, and therefore required validation through key informant interviews.

After the primary and secondary research had been completed and the list of ten sectors identified, the research team decided to further analyze the results based on IRIS' experiences and the possible biases of the action research participants. The objective was to review the whole research process and its outcome, and determine if the results matched the overall purpose of the task assigned by UNDP. Following the analysis, the team decided to further shortlist the sectors and include missing ones in preparation for detailed analysis and modality development during the final phase of the whole assignment.

5.3. Secondary Research

5.3.1. Desk Study Literature Review

The research team began the secondary research phase by amassing a library of sector studies, investment climate reviews, and trade related reports. Using internet research skills and visits to donor projects and think tanks, over 200 titles were collected and analyzed. In combination with the review of export promotion projects and organizations

in Chapter 1, the team was able to achieve a full sampling of the export and sector development work available in the country. This literature provided a strong basis for the first draft list of sectors that was further enriched by the experience of JOBS and its partners.

5.3.2. JOBS' Sector Development Program Experience

The objective of JOBS Project is to support the growth of the private sector by helping improve the performance of small, medium, and micro enterprises (SMMEs) and the policy environment in which they operate. JOBS's specific goal is to enable these enterprises to achieve greater economic growth, thereby expanding employment opportunities, reducing poverty, and improving the standard of living for poor Bangladeshis. The sector and export development team operates by identifying sub sectors that demonstrate significant growth potential and by building the capacity of small and medium enterprises (SMEs) to manufacture diversified export products. The Project's activities under the Sector Development Program range from: 1) Focusing on assisting specific growth sectors like footwear or home textile; 2) Developing a skilled labor force; 3) Encouraging product development through technical assistance and training; 4) Creating market linkages by facilitating participation in venues for market exposure; and 5) Facilitating export growth by using international experts, and much more.

The JOBS project, since its commencement, has assisted in developing various sectors, including leather goods, footwear, home textiles, floor coverings, and diversified jute products. Recently it added handmade paper products, diversified coconut products, personal protective equipment, electrical products, and information technology to its target sectors. The selection criteria for the sectors are based on the following:

- Products are exportable
- Draw on labor- intensive production chains
- Rely on locally procurable raw materials
- Potential to double or triple their worker's compensation
- Generate employment for women

The vision of JOBS is to develop each targeted sector and press small entrepreneurs to apply a vigorous, market-driven methodology. This includes everything from locating an international market, getting buy-in from entrepreneurs, inviting an international expert to produce samples for the target market following the trend, participating in trade fairs to obtain orders, developing a skilled workforce through cluster-based training, establishing backward linkages between the entrepreneur/lead buyer and the clusters (or linking small and medium enterprises with upstream micro-enterprises), and facilitating entrepreneurs' access to finance.

During the last six months, JOBS facilitated the creation of 10 new clusters, comprising 200 small businesses. JOBS established major backward support linkages for lead buyers and exporters in footwear, leather goods, home textile, crafts, handmade paper, and other

sectors generating export sales of \$10 million and local sales of \$8 million. JOBS provided technical and skill development training to almost 500 workers of various small and medium sized enterprises from different sectors to prepare them for the highly competitive international market. Approximately 80% of beneficiaries are women with average incomes of Tk. 2000 to 4000.

While doing this, JOBS has gained tremendous experience in sector selection for enterprise development interventions. It has a firm knowledge base regarding many different sectors as well as their overall value chains. JOBS is continually working with chambers and various business associations in an effort to identify and develop new sectors. Besides its own work, JOBS has already worked for projects such as IRG-Nishorgo and MACH-KARITAS to identify potential sectors in terms of employment and export sales. JOBS has developed its own large database on 20 different sectors, 500 small and medium enterprises, and 1700 micro enterprises from all over the country. The program is constantly analyzing the existing and upcoming sectors in Bangladesh.

5.3.3. CBI's Market Intelligence

The CBI (Centre for the Promotion of Imports from Developing Countries) is an agency of the Dutch Ministry of Foreign Affairs, and was established in 1971. The Center's turnover in 2003 was approximately 16 million euros. The CBI office in Rotterdam houses just over 35 staff members. They are assisted by another 70 external consultants (60 branch consultants and 10 general export marketing consultants). An extensive international network further contributes in making the agency one of the most important centers of expertise in the field of market access to the European Union for developing countries. With a focus on the EU market, CBI's core competencies are market knowledge, product/production improvement, quality control, export marketing and management, and market entry. CBI has been working with Bangladesh for the last 12 years and has extensive research on different sectors of Bangladesh. CBI has developed a list of seven sectors, which they think have great potential for Bangladesh. These include novel handicraft, personal protective equipment, stationery items, garments, software and IT services, mobile equipment parts, and organic food ingredients. JOBS has used their expertise as a jumping off point for further research and in the generation of a primary list of sectors for the current study.

5.3.4. ITC's Trade Map and Product Map Market Research Tools

The International Trade Center (ITC) in Geneva has developed TradeMap and Product Map for market analysis and potential market and sector selection for a country. ITC is a long standing partner of JOBS and has trained many of JOBS program staff as local market analysts for the Project, who can use TradeMap and Product Map for potential sector selection.

TradeMap provides on-line access to a database on product trade flows and market access barriers for international business development. It presents indicators on export performance, international demand, alternative markets, and the role of competitors from

the product and country perspective. TradeMap operates in a web-based interactive environment and covers the trade flows (values, quantities, trends, market share, and unit values, both in graphic and tabular format) of over 180 countries and territories, 41 country groups, and 5,300 products defined at the 2, 4, or 6 – digit level of the Harmonized System (HS revision 1).

This web based database helps to examine the profile and dynamics of export markets for any product, to assess the value, size, and concentration of exports, and to highlight countries where market share has increased. It helps to view the world's major importing countries, illustrates the extent of import concentration, and identifies those countries in which demand has increased over the past five years. With the help of this database, one can identify the leading exporting countries for a given product, highlight a country's position in world export rankings, or show a country's share in the imports of partner and neighboring countries. The researcher can make a comparative assessment of import demand for related products in an export market and identify imports of similar products for possible synergies. TradeMap also helps to identify product-specific opportunities by comparing actual bilateral trade, the total import demand of partner countries, and the overall export supply capacity of the home country. TradeMap is based on COMTRADE, the world's largest trade database maintained by the United Nations Statistics Division, and on market access data from UNCTAD, WTO, and national sources.

JOBS also uses another tool of ITC called Product Map. Product Map consists of 72 web-based databases, each focusing on a particular industry and presenting extensive international trade and market analysis tools specifically designed for organizations active in international trade. Product Map gathers information for more effective international market research and business development on 72 industries ranging from agriculture machinery to cut flowers and wood products. Overall, 5,300 products (HS 6-digit) traded by over 180 countries are referenced in the Product Map. It consists of market positioning tools based on the quantitative analysis of international trade for the sector covered by the Product Map in question. Three tools (Trade Data, the Product Performance Index, and Product Champions) provide extensive information to compare national macro-economic performance by country, to analyze exports and imports, and to identify the products with strong international demand and supply capacity in emerging economies.

5.3.5. Convergence of Secondary Research Sources

The following matrix was created based on the convergence of information from the secondary literature review and the experience of JOBS and its partners. The exercise aimed to narrow down the list of possible sectors for the country, with a focus on alternative ideas, to arrive at eleven sectors that could then be shared during the first FGD.

Information and Market Saturation Matrix

Sector Information/Studies	Insufficient		<ol style="list-style-type: none"> 1. Herbal Medicine 2. Aromatic Plants 3. Silk Products 3. Diversified Jute Projects 4. Pharmaceutical Products 5. Ceramics 	<ol style="list-style-type: none"> 1. Handmade Paper 2. Printed Stationary 3. PPE 6. CR Coil 7. Processed Meat 8. Floor Covering 9. Home Textile 10. Fertilizer 12. Jewelry 13. Green Jute Pulp 14. Flowers and Ornamental Plants 15. Personal Care Products 17. Luggage
	Sufficient		<ol style="list-style-type: none"> 1. Grains 2. Leather goods 3. Footwear 4. Aromatic Rice 5. Gift and Craft 6. Fresh and Frozen Vegetables 7. Electronic Assembly 	<ol style="list-style-type: none"> 1. Bakery 2. Plastic Packaging 3. Spices
	Abundant	<ol style="list-style-type: none"> 1. RMG 2. Knitwear 3. Shrimp 	<ol style="list-style-type: none"> 1. Poultry 2. ICT 	
		Large	Medium	Small
		Sector Size		

From the sectors listed in the four top right boxes, the research team chose the following eleven sectors for further analysis during the first FGD:

1. Aromatic Rice
2. Footwear
3. Handmade Paper
4. Herbal Medicine
5. Home Textile
6. Jute Diversified Products
7. Luggage
8. Personal Protective Equipment (PPE)

9. Pharmaceutical Products
10. Printed Stationary
11. Processed Meat

5.4. Focus Group Discussions and Key Informant Interviews

The Focus Group Discussions (FGD) brought together sector representatives, policy makers, academics, and economic generalists to further add to the list created by IRIS researchers above.⁴⁸ During the first FGD, participants added another 17 sectors that were placed in the attractiveness matrix below according to the primary selection criteria. The second FGD came up with 20 sectors placed in the second matrix below.

Attractiveness Matrix – First FGD

POTENTIAL FOR EXPORT	High	<ol style="list-style-type: none"> 1. Generic Pharmaceutical products 2. Other Pharmaceutical Products 3. Software 	<ol style="list-style-type: none"> 1. Bicycle 2. Flower/Orchid 3. Leather Goods 4. Plastic Packaging 5. PPE 	<ol style="list-style-type: none"> 1. Dry Fruits. 2. Footwear 3. Handmade Paper 4. High Value Handicraft 5. Home Textile 6. IT Enabled Services 7. Jute Diversified Products 8. Personal Care Products 9. Shrimp 10. Skilled/Semi-skilled Manpower 11. Generic Spare Parts
	Medium	<ol style="list-style-type: none"> 1. Gems and Jewelry 	<ol style="list-style-type: none"> 1. Aromatic Rice 2. Assembly of Electronic Goods 3. Processed Meat 	<ol style="list-style-type: none"> 1. Herbal Medicine
	Low	<ol style="list-style-type: none"> 1. Camera parts 2. Frozen Vegetable 3. Printed Stationary 		<ol style="list-style-type: none"> 1. Luggage
		Low	Medium	High
		POTENTIAL FOR EMPLOYMENT⁴⁹		

⁴⁸ For a list of FGD participants, please see Annex 3.

⁴⁹ Taken from the sector selection report, which can be found in Annex 4.

Attractiveness Matrix – Second FGD

POTENTIAL FOR EXPORT	High	<ol style="list-style-type: none"> 1. Active Pharmaceutical Ingredients 2. Pharmaceutical Products 	<ol style="list-style-type: none"> 1. Green Jute Pulp 2. Knitwear 3. Light Engineering 4. Manpower 5. Processed Meat 	
	Medium	<ol style="list-style-type: none"> 1. Business Process Outsourcing 2. IT Enabled Services 3. Medicare Services 4. Printed Stationary 	<ol style="list-style-type: none"> 1. Electronic Assembly 2. Herbal Medicine 3. Herbal Nutraceuticals 4. Innovative Jute Products 	
	Low	<ol style="list-style-type: none"> 1. Education 2. Recycled Glass & Tin Products 3. R& D and Testing 4. Spices 5. Urea Fertilizer 		
		Low	Medium	High
		POTENTIAL FOR EMPLOYMENT⁵⁰		

Based on these two matrices, IRIS chose 10 sectors that were highly ranked for further validation. Several of the sectors chosen appeared on both FGD lists. The 10 sectors were ranked during Key Informant Interviews (KIIs) based on export and employment potential, as well as the additional criteria of backward linkage potential. Further details about each sector were gathered during the interviews covering the topics of production and markets, competition, workforce/labor, technology, raw materials, finance, management, and policy. Based on these discussions, the research team achieved a better understanding of constraints and opportunities in each sector, and led them to further refinement of the sector list.⁵¹

5.5. Further Analysis and Finalization of the Sectors

During the Key Informant Interviews, a number of participants expressed surprise that agro-processing had not made the list. Recognizing the bias inherent in action research, and cognizant of the fact that agricultural production remains the number one employer

⁵⁰ Taken from the sector selection report.

⁵¹ For a list of sectors ranked during the KIIs and the resulting numerical analysis, again see the sector selection report.

for Bangladesh's majority rural inhabitants, leather goods and footwear were combined to make room for agro-processing. Information Technology Enabled Services (ITES) was broadened to Information and Communication Technology (ICT), based on IRIS' experience that cross-cutting constraints must first be addressed before more specific sub sectors can be adequately developed. Additionally, handmade paper was broadened into specialized crafts, which also includes leaf baskets.

The final 10 identified sectors therefore include:

1. Agro-processing
2. Generic spare parts/light engineering
3. Herbal medicine and medicinal plants
4. Home textile
5. Jute diversified products
6. Manpower export
7. Specialized crafts – including handmade paper and leaf baskets
8. Leather goods and footwear
9. Personal protective equipment (PPE)
10. Information and Communication Technology (ICT)

While IRIS decided to put forward 10 potential export sectors, commitments to UNDP only required analysis and modality development of 7 sectors. Accordingly, the first 7 sectors listed are further analyzed in the next chapter.

6. Sector Analysis

6.1. Agro-processing

6.1.1. Background

Agro-processing is a wide and ill-defined sector that can refer to everything from poultry, livestock, and forestry, to rice, fruit, and vegetable production. In the context of identifying potential sectors for this report, agro-processing has been narrowed down to encompass only black Bengal goat and fresh or processed fruits and vegetables.

Bangladesh boasts numerous rivers and fertile lands conducive to agricultural production, which has been the traditional pursuit of the majority of Bangladeshis for centuries. Even today, the agricultural sector accounts for 62.4% of total national employment. There are over 90 vegetable varieties and 60 types of fruit grown in the country. Additionally, Bangladesh houses a black Bengal goat population of 20 million.

6.1.2. Demand and Supply

The world market for fruits and vegetables stood at approximately \$98 billion in 2003, with the United States and Europe being the largest importers. In 2003, the US imported \$13 billion worth of fruits and vegetables, while the enlarged EU imported \$17.3 billion excluding intra-trade (FAOSTAT 2004). Germany is the most important European market, while Japan is also a major export destination. The trend in global trade of fruits and vegetables is towards large, consolidated firms that are looking for more direct links with suppliers, leading to a concentration of actors and streamlining of marketing channels. Proper packaging for ease of use is also becoming a factor (Cook 2003).

Bangladesh's exports of fruits and vegetables reached approximately \$14 million in 2003, with the primary destination being the South Asian ethnic markets in the UK and Middle East. From 1995-1996 total fruit production in the country reached 1.5 million tons. More recent figures for vegetables place production at 1.625 million tons from 2002-2003. It is estimated for the same year that around 10 million farmers were growing vegetables on 253,036 hectares of land.

The export figure stated above is not as high as it could be, since there is only 12% value-added in the agro-processing industry and estimates of 15%+ post harvest loss for both fruits and vegetables due to poor handling. Additionally, only .5% of Bangladesh horticulture production is processed, leaving significant room for improvement in the export of fresh as well as processed fruits and vegetables if leading constraints can be addressed.

World demand for goat meat stood at \$86.8 million in 2003 (FAOSTAT 2004). While there are no specific demand figures available for black Bengal goat, it is recognized as a delicacy and known for its texture and taste, even when compared to other kinds of goat

meat. The black Bengal goat is specific to the region, and therefore provides Bangladesh with a good opportunity to break into the global goat meat export market.

The key breeding areas for black goats in Bangladesh are Meherpur, Chuadanga, Kushtia, and Jhenidah. There are also two government farms in Chuadanga and Shenidah. The goats are primarily raised in home yards, with poor families of less than one hectare each raising 80% of the goats in the country. Additionally, goat rearing contributes 27% to agricultural GDP and is responsible for 16% of total employment. While goat exports from Bangladesh in 2003 were insignificant, this is one sector that is experiencing tremendous world demand and for which Bangladesh can position itself as a unique provider.

6.1.3. Major Players in the Value Chain

The supply chain for fruits and vegetables consists of local growers, suppliers, processors, and wholesalers/exporters. If fruits or vegetables are to be exported fresh, they must be boxed and stored in a pack house until ready for export. In order to reach foreign markets still fresh, airplanes are the only means of transportation. 90% of horticulture exports are in the province of the Bangladesh Fruits, Vegetables, and Allied Products Exporters Association. BRAC is the largest individual players, and has achieved EUREPGAP certification, qualifying it for exports to the EU.

Small, marginal, and landless farmers are the primary actors in supplying black goats. Meat processors, local traders, and exporters are also involved. So far the export of goat meat from Bangladesh has been insignificant, but retains potential.

6.1.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Policy Constraints		
1	High duty on inputs, raw materials, and packaging – this increases the costs for exporters whose prices are set by the international market	Negotiate with the government to continue import liberalization Lobby for use of WTO tariff binding facility so that change of government does not result in backsliding on tariff reductions	National Board of Revenue Ministry of Commerce
2	Expansion units in agriculture not eligible for tax holidays – as production units become larger and more able to penetrate international markets, they	Lobby with Ministry of Commerce to extend the tax holiday for agriculture expansion units	Ministry of Commerce

	do not receive the same kind of incentive as if they had stayed smaller		
	Market Constraints		
3	Poor post-harvest handling – a significant portion of production is lost due to rough handling	<p>Train farmers and packers on proper post-harvest techniques to ensure maximum usability, quality, and consistency</p> <p>Develop clusters of producers linked with lead exporters to ensure sustainability</p>	<p>Department of Agriculture</p> <p>Link with ADB Northwest Crop Diversification Project</p> <p>NGOs – BRAC or smaller NGOs working in specific regions of the country</p> <p>Bangladesh Fruits, Vegetables, and Allied Products Exporters Association</p>
4	Lack of cold storage facilities – when flights are delayed at the airport produce is ruined. In transit to the airport there are also not enough cold storage units	<p>Fund a cold storage unit at the airport that can recover its costs by charging for use</p> <p>Work with lead exporters to invest in cold storage facilities and pack houses around the country, as BRAC did</p> <p>Negotiate with BRAC to allow other exporters to rent facility in Tongi</p>	<p>Identify private investor or donor</p> <p>Association members</p> <p>BRAC</p>
5	Poor seed quality	<p>Enhance capacity of research and biotechnology organizations</p> <p>Establish dialogue between research institutions and exporters so that there is a connection between on-going research and needs of the industry</p>	<p>Bangladesh Agriculture Research Institute</p> <p>Link with ADB Northwest Crop Diversification Project HVC research efforts</p> <p>Private seed processing firms</p> <p>Other agricultural</p>

			universities in the country
6	Poor packaging – produce is currently packaged using second hand materials. This sometimes leads to leaks on the plane, so that only Biman is willing to transport produce	Negotiate with government to allow import of packaging materials –currently no professional domestic alternative Establish a Packaging Institute – international consumers are concerned about ease of use and individual packaging, so a local institute is necessary for both fresh and processed foods	Ministry of Commerce
7	Few processing plants – little opportunity for value addition	Explore opportunities to establish a joint venture for transfer of appropriate techniques	Danida, European Commission
8	Traceability and sanitary requirements – need EUREPGAP or HACCP certification for export to developed markets	Facilitate certification for individual firms Enhance capacity of local body and facilitate certification as approved auditor	Business Support Organizations EPB Bangladesh Standards and Testing Institute, SGS, Bureau Veritas, CBI
9	Lack of international marketing skills and information – exporters do not know the tastes of consumers abroad or how to determine appropriate markets and products	Enhance capacity of EPB and embassies abroad to provide market information Establish expectation that quality information must be paid for – develop fund for identifying new markets and products Hold training sessions and workshops with entrepreneurs to teach	EPB Business Support Organizations CBI ICT Other international market research and training organizations

		them about market information sources	
10	Shortage of low interest loans	Extend Export Development Fund or establish separate venture capital fund that is independently managed	Bangladesh Bank Bangladesh Krishi Bank

6.1.5. Modality Development

A significant number of constraints have been identified above, and possible responses indicated. However, it is difficult to address all issues at once, especially broader macro economic and policy issues, and in developing more specific modalities the realistic impacts must also be considered. Therefore, efforts to develop any sector in Bangladesh should involve a concurrent mix of interventions at both the enterprise and institutional level. Recommendations for the agro-processing sector are no exception, and include the integration of certification, capacity development, and marketing support.

While there is a tremendous opportunity for Bangladesh to export fruits, vegetables, and black goat meat, the developed markets require quality assurance and the ability to locate where in the value chain tainted food originated. The country should strive to shift its focus away from just the ethnic markets, where standards are less stringent and profits finite, to the larger market of the mainstream consumer. This cannot be accomplished without internationally recognized certifications, primarily EUREPGAP and HACCP. In the short-term efforts should continue to facilitate the certification process for individual exporters. So far, BRAC is the only organization in the region with EUREPGAP approval, so there remains room for many more enterprises to follow suit. At the same time, it would be most cost effective and expedient if there was a local body that could audit an enterprise's activities and award an internationally recognized certification. Bangladesh Standards and Testing Institute (BSTI) is the most obvious choice. In the medium to long term, the objective should be to develop BSTI's capacity and assist them to receive auditing approval.

The capability of the grassroots producers and packers must be assured before international standards certification will ever be received. Farmers and rearers require cluster formation and targeted training on proper production and handling techniques. Micro credit NGOs that already have a wide presence in the rural areas and work with farmers can play a role in identifying producers and forming clusters. At this point it is also important to involve the lead exporters, who have a decided interest in accessing a consistent and high quality supply base. Achieving their buy-in during the cluster formation and training process ensures the sustainability of the initiative.

Marketing support is the third ingredient that will help agricultural exports to realize their potential. Exporters require training on the sources of market information available, forecasting trends, and identifying markets. A significant amount of information is

available online, and some of it is free. Workshops need to be held on a continuing basis to teach exporters how to undertake market research. Organizations such as CBI and ICT should be welcomed to join in the effort and their resources tapped.

At the same time, the EPB should be facilitating the training for enterprises, and developing its own capacity to assist them by training its permanent staff on market forecasting and trend analysis. As has been done in some competitor countries in the region, it may be worth assisting EPB to devise services based on experience categories of exporters. For example, new exporters and those thinking of exporting may begin with general management and financial training; while mid-level exporters will be offered advanced marketing skills, and experienced exporters will work towards standard certification. Establishing such assistance categories and the concomitant staff within the structure of EPB is a recommendation that holds true for all sectors. Specifically for agriculture, the Department of Agricultural Marketing under the Ministry of Agriculture can also be linked into the capacity building and service provision function of EPB.

While there are a number of other infrastructural, policy, and institutional constraints listed in the matrix above, at a minimum development efforts should include certification facilitation, cluster development, technical training, and linking of grassroots producers into the value chain, along with market research capacity building of lead exporters and the EPB.

6.2. Generic Spare Parts/Light Engineering

6.2.1. Background:

Light Electrical Industries (LIEs) have sprouted from the need to import substitutes for machinery and spare parts required by local industries. The LIEs are enterprises that accrue from a sub sector commonly known as Small and Cottage Industries. The enterprises in this sector mostly cater to the local market, with very few targeting the international market. The Light Engineering Sector (LES) consists of over 7,000 firms, employs 800,000 people, and generates annual revenue of \$1.6 billion. LES output plays a large role in providing machinery and spare parts to other key national sectors such as agriculture, transportation, construction, and RMG.

6.2.2. Demand and Supply

The local market is big and unsaturated enough for this sector to flourish. There is sufficient demand within the various manufacturing concerns such as textile mills, railways, Jute mills, shoe manufacturers, sugar mills, RMG, washing plants etc. The other advantage for this sector is its ability to produce import substitute products which will help Bangladesh not only by contributing to the industrial sector but also by bringing down the import figure and positively affecting the balance of payments. The growth of demand will further follow with the widening of the product line and range. And with the low wage skilled workforce that has already made its presence quite prominent in the country, topped with low start up cost, simple production process, this sector has high

potential for being lucrative and for generating a lot employment. The sectors ability to produce according to sample and quality specification makes it a very good prospective export sector. The very cheap price that results from the availability of inexpensive factors of production makes LIEs very gainful in the export market.

6.2.3. Major Players in the Value Chain

To promote the LES, the Ministry of Commerce recently formed the Light Product Engineering Business Promotion Council (LEPBPC), with representatives from both the private and public sector. The Council currently has 5,585 members in 31 locations around the country. Among the training institutions that extend their support to the light electrical sector are Bangladesh University of Engineering and Technology (BUET) and a number of polytechnic institutes. Bangladesh Small and Cottage Industries Corporation (BSCIC) are also involved in research for the sector. There are a number of institutions involved in testing and certification. BUET offers testing and consultation for Welder's Qualification Test, while Bangladesh Atomic Energy Commission provides non-destructive testing facilities for instruments and weld quality check on a commercial basis.

Institutional buyers for light engineering products include textile mills, railways, jute mills, shoe manufacturers, sugar mills, readymade garments, washing plants, and the Bangladesh Inland Water Transport Corporation (BIWTC).

6.2.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Policy Constraints		
1	High import duty on raw materials, parts, and components for machinery	Work with government to reduce tariffs	National Board of Revenue
	Production Constraints		
2	Poor level of formal education and technical training of workers – this results in low labor output	Provide training on production techniques and prioritization of quality	Business Support Organizations Government vocational training institutes
3	Lack of modern technology and machinery, and investment capital	Establish industrial area to attract investment Joint Venture	Ministry of Commerce Business Support Organizations/Associations/Chambers

		Availability of information regarding technology Create venture fund	Donors or Bangladesh Bank
4	Lack of manuals written in Bangla	Work with technical experts at universities, private producers, and trainers to create manuals in Bangla	Associations Business Support Organizations
	Market Constraints		
5	Difficulty with marketing products overseas	Hold marketing workshops, provide access to foreign technical publications, and facilitate international trade fair participation Organize discussions with foreign suppliers and facilitate exposure to foreign production facilities	EPB Associations
6	Lack of metal testing and R&D facilities	Establish a metal testing facility and link research agenda of engineering colleges with needs of producers	Private institutes BUET
7	Lack of standards testing and quality assurance	Facilitate ISO certification	Private testing institute BSTI

6.2.5. Modality Development

The capability of workers in the light electrical industry is a key obstacle to further export growth. Workers lack basic education, and do not have sufficient technical understanding. This leads to poor quality and lack of standardization, which is especially important for the production of generic spare parts. Training for industry workers is

required, as has been undertaken by business support organizations in the past. The creation of a training manual in Bangla will ensure that training benefits last beyond the initial period and can be shared with a larger pool of workers. Firm managers require additional training in basic business, financial, and management skills.

In order to further ensure quality, a metal testing facility must be created. BUET is already engaged in some testing work, and may be able to extend this. The research and development activities of all of the engineering colleges must be linked with the private sector and be consistent with their needs. The facilitation of ISO certification will greatly assure international buyers that quality is consistent with their needs. The private testing institutes or BSTI, or business support organizations if necessary, should take on this role.

The EPB must also offer assistance in reaching international markets and attaining international production techniques. The EPB should maintain a market information center with updated light engineering material and offer workshops on how to best use the resources on offer. It would also be beneficial if the EPB could facilitate discussions with foreign suppliers to establish cross-border networks and assist in technology and management transfer. The creation of an industrial park for the light engineering sector may also be a good way to attract investment.

6.3. Herbal Medicine

6.3.1. Background

Bangladesh's ecological diversity and wide variety of plant species have made medicinal plant remedies the traditional choice for those in rural areas without easy access to professional medical care. The local processing system is called Kabirajee,⁵² with village-based Kabiraj practitioners handing down their knowledge of treatments for common ailments through generations. There are approximately 650 species used in the domestic medicinal plant sector, which is worth \$4.5 million to the rural economy and \$5.8 million at the wholesale rate (Graham et al 2003).

Of the 650 species in use domestically, the Export Promotion Bureau considers that 48 are exportable. While currently India and China have captured a large proportion of the worldwide market for medicinal plants, Bangladesh's natural resource base and vibrant indigenous knowledge of herbal medicine make it a prospective export sector.

6.3.2. Demand and Supply

Global trade in the herbal industry was estimated at \$80 billion in 2000 and is projected to reach \$30 trillion by 2050. Worldwide herbal medicine sales are growing at 10% annually (Abidin date unknown). Europe is one of the most frequent destinations, capturing 38% of the world market for herbal medicine imports. Of the Euro 318 million

⁵² Similar to the Indian Ayurvedic process. This section uses figures for herbal medicine and medicinal plants as a whole, without making the distinction between Ayurvedic, Unani, or other processing systems.

in medicinal and aromatic plants imported to the EU in 2001, 40% came from developing countries. Germany, France, Italy, and the UK are the largest markets within the EU, while new market opportunities for the sector are springing up in Brazil, Argentina, and Indonesia. The trend is for manufacturers in developed countries, such as the Martin Bauer Group in Germany, to seek out direct relationships with producers (EU Market Survey Natural Ingredients for Pharmaceuticals 2004).

Few figures are currently available regarding export-oriented production in Bangladesh. Plentiful raw materials exist, with 90% of the supply coming from wild harvest (Agri-Invest Seminar Proceedings 2004). Herbal plant collection and primary processing is a labor-intensive industry suitable for the densely populated rural areas of the country. The major production zones include Mymensingh, Modhupur, Kushtia, Chittagong, Hill Tracts, Sylhet, and Tangail. With proper export-oriented investment in the sector, such as increased commercial herb production, Bangladesh could meet the growing demand for natural medicinal products abroad.

In 1997 the Bangladesh National Food and Nutrition Policy was adopted, which recognized the need for further research and promotion of herbal medicines (Agri-Invest Seminar Proceedings 2004). Further, herbal medicine and medicinal plants have been placed on the list of special development sectors by the Export Promotion Bureau, indicating the government’s interest in developing the industry.

6.3.3. Major Players in the Value Chain

With the majority of medicinal plants growing wild, a significant number of individuals with knowledge of the appropriate plants are required for collection. Estimates of the number of collectors and local growers range from 6,000-10,000. Local traders, called pikers, buy from the collectors and growers and resell the plants to the estimated 350 beparies operating in the large markets. Processing factories employ another 2,000-4,000 people (Graham et al 2003).

In addition to those directly involved in the value chain, a number of government and research institutions have been directed to support the sector. These include the Drug Administration (certification and supervision of processing), the National Herbarium (surveying and conservation), Bangladesh Council for Scientific & Industrial Research (technology development), Bangladesh Forest Research Institute (research), and the National Ayurvedic and Unani Board (education) [Graham et al 2003].

6.3.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Market Constraints		
1	Lack of functioning regulation and registration system	Work with the government agency to develop a database of species and	Directorate of Drug Administration – currently responsible for oversight,

		uses, and a registration process so the country can estimate its own capacity to meet the expanding world demand	but needs capacity building assistance
2	Lack of standards, testing, and quality control	Work with Drugs Testing Labs of the Institute of Public Health to acquire internationally recognized testing techniques	Drugs Testing Labs Institute of Public Health
3	Lack of mechanisms to protect intellectual property and endangered species – forest areas are becoming depleted and some species are in danger of being lost	Take an inventory of current species and establish a gene bank to ensure they are not lost	Biotechnology and Environmental Conservation Centre
4	Shortage of trained scientists to research new uses for plant species	Enhance capacity of universities and link research efforts with private sector needs	Bangladesh Institute of Medicinal and Aromatic Plants Government Unani and Ayurvedic Degree College
5	Little knowledge on raw material identification, storage, and processing – although there is a wealth of indigenous knowledge on medicinal plant uses, there is less local understanding of how to harvest for the export market. Currently 80% of plants collected involve destructive harvesting. There is even less knowledge regarding the cultivation of medicinal plants	Establish clusters of medicinal plant producers and collectors along with training on identification, harvesting, storing, and safe processing techniques	Local NGOs
6	Shortage of marketing channels and market	Link clusters to exporters	Square Pharmaceuticals

	knowledge	Marketing workshops for exporters Capacity building of EPB with a specific wing devoted to herbal medicine	Jayson Other exporters
7	Little access to commercial planting materials	Develop tissue culture lab	Government Unani and Ayurvedic Degree College

6.3.5. Modality Development

A key focus for developing the sector must be at the production and collection level. An astonishingly high percentage of plants are destroyed at harvesting, while improper knowledge of storage and primary processing is further constraining exportability. Additionally, most of the collectors do not work with any kind of organization. There is a decided need to cluster grassroots producers and offer training not only on appropriate collection techniques, but also on commercial production. There is some growing of medicinal plants in Rajshahi Division, but otherwise 90% of plants are collected from the wild. This must be reversed if Bangladesh is to supply to the world market plus value addition. Currently, the country is even importing medicinal plants to supply its own needs. This could be averted with concentrated assistance towards commercial production techniques.

At the institutional level it would be beneficial to establish a tissue culture lab to help supply the needed planting materials. Taking this further, it is necessary to increase the number of professionally trained herbal medicine practitioners and researchers. Both functions could be taken up by the Government Unani and Ayurvedic Degree College. Quality graduate level degree courses should be on offer. The government needs to inject assistance and grants into re-orientation and training for teachers, research workers, and drug inspectors.

The EPB should be assisted to establish a wing entirely devoted to the incubation of the herbal medicine sector and ensuring that the research agenda of the college matches the needs of exporters. Marketing research training, both on the part of EPB and exporters, is an urgent requirement across all sectors.

6.4. Home Textile

6.4.1. Background

The home textile sector makes use of the same supply chains as the RMG sector, and thus can take advantage of existing infrastructure and skills in Bangladesh. Home textile products are characteristically grouped into household and furnishing textile subcategories, and include those items made from spun or woven yarn. The product range encompasses blankets, bed covers, towels, and tablecloths, as well as curtains,

upholstery, and pillow cases. In the past few years, home textile has been recognized as a higher value added sector that can help Bangladesh weather the increased competition post-MFA, with the Export Promotion Bureau designating it a key sector for the country under the high priced RMG heading.

6.4.2. Demand and Supply

The European Union is one of the largest markets for home textile, with the region importing Euro 23.2 billion in 2002. Germany and the UK are currently the largest markets in the region, while at the same the UK and Spain have been registering the highest growth rates (EU Market Survey 2004).

Home textile exports from Bangladesh have increased significantly in the past few years. From 2000-2001, exports were \$57.49 million. By 2004-2005, the figure had jumped to \$95.33 million. The destination for home textile products is predominantly the United States and the UK. With infrastructure already in place it would not be difficult to further increase earnings. There is also the possibility of improving backward linkages and sourcing from home-based weavers.

6.4.3. Major Players in the Value Chain

Home textile production makes use of yarn, both local and imported, which is then made into fabric through handloom weaving or mechanized spinning. Printing, cutting, and finishing are the final stages. There is an increasing trend towards composite production, whereby one firm is responsible for all stages of production. Apex Weaving and Finishing Mills, one of the leading home textile exporters, produces in this way. Other leading home textile exporters include ALLTEX Industries Ltd., Sinha Industries Ltd., BJ Bed, and Zaber and Zubair Fabrics Ltd. All of these factories use power looms to produce woven fabrics that are easier to print and dye. While there are a relatively small number of firms focusing on home textile exports, 70% of fabric output of the country is supplied by grassroots handloom weavers producing for the domestic market. NGOs such as BRAC, CARITAS, Proshika, and Grameen are facilitating the process.

6.4.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Policy Constraints		
1	High import duty on cotton	Negotiate with government to decrease tariffs and establish more reliable duty neutralization schemes	National Board of Revenue
	Market Constraints		
2	Poor design and product development	Develop capacity of local design institutes to cater to	Design Technology Center

	capabilities – producers are unaware of popular styles and tastes in markets abroad and do not have the training to innovate	the needs on the home textile industry. Experts should be brought in for the short term to assist with designs, while new curriculum can be designed to develop homegrown talent	Private design development institute like NIFD or FID
3	Lack of consistency and quality – factories are using old machines while handloom weavers have not been trained to produce for the export market	Offer technical training programs for producers both in factories and at the grassroots level	EPB Local NGOs
4	Poor market knowledge – exporters do not know how to enter overseas markets, which trade fairs to attend, or how to prepare for them	Facilitate exporter participation in trade fairs, designing catalogues, and preparing for exhibitions	Export Promotion Bureau Business Support Organizations
5	Weak linkage between producers – grassroots handloom weavers do not have adequate means of connecting with mid-range and lead producers	Cluster producers and link into the larger value chain	Local NGOs Business Support Organizations Associations
6	Problems accessing financing	Establish fund for textile investments	Bangladesh Bank
7	Lack of general management and business skills	Training on management techniques, writing business plans, accounting, and finance	Associations and Chambers Private training institutes

6.4.5. Modality Development

Home textile exporters continue to require assistance in penetrating international markets. The EPB needs to facilitate participation in major European trade fairs, such as Heimtextil Frankfurt. This includes assistance in preparing catalogues, stalls, and display items. Producers also require training in basic business techniques, and further market research support. The EPB should be able to provide these services, and its capacity to do so should be built up through facilitation by business support organizations and training of EPB personnel.

Design innovation is a further area where investments will have the most impact. The Design Technology Center is currently focusing on apparel fashion with little understanding of home textile trends. Outside experts can be temporarily hired to provide design support and develop a curriculum to shape local designers.

Keeping in the mind the objective of increased employment, there is room for the home textile sector to improve backward linkages to grassroots handloom weavers. The local, as well as factory, producers require technical and awareness training to overcome the reliance on traditional designs, shapes, and colors. For example, Bangladesh's silk industry is suited towards usage for home textile products, but producers must be taught how to change the traditional sizes of silk sheets into a form that usable for the home textile industry.

6.5. Jute Diversified Products

6.5.1. Background

Of the close to 70% of the population in Bangladesh that works in the agricultural sector, the jute industry either employs or directly affects the lives of 25%. Approximately 3 to 3.5 million farmers are associated with the production of jute. Jute production provides the necessary break between the rice crops and helps enrich the soil. The sector also provides the vital cash flow for people living on the very margins of subsistence.

Once called the “golden fiber of Bangladesh” because of its success in the export market, the jute industry is now the so-called “sunset” industry. Net exports are projected to fall from 742,000 tons in 1998-2000 to 703,000 tons in 2010. Synthetic substitutes have played a great role in the downfall of the jute industry because of their advantage in price and non-price factors.

The government has fixed a target of earning as much foreign currency as possible from this sector within a short period, which it believes can be harnessed continually in the long term through improvements in production and product innovation. And it is estimated that, even though in the medium term developments in the world jute market are likely to be adversely affected by the intensity of competition with synthetic fibers, government support will positively affect the market expansion of the diversified jute products.

6.5.2. Demand and Supply

The jute market has been suffering from a down fall, with consumption of jute fiber products declining by 1.54% in the past decade, due to the proliferation of polypropylene as a substitute. Polypropylene's additional capacity for production in large units contributes towards lower costs compared to the lengthier and more costly process for the production of jute products. In the past decade, diversified uses of jute accounted for small quantities of fiber. However, their share in the value of total exports is rising.

Diversified jute products include geo-textiles for land erosion control, jute reinforced plastics, jute laminates, pulp and paper, decorative fabrics, carpets, and handicrafts.

Between 1997-1998 and 2001-2002, the share of world exports of diversified jute goods from India increased in terms of value from 10% to 24%, indicating that demand abroad is still strong. Additionally, Bangladesh exports of jute diversified products have seen an upward trend from the periods 1997-1998 to 2001-2002. Exports rose from Tk. 4,620 million to Tk. 6,474 million for products produced by Bangladesh Jute Mills Corporation (BJMC), while Bangladesh Jute Spinners Association (BJSa) exports for the same time period rose from \$82.98 million to \$87.80 million. These figures highlight the potential for growth in the medium term and the opportunity for market expansion given effective research and development strategies and intensified marketing efforts. 11 million people are employed in the jute sector, making it a key industry from a human development standpoint.

The Ministry of Textiles and Jute considers that Bangladesh can revive the jute sector by focusing on diversified jute products rather than raw jute and traditional jute goods whose demand in the world market is declining. Diversified jute products, along with green jute pulp, are being regarded as a nascent sector with the opportunity for a quick turnaround. The government's interest in supporting this sector, coupled with the rising demand for alternative and innovative jute products, makes this sector an attractive possibility for increased foreign exchange earnings and employment creation.

6.5.3. Major Players in the Value Chain

A number of bodies are in operation to assist jute suppliers, producers, distributors, and traders. The Ministry of Jute is the main governing body responsible for implementing laws and collecting, collating, and disseminating information and statistics to the entire value chain of the jute industry. The Jute Diversification Promotion Centre (JDPC), formed by the Ministry of Jute in 2002, is solely dedicated to reviving the jute sector through extension of uses of jute through vertical and horizontal diversification. JDPC has sections that are committed to technology transfer, project feasibility, market research and promotion, and program and project monitoring.

The Bangladesh Jute Mills Corporation (BJMC) oversees 33 jute mills with loom capacity of over 13,000 and annual production of 200-250 thousand metric tons of jute products. BJMC works with both traditional and diversified jute products. The Bangladesh Jute Spinners Association (BJSa) is one of the more successful entities whose membership comprises leading manufacturers and entrepreneurs with vast experience in the jute-spinning sector. With a well-structured secretariat, it produces a number of publications and is one of the leading foreign exchange earners. From 2000-2001, BJSa exported 174,000 MT of jute yarn and earned Tk. 4,700 million in exports. Bangladesh Jute Association (BJA) and Bangladesh Jute Corporation (BJC) are also active players in promoting the sector.

6.5.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Market Constraints		
1	Poor image of diversified jute products	Position jute and allied fibers as superior and environmental friendly vis-a-vis synthetics	EPB
2	Lack of a wide product line for diversified jute products	There is an expansion of markets for jute composite products and geo textiles in both domestic and international sectors. Continued and focused attention should be given to handicrafts, which should include up gradation of skills, the creation of better work environments, design and technology interventions, and the development of clusters for specific crafts with common service facilities and the overall improvement of infrastructure and market development	EPB Local NGOs Associations
3	Lack of product development facilities	Establish design and development center and retail outlets	
4	Lack of technical knowledge and basic skills	Awareness building on importance of training for the entrepreneurs Skill development of employees through customized and generic training programs on production, marketing, management, finance, accounting, writing business plans, and filling out credit applications as	Private HRD institutions Jute associations Business Support Organizations

		well as technical training on handmade paper and its products.	
5	Poor financing options	Establish a jute R&D fund and venture capital assistance fund for the development of efficient jute manufacturing machinery and commercialization of the new products	Donors Private investors
6	Difficulty entering overseas markets	Establish a National Institute of Natural Fibers with the objective of harmonizing development and promotional activities pertaining to all natural fibers and sharing experience and knowledge in related fibers	

6.5.5. Modality Development

The diversified jute industry is beset with many problems, including competition from the synthetic sector, high labor costs, and obsolescence of machinery. To reverse the large scale stagnation of the industry, modernization efforts and technical up gradation must be given priority. Research and development efforts to commercialize jute technical textiles and geo-textiles should be pursued. Schemes such as a Textile Upgradation Fund Scheme and an Incentive Scheme for Modernization of the Jute Industry should be created. It is advisable to carry out a technology audit to assess the present technological status of the industry and formulate a 5 year plan for machinery development. A separate R&D facility for the industry can be established as a public-private partnership. At the same time, the government should continue the ongoing policy of reserving food grains and sugar for packaging in jute materials. A similar option should be pursued in other countries.

There is immense potential for increased jute use in the domestic market, and market promotion programs can be pursued to increase consumer awareness about jute and highlight the environmental advantages of the product. Attention should be focused on handicrafts, including cluster formation and skills training. A Design and Development Center, and retail outlets through public-private initiatives should be established in all towns and cities with a population of more than 500,000. At the same time, the ratio of domestic consumption to exports should be improved to 65%:35% in the next ten years.

To rectify the systemic lack of coordination among the several jute related organizations under different ministries and departments of the government, and to synchronize and synergize the integrated development of the jute sector as a whole, the Diversified jute Product Institute should be revamped. This body should subsume, merge, and integrate the functions of various institutions currently operating in the jute sector. It should restructure the present regulatory framework to provide incentives to all stakeholders towards the efficient production of goods and services in the industry.

6.6. Manpower Export

6.6.1. Background

The migration of Bangladeshi workers abroad began on a large scale in the 1970s and has increased steadily since. In 1976 there were 6,087 workers employed abroad, while by 2004 their number had increased to 272,958. Such an outflow of workers has been driven by persistent poverty at home and a high unemployment rate coupled with a shortage of low-end laborers abroad. The primary destinations for Bangladeshi workers are the Middle Eastern countries, including Saudi Arabia, the United Arab Emirates, and Kuwait. Workers are also traveling to some Asian countries such as Malaysia and Singapore.

The remittance earnings from Bangladeshi workers employed abroad have contributed significantly to the foreign exchange earnings of the country. In 2003, remittances reached around \$3 billion and contributed in the order of 6% of GDP. This estimate is believed to be on the lower end, since by some guesses another 30% of remittances are transferred illegally.⁵³

There has been growing recognition both within the country and internationally of the importance of manpower export. The General Agreement on Trade in Services (GATS) Article 9, adopted in September 2003, for the first time recognizes the link between poverty reduction and trade in services. Locally, this has provoked increased discussion among academics as well as donors. Additionally, recent news reports have highlighted the precarious situation of uneducated workers who accept positions abroad and either receive unfair treatment or are trafficked elsewhere for forced work. These reports have further stoked interest within Bangladesh of instituting measures to ensure worker safety and regulate the corrupt practices of some manpower agencies operating in the country.

6.6.2. Demand and Supply

The birthrate is falling in a number of European countries, and in some cases has turned negative. In Eastern Europe, the declining birth rate coupled with recent economic growth will soon mean a shortage of workers willing to take on menial jobs. Over the next fifty years, it has been estimated that just in the older 15 member EU states alone, an additional 46 million people will be needed to maintain the present workforce level. Added to that the additional work burden that will be caused by an aging population, and

⁵³ From discussions during Key Informant Interviews for Sector Selection.

estimates for the net inflow of people required by 2050 reach 68 million (CPD 2004). These figures exclude Asian countries, such as Japan, which are also facing the prospect of aging populations.

Bangladesh therefore has the opportunity to meet the expected increase in demand for workers in developed countries. With a population of 138 million and a relatively high population growth rate, Bangladesh has an ample supply of labor living in a land area too small to support the number of people it produces. A 40% unemployment rate and widespread poverty, as well as the prospect of remittances for family remaining at home, makes overseas employment an attractive option despite the many uncertainties associated with a new land, a foreign language, poor working conditions, corrupt employment agencies, and high initial costs. If just some of these risks can be mitigated, it is likely that the number of workers from Bangladesh seeking employment overseas will increase substantially.

6.6.3. Major Players in the Value Chain

While a significant number of overseas Bangladeshi workers find employment through personal contacts, there are a number of private and government recruiting agencies that play a major role in sending workers abroad. The Bureau of Manpower, Employment, and Training (BMET) of the Government of Bangladesh assists with the administrative requirements of sending workers abroad, provides some training, and assists with identifying employment opportunities. The Bangladesh Overseas Employment Services Ltd. (BOESL) works with Bangladesh missions overseas to identify labor needs and recruit through newspaper advertisements. Private recruiting agencies play a more substantial role in sending Bangladeshi workers abroad, and often recruit through sub-agents, though this is contrary to stated law. Recruiting agencies charge for their services, and are often accused of exploiting vulnerable workers and not delivering on a promised employment opportunity. The Bangladesh Association of International Recruiting Agencies (BAIRA) has been lobbying to modify rules regarding manpower export, and in 1998 was successful in influencing a rule change mandating that all travel arrangements for employment abroad are made through the agencies, thereby hindering private initiatives.

6.6.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
	Policy Constraints		
1	Poor regulation and oversight of recruiting agencies – BAIRA is influencing laws in its favor with little reciprocal governmental	Require registration and establish system of oversight for recruiting agencies	Bureau of Manpower, Employment, and Training

	regulation ensuring that recruiting agencies are not inflating charges or trafficking workers		
2	Lack of initiative of missions abroad to ensure that workers return home and that safety is assured – missions abroad play a limited role in tracking Bangladeshi workers abroad or assuring host countries that Bangladesh will take responsibility for illegal immigrants	Establish database of workers employed abroad and offer guarantees to host countries that Bangladesh will take responsibility for sending overstaying workers home	Bangladeshi Embassies abroad
3	Illegal remittances that reduce government revenue and lead to incomplete statistics – although hundi remittances are illegal, there is still a large proportion of remittances being returned through this mechanism. The government loses foreign exchange revenue and is unable to maintain statistics	Simplify remittance system	
4	Lack of preparation or negotiating skills to take advantage of GATS – policy makers are not adequately prepared with supply information to press for the interests of Bangladeshi workers in the international arena	Undertake inventory of supply of workers in Bangladesh for each worker category	Bureau of Manpower, Employment, and Training
	Market Constraints		
5	Lack of information on new markets – most workers travel to	Send delegations to potential markets to identify manpower needs	Ministry of Foreign Affairs Bureau of Manpower,

	Middle Eastern countries, even while Eastern Europe and more prosperous Asian countries such as Japan and South Korea will be requiring an influx of workers	and develop an appropriate workforce for that market	Employment, and Training
6	Uneducated and unskilled workers with little negotiating power – workers from Bangladesh are at times offered lower wages than similarly employed workers from other countries	Establish training centers that will provide certification in basic skills, such as cleaning, that will allow workers to negotiate high salaries	Donors Private investors
7	Poor understanding of work processes abroad – in certain fields, such as construction or masonry, tools and equipment are used abroad that vary from the more labor intensive systems used in Bangladesh	Hire trainers from the specific region and provide a training center using the equipment and processes abroad A revolving fund can be established to finance expensive equipment	Donors Bureau of Manpower, Employment, and Training
8	Too much emphasis on unskilled manpower export – professional workers are nearly as likely as unskilled workers to send remittances home, while earning substantially more	Establish curriculum and certification in IT that is internationally recognized (such as CISCO), enabling professional workers to find employment abroad	Private investors Donors Universities and technical colleges

6.6.5. Modality Development

There is a large role for the government to play in developing the potential of the country to supply the manpower needs of the developed world. Diplomatic efforts must be step up to the challenge and negotiate entry for its workers into countries abroad. Foreign embassies should ensure host governments that Bangladesh understands the concern over illegal immigration and will take responsibility for its citizens if they overstay. Foreign embassies must maintain a database of its workers in the country and act to deport those who have overstayed. In that way, Bangladesh can mitigate domestic concerns and fears

of illegal immigrants. If Bangladesh demonstrates its seriousness in this regard, host government will be more inclined to give Bangladeshi workers a chance. At the same time, foreign embassy capacity must be enhanced to deal with worker complaints of maltreatment and payment withheld.

Locally, the importance of training institutions cannot be underestimated. Even at the most basic level, workers bound for international markets will be able to command high prices and will be more able to look after their interests if they have had proper guidance prior to departure. Joint venture initiatives may be considered as a starting point, such as Danida is doing with a cleaning company from Denmark who is training local workers for the UAE market. Bangladeshi workers are at a disadvantage when they are unfamiliar with equipment used abroad. The government should investigate the needs of foreign markets and their techniques in a given industry. A trainer from that area should be hired to teach Bangladeshi workers using similar machinery or tools.

There is room for private initiatives to establish training institutes. Additionally, more attention should be paid to the development of a professional workforce that is internationally certified. Joint donor and private initiatives, such as the Cisco Networking Academy Program, can provide curriculum to local universities and government colleges to develop a skilled, exportable manpower base.

6.7. Specialized Crafts – Handmade Paper and Leaf Baskets

6.7.1. Background

Traditional handicraft production has long been an income-earning pursuit for Bangladeshi artisans. Especially for rural women who are expected to spend their time managing a home and children, handicraft production presents an opportunity to generate income without upsetting expectations from family and society. Due to its labor-intensive nature and use of local raw materials, handicrafts represent an attractive sector for further investment. In terms of export potential, it is more strategic to narrow the focus down to handmade paper and leaf baskets, which are in higher demand in the world market compared to handicrafts generally. Additionally, targeted development of the sector is likely to be more successful if the focus is more specific.

Handmade paper, as its name implies, is manually made using a wide variety of vegetation and recycled waste products, including straw, cotton, water hyacinth, mulberry, and waste jute. It is made by beating the fibers into a pulp in a tub of water. Using a handheld screen, the water is then drained until a thin layer of pulp is left to dry in the sun. Sheets of paper may be cut and dyed, or may be further processed into notebooks, photo frames, lamps, and jewelry boxes, among many other items.

Leaf baskets can be made from coconut, bamboo, date, palm, jute leaves, kash grass, sea grass, and others. Like handmade paper, it is an attractive sub sector because of its high labor intensity, use of local raw materials, low capital investment requirements, and simple production techniques that enable rural women to participate in the sub sector.

Leaf baskets are made by slicing the leaves, soaking them in water, and winding and binding the leaves with straw rushes. The rush strips are interlaced to hold the basket together. Leaf baskets made in Bangladesh are of export quality and can be used as laundry baskets in hotels, and as household decorative and storage items.

6.7.2. Demand and Supply

The international market for handmade paper has been increasing in recent years. From 2001-2002, annual growth in value of world imports was 62% (Shauket 2002). In 2002, the world market was worth \$82 million. This recent interest in handmade paper stems from new awareness of and desire for environmentally sound and aesthetically pleasing products. Handmade paper fits this description nicely, being made from natural, recycled, and azo-dye free products. Although the United States remains the largest exporter of handmade paper, India and China are close behind, with an increasing share of world imports coming from developing countries. In 2000, developing countries were the source of 28% of imports. Additionally, the International Trade Center in Geneva has labeled handmade paper a product champion, meaning that imports for the product “have grown faster than world trade in general, and that developing countries have been able to outperform world market growth” (Shauket 2002).

Bangladesh can take advantage of this recent increase in demand while it is at its peak by using its comparative advantages and increasing its supply capabilities. While the sub sector is currently small in Bangladesh and production is scattered, efforts to develop the handmade paper industry in the last two years have yielded encouraging results that bode well for Bangladesh’s capacity to capture a sizable piece of the growing international market. As an indication of the sub sector’s potential, four handmade paper firms participated in the Frankfurt Paperworld Fair in January 2005 and achieved spot orders worth Tk. 2 lakh.

Global imports of basket ware in 2003 reached \$1.3 billion after growing at an average of 3.4% from 1998-2002. Most baskets from Bangladesh are sent to the European market, with Germany, France, and Italy being the largest European importers in general. Japan, Hong Kong, and the US are also popular destinations for baskets.

Currently in Bangladesh there are nearly 70,000 people directly or indirectly involved in basket production. Primary locations for raw material procurement include Sherpur, Kapasia, Rahshahi, and Jessore.

6.7.3. Major Players in the Value Chain

The handmade paper sub sector is predominantly in the domain of scattered rural producers across the country. While handmade paper is attractive from an employment and gender perspective for its affinity with home production, it is also being made in a factory or group setting where quality and consistency are more easily controlled. In Bangladesh there are currently 10 exporting firms working in handmade paper and paper products production. An informal association has been formed that allows members to

share ideas and strategies. Though the numbers involved in the sub sector are currently small, there is every indication that as supply capabilities are improved through modest investment, it can become a significant export earner and employment absorber for the country. A number of donors and NGOs have begun to explore the potential of handmade paper. The Mennonite Central Committee (MCC) was the first to begin exporting handmade paper, while BRAC is serving the domestic market.

Leaf basket production is a labor intensive job with the supply chain comprising the grassroots input suppliers, manufacturers, and exporters. Some leading leaf baskets firms are B.T. Creation, Ask Handicrafts, Suntrade, Heed BD, Dhaka Handicrafts, Conexpo, Wax Lyrical, and Padma Jute Works.

6.7.4. Constraints and Opportunities

SI	Constraints	Possible Response	Organizations
1	Difficulty entering overseas markets	Develop coordination and linkages among producers – establish databank of producers and networks with a base in the local chambers Facilitate access to exhibitions, trade fairs, and symposiums, and designing catalogues and display centers Facilitate discussions with foreign suppliers	EPB Business Support Organizations Associations
2	Poor business and market information	Marketing workshops and training sessions Training on business plan development, contracts, VAT, and formal institutional system	EPB Business Support Organizations Associations and Chambers
3	Poor designs and lack of capacity for innovation	Assist private design institutes to develop curriculum on handmade paper, baskets, and other high value added crafts Subscribe to foreign technology publications	Associations Local design development institutes

		Recruit graduate students from Institute of Fine Arts into commercial product development	
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6.7.5. Modality Development

There are relatively few firms engaged in handmade paper and leaf basket exports, while at the same time there are numerous grassroots producers around the country. There is significant scope to organize and link these actors for maximum impact and sustainability. Local level producers require organization in clusters that can supply the export firms, while at the same time greater organization among exporters themselves will lead to sharing of strategies, techniques, contacts, and lobbying power.

Information about the sector is scattered, and needs to be compiled in one place for ease of communication among value chain actors. The chambers may eventually be the appropriate place to house such a database. An informal association has already been formed, and may derive further voice and influence through formalization. There is some hesitation on the part of entrepreneurs to enter the sector since there is little information about successes so far or projection of export targets for the future. This kind of analysis of Bangladesh's supply capabilities needs to take place, with the EPB leading the way.

Specialized craft exporters have voiced a need for design assistance. Especially regarding the large European and North American markets, local producers are unaware of tastes and preferences. Existing design institutes require assistance to develop curriculum related to handicraft innovation, and training is needed so that local producers acquire the skills to produce the new designs in a quality way.

The EPB should offer marketing support and stock appropriate materials, such as subscriptions to foreign technology publications. International trade fair participation is essential for breaking into developed markets, and while some Bangladesh exporters have been attending the paper fair in Germany, they have yet to really reach the American market or establish a presence at the fair in Las Vegas. The EPB should be facilitating this kind of participation, monitoring the quality and presentation of products, and advertising the uniqueness of Bangladeshi materials and designs.

7. Conclusions and Recap of Recommendations

This study has attempted to offer a holistic look at the issues and organizations working towards export diversification in Bangladesh, followed by identification of potential sectors and recommendations on how to promote them for the export market. Throughout each chapter a number of conclusions have been reached and recommendations put forward. This final section will not reiterate all of those recommendations, but will offer a general overview of the most important findings.

Chapter 1 reviewed the work of a number of export diversification projects and export promotion organizations, and compiled an extensive bibliography of their publications. The idea was to amass a library of sector information so that future projects are not simply duplicating efforts that have already been tried.

The export promotion activities of Bangladesh's regional competitors were surveyed with the objective of identifying strategies that Bangladesh can emulate. Numerous ideas for Bangladesh's Export Promotion Bureau emerged, and there were similarities among several countries. Some of the best strategies that Bangladesh may want to adopt include establishing a fund to undertake professional market research prior to entering a market, coordinating the participation and image projection of firms during international trade fairs so that quality is consistent and the character and heritage of Bangladesh is presented, and grouping exporter support services according to experience level. In this way, new exporters will receive more basic business planning, management, and accounting training, while the more experienced will receive marketing training and assistance with international trade fair participation.

Bangladesh's policy towards international trade remains distorted, with a highly protective import policy coexisting alongside a proclaimed export-oriented growth strategy. For optimal growth of export industries, continued import liberalization is required, along with the development of a more cohesive and integrated trade policy. While current provisions, such as duty neutralization schemes and bonded warehouses, help to mitigate the anti-export bias, these must be made more effective and extended beyond the RMG sector.

The selection of potential export sectors, with a twin focus on employment creation, was carried out through a three-step process of secondary research, focus group discussions and key informant interviews, and further analysis based on IRIS' experience in sector development through the JOBS Project. As the research team progressed through each stage of the selection methodology, it became apparent that sole reliance on the *process* would lead to results that experience had already shown were not necessarily the best options. So while the process-driven approach remained intact, this was tempered by further analysis and the combined insight of IRIS and its partners, CBI and ITC.

The sector analysis section has served as an initial piece of work towards what it is hoped can be implementable recommendations for realizing the export and employment potential of the seven identified sectors. In devising mechanisms for bringing these

sectors online, and in identifying appropriate stakeholders with which to collaborate, it is reasonable to consider injecting assistance to all seven at the same time. There will not be one miracle sector to take the place of RMG, and by focusing attention on a number of smaller but potential sectors now, there is more chance in the future that a diversified export base will enhance the country's growth, provide jobs for the millions currently unemployed, and positively impact poverty. There exist cross-cutting institutional and capacity gaps that affect all sectors, enabling the implementation of certain broad measures that will be beneficial across-the-board. It is also worth pointing out that all of the seven sectors put forward exhibit similar constraints and require a similar development model.

The capacity of the country to continually diversify into new products and markets is severely lacking, and so this is one of the first cross-cutting issues that can be addressed. The international trading arena is fast-paced and ever changing, requiring innovation, exploration, cutting-edge information, and quick thinking. The examples of Bangladesh's neighbors in the region, as discussed in the second chapter of this report, are illustrative of where the country should be heading in terms of export promotion support. As one component of an export diversification support program, the capacity of the Export Promotion Bureau must be enhanced so that it is capable of providing specialized support to its priority and development list of sectors. A capacity development program should train EPB permanent staff on market forecasting, market research, and strategic presentation of the country's products abroad.

This report also indicates that capacity development of service providers should occur simultaneously with direct export and marketing support for entrepreneurs. Only in this way can a real understanding of the sectors be gained and sustainability ensured. Entrepreneurs require access to market information, and training on identifying destinations for their products. More recent exporters also require basic management and financial training. While the EPB's capacity to provide these services is being built, direct support for entrepreneurs should continue through business support organizations.

The third broad approach requires training for grassroots level producers. Local NGOs can take the lead in clustering producers, providing technical training, and linking clusters with lead exporters.

As an overall strategy for sector development, this report indicates that support must be injected at all three levels concurrently for the largest possible impact. Following from this model, more specific sectoral constraints can be addressed.

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