



Leather & Leather Goods Industries



Bangladesh Investment
Development Authority

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Leather & Leather Goods Industries and Market

One of the oldest industries in Bangladesh, the leather and leather goods industry has been making significant contribution to the national economy over the years. Contributing to the GDP by above one percent (The Independent), the industry's output currently amounts to USD 3 billion, and is expected to grow to USD 4.8 billion by the end of 2023 (Inspira extrapolation, 2019). The industry caters to both domestic and export markets.

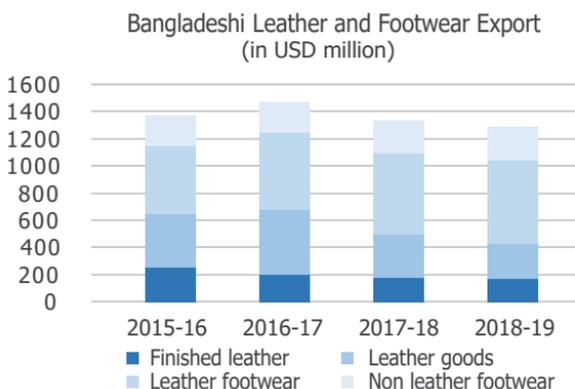
Domestic demand for leather and leather goods was estimated at USD 2 billion during FY2017-18, having grown at an annual rate of 13% during recent years. Despite such potential, almost 40% of domestic demand is met by import (The Independent Bangladesh). Leather and leather goods have accounted for around 3% of the national annual exports.

The industry comprises four segments of products including i) tannery output (hides and skins, ii) finished leather, iii) leather goods and iv) leather footwear. Major products produced in the country include bags, purses, luggage, belt, wallet, jacket, and footwear. Footwear has been a major product segment in Bangladesh. During 2018, the industry produced almost 460 million pairs.

Bangladesh is the 6th largest footwear producer in the world

There are approximately 3,500 small, 90 medium and 15 large-scale manufacturers present together with 220 tanneries in the industry, according to the leather goods association. The leather industry in Bangladesh is clustered mainly at Hazaribagh District near Dhaka, followed by Bhariab and Chattogram. This highly labor-intensive sector employs around 200,000 persons directly and around 850,000 indirectly (according to ADB). The leather industry has been one of the best performers in terms of absorbing unskilled workforce, where the workers start as unskilled trainees and gradually turn into semi-skilled and skilled workers through on-the-job training.

Export: Being the second-largest export earning sector after RMG, leather and leather goods earned USD 1.0 billion (FY2018-19), which has remained constant during the last several years (according to Export Promotion Bureau). Looking into the breakdown, export of finished leather and its products (except footwear) have grown negatively while leather footwear segment shows positive growth. The declining export trend for the two segments is a result of the industry's ongoing struggle for tannery and leather-finishing process. In spite of which the industry has immense potential for growth.





The Bangladeshi leather industry has access to abundant quantity of locally available raw materials which can be utilized more efficiently. Although endowed with abundant cattle stock (around 1.8% of the total global stock) and goat stock (3.7% of total), Bangladesh has currently captured a share of less than one percent of the world leather trade (Asian Development Bank). Understanding its potential, the government has set a target to achieve USD 5 billion export earnings by 2021.



Bangladesh's leather and leather goods exports are concentrated in a few markets. While the country is exporting 44 types of products to 84 destinations, in comparison, Vietnam currently exports 59 types

of products to 122 destinations with export earning of USD 15 billion; and China, the global leader in leather exports 65 types of products to 209 destinations earning USD 46 billion (ADB), suggesting prospects for additional growth of exports for Bangladesh through further expansion of export market.

Investment: During the last few years, Bangladesh's leather and leather goods sector has received an average of USD 20 to 30 million (net) in FDI per year (Bangladesh Bank). Investments from China, Vietnam, and India, in particular, have grown significantly. In FY2018-19, Chinese investors made fresh investment in 15 export-oriented factories in Chattogram Export Processing Zone, where they will manufacture footwear for export (The Independent Bangladesh).

Raw material: Bangladesh has the world's 12th largest cattle stock and a local supply base of raw leather products (hides and skins). Almost 50% of hides and skins are sourced during the Islamic religious festival, necessitating material collection and processing, as well as financing in a very short period of time. As a result, a large number (85%) of animals are slaughtered by unskilled cooperatives, affecting the quality and traceability of hides/ skins and generating significant waste. This also prevents better pricing of local leather upon export.

Bangladesh has the 12th largest cattle stocks

Tannery and leather-finishing: Owing to large animal stocks, Bangladesh has the capacity to supply a sizeable volume of raw leather with about 350 million sq. feet annually. However, only a small portion of raw leather is converted to finished leather, and the majority (75 percent) of locally processed leather is exported as crust without adding enough value, despite the fact that finished leather can fetch up to 60% more than crust. This has driven Bangladeshi exporters to import wet-blue materials, which pushes-up the production cost by 40 to 50%.

This process falls under the "red" category upon environmental clearance referring to a negative footprint on the environment. The government accordingly established new estates for this industry with a central effluent treatment plant for the cleaner leather processing. However, the plant has not been fully operational, and effluent is still being discharged without proper treatment.



Attractiveness and advantages of Bangladesh

Competitive workforce: Lower labor cost serves as a strong competitive advantage for all the export-oriented industries of Bangladesh. Although China, Vietnam, and India continue to be amongst the major competitors in the overseas market, competitive labor cost has and will continue to put the Bangladeshi leather industry into a stronger position. In particular, China's gradual shift from labor-intensive manufacturing to high-tech and capital-intensive one is expected to reduce its share in the global leather products market and accelerate the relocation of these industries to cost-competitive locations. This shift may be further driven by the need to diversify supply-chain in response to the post-/with-COVID-19 period.

Bangladeshi government has been proceeding with human resources development initiative, Skills for Employment Investment Program (SEIP) with an intention to raise 15,000 skilled workers for leather industry. Furthermore, East-West University has commenced a graduate diploma course specialized in leather and footwear business under SEIP, with a goal to raise 300 mid-level managers.

Income growth with sizeable domestic market: Local demand for leather products continues to grow as the country experiences steady economic growth with increasing middle-income class. According to a BCG Study, 30 to 40 million people will join the entry-level middle-income class by 2025, while another 34 million will see their income grow and move to a higher middle-income bracket, enabling them to reach a higher standard of living. The domestic footwear market, in particular, has been rising at a rate of 10-15% per year, with per capita consumption increasing to 3 pairs from 1.7 pairs a few years ago. Footwear market in Bangladesh is currently dominated by the informal sector. However, along with urbanization and a rise in the working population, the market is expected to be replaced with modern retail chains and outlets.

Duty-free market access: Bangladesh has duty-free/quota free entry to developing countries (Generalized System of Preferences) such as the EU, UK, Japan, Canada, Russia, and Australia, while leather goods from China, a major competitor, are subject to additional duties to gain access to such markets, thus indicating Bangladesh's export competitiveness.

Established sourcing destination: Many renowned brands for leather goods and footwear have experience sourcing ready-made garments from Bangladesh over the years, suggesting familiarity with such brand buyers. This is expected to make it relatively easier for brands to choose Bangladesh as another location to source and indent leather goods.

Availability of linkage industries: As a result of the growth of the local leather industry, Bangladesh has a diverse range of supporting industries, including producers of packaging materials, metal accessories, adhesive, lasts with dies/molds, and soles, all of which are capable of meeting the needs of top-exporters.

Policies related to Leather Industry

- Leather and Leather Products Development Policy 2019 (August 2019) which addresses a range of incentives to boost sector's export earnings.
- Recognized as a high priority sector in the current Export Policy and National Industry Policy 2016.
- Three industrial estates dedicated for leather and tannery industries are being set-up by the government in the areas of Rajshahi, Savar and Chattogram.



Investment Opportunities

Manufacture of export-oriented leather products: Bangladesh offers compelling reasons for investors to locate leather goods and footwear production in the country and capitalize on the opportunity to produce higher-value-added products. Foreign investors are expected to establish manufacturing bases for luxury leather goods for export, in particular, utilizing their advanced processing technology and skills. According to Grandview Research, the global leather products market will grow at a rate of more than 5.5 percent by 2025, reaching a value of USD 630 billion. Market size for the luxury segment was valued at USD 48.0 billion in 2018 and is expected to expand steadily going forward.

Non-leather footwear: Bangladesh is an ideal location for non-leather footwear production in addition to or in parallel with leather footwear production. Bangladesh is emerging as one of the growing producers of synthetic (artificial leather, plastic, and rubber) footwear, owing in part to environmental concerns about leather tanneries and cheaper material availability relative to leather. Global retailers have been increasingly sourcing artificial leather items from Bangladesh due to a rise in production costs in China. According to an estimate (Statista 2020), synthetic (sneaker, athletic) footwear segment would see the fastest growth. Bangladesh has accumulated sufficient expertise in producing shoes (through leather footwear production) from which investors can benefit.

Design development service: Design plays a significant role in capturing the luxury segment of the global leather goods market. Investment in these professional services is highly encouraged in order to assist Bangladesh in improving its design capability and human resources engaged in design and product development. Since local design capability and product innovation of the leather sector is still at a nascent stage, a quality design incorporating innovative and latest fashion trends is a crucial factor.

Environment-friendly tannery and leather-finishing: Bangladeshi leather industry needs to accommodate quality tannery and leather-finishing services with non-polluting and advanced finishing technologies, in order to move up the product value chain from crust to finished leather. Foreign investors, through partnership with local industries, are expected to invest in these services to enable the Bangladeshi industry to develop non-polluting tannery and state of the art finishing processes for better pricing of leather.

Sector-specific Investment Incentives and Restriction

Incentive	<ul style="list-style-type: none"> - Reduced CIT for 5 to 10 years depending on location. - Import duty exemption on capital machineries. - Regulatory/ supplemental duty exemption for footwear producer using materials such as tube, pipe, plastic, PVC screen, textile/ knitted fabric. <p><u>For exporters:</u></p> <ul style="list-style-type: none"> - 50% tax exemption for income derived from export. - No VAT imposition on export goods. - Bonded warehousing facility for large import of materials. - 15% cash incentive on export value of leather goods/ footwear, and 5% on crust leather from Savar Estate
Restriction	No specific restriction exist upon the entry of foreign investors.

Industry Associations

Leather Goods & Footwear Manufacturers & Exporters' Association	A trade body to represent interests of local leather goods manufacturers and provide services for their collective benefits; such as market development/ promotion, HRD, policy advocacy, and research.
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BIDA undertakes the functions of investment promotion and facilitation, and policy advocacy in accordance to the Industry Policy and provides inquiry/ consultation/ licensing facilitation services to the investors outside the jurisdiction of other investment authorities (BEZA, BEPZA, High-tech Park Authority). Those investors registering with BIDA for their investment projects are able to benefit from the following key incentives and privileges:

Category	Notes
Tax holiday	<ul style="list-style-type: none"> - Phased Corporate Income Tax (CIT) exemption for 32 designated sectors/ products (as per the Finance Act 2020), depending on location of factories - Phased CIT exemption for private IPPs (which construct powerhouse after June 2016) and full CIT/ capital gain tax exemption for PPP projects - Full CIT exemption for ICT/ software industry
Tax rebate	Applicable for manufacturing industries of which factories i) are located, ii) move, iii) have already operated, outside Dhaka City
Import duty exemp.	<ul style="list-style-type: none"> - On capital machinery/ spares - VAT exemption for imported capital machinery/ spares
Other tax exemption	<ul style="list-style-type: none"> - On interest payable on foreign loans - On royalty/ technical license fees obtained from foreign company/ expert - On personal income tax for foreign technician - One capital gain from the transfer of shares of listed public companies
Non-tax incentives	- Accelerated depreciation for newly established industries in lieu of tax holiday on their factory, machinery and plant

* The above may be subject to revision upon annually enacted Finance Act and individual regulations. Export-oriented industries regardless of their locations can benefit from additional privileges and facilities.

Bangladesh Economic Zones Authority "BEZA is a smart way for business in Bangladesh"



BEZA develops and manages economic zones (EZs) in view of generating more spillover effects of investment for industrialization. Currently a number of EZs are being developed throughout nation to cater for investment needs of both foreign and local investors, utilizing a variety of development schemes including BEZA's own initiative, private initiative, public-private-partnership and bilateral agreement with foreign government. The investors tenanted in EZs are able to benefit from the following key incentives/ privileges:

Fiscal incentive	<ul style="list-style-type: none"> - Phased Corporate Income Tax (CIT) exemption for 10 years - VAT exemption for imported machinery/ const. material, utility expense - Duty exemption for imported vehicle - Duty exemption for import/ export of goods/ materials with bonded warehouse facility - Personal Income Tax exemption for expatriate salary - Tax exemption for dividend/ royalty and technical license fees, etc. - Exemption of local government tax/ land development tax - Exemption from registration fee on land transfer/ loan document, stamp duty on loan document/ lease of land and space
Non-fiscal incentive	A variety of privileges and facilities are available. (see the website of BEZA: http://www.beza.gov.bd/)

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