

# Export Diversification

*Challenges and Opportunities for*

# BANGLADESH





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# EXPORT DIVERSIFICATION

CHALLENGES AND OPPORTUNITIES FOR

# BANGLADESH

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**SCCI**  
*THE REGIONAL BUSINESS  
ORGANIZATION OF SOUTH ASIA*



SOUTH ASIAN ASSOCIATION FOR REGIONAL CO-OPERATION



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South Asia

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## Executive Summary

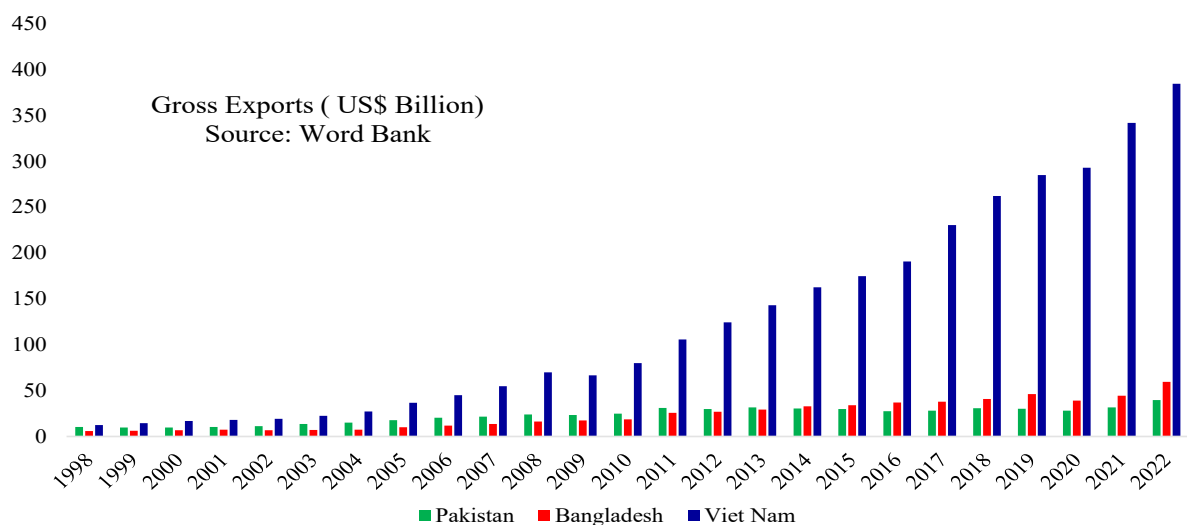
Bangladesh's economy is heavily reliant on exports, with the ready-made garment (RMG) sector accounting for over 85% of export earnings. This overdependence on a single sector makes Bangladesh vulnerable to economic shocks, as evidenced by the impact of the COVID-19 pandemic on the RMG industry. To address this vulnerability and create millions of new jobs over the next decade, Bangladesh needs to shift to new markets and products for export expansion. Bangladesh's GDP, valued at US\$460 billion in 2022, is a testament to its economic progress. However, to sustain this growth and create a more inclusive and resilient economy, the country needs to diversify its export basket and explore new opportunities in non-traditional sectors. By leveraging its strategic location, skilled workforce, and growing domestic market, Bangladesh can position itself as a hub for regional trade and investment, attracting foreign direct investment and creating new jobs in a wider range of industries. This research examines export basket evolution of Bangladesh comparing product space with competitor countries. Despite robust export growth, the study reveals a largely unchanged composition of the export basket, with a critical reliance on the RMG sector. The study advocates for strategic economic improvements encompassing diversification, technological upgrades, skill development. Drawing lessons from economies like India, Vietnam and Malaysia are imperative to achieve diversification and mitigate risks associated with sectoral dependence. The report draws upon a combination of cross-cutting analyses from reputable sources, provides a roadmap for Bangladesh to diversify its exports. The government should also address the challenges and seize the opportunities in priority sectors for export diversification. This proactive approach should include measures to improve the business environment, reduce trade barriers, and invest in infrastructure. The government should also provide financial incentives, technical assistance, and market access support to exporters in priority sectors. By taking these steps, the government can help Bangladesh diversify its export basket, reduce its vulnerability to economic shocks, and create jobs.



# Introduction

Bangladesh has experienced impressive economic growth in recent years. In the 2022 fiscal year, the country’s GDP expanded by 7.1%, reaching US\$460 billion. This growth was driven by a surge in industrial output, particularly in manufacturing, which grew by 11.4%. The services sector also grew at a healthy pace, expanding by 6.3%. The sectoral composition of Bangladesh’s economy is shifting towards services. The services sector now contributes the largest share to GDP, at 51.04%. Agriculture remains important, accounting for 11.22% of GDP. The industry sector, including construction, contributes 33.92% to GDP, with manufacturing as a key driver of growth. The country aims to become an upper middle-income developed economy by 2041. However, to achieve this goal, Bangladesh needs to boost private investment and create more jobs for its growing young population. Private investment as a percentage of GDP has increased in recent years, but FDI inflows have declined from US\$2.83 billion in 2015 to US\$1.53 billion in 2022. To attract more investment, Bangladesh needs to improve its business environment, trade policies, and prepare new sectors to take a larger share of the export market.

Bangladesh remains dependent on just a few sectors to generate exports. In 2022, export earnings accounted for 17.5% of national GDP and the RMG sector accounted for over 85% of export earnings. Total export earnings may fail to reach the sufficient and at the current growth rate could potentially expose the economy to concentration of markets in one sector, global economic fluctuations, and could harm economic development in the long term. It is therefore prudent and necessary for Bangladesh to focus on diversifying its export basket.





During the mid-1990s, the export volumes of Vietnam, Pakistan, and Bangladesh were similar. However, Vietnam's exports grew exponentially in the following years, while Pakistan's and Bangladesh's exports grew at a more modest pace. Vietnam's gross exports grew from US\$4.83 billion in 1995 to US\$384 billion in 2022, representing a CAGR of 18%. While Bangladesh's gross exports grew from US\$4.18 billion in 1995 to US\$59 billion in 2022, representing a CAGR of 10%. Vietnam has been the most successful of the three countries in terms of export growth. This is due to a number of factors, including a more favorable investment climate, a more diversified export basket.

Despite accelerated export growth, the ready-made garment (RMG) sector in Bangladesh is facing challenges in creating new jobs. Annual job growth rates in the sector declined to 1.2% between 2017 and 2022, while export output from RMG grew by 5%. This means that the RMG sector is now employing a smaller share of the total workforce in Bangladesh. In 2022, the RMG sector employed about 6.8% of the total workforce, down from 7.4% in 2016. This is a challenge for Bangladesh, as the RMG sector has been a major source of jobs, particularly for women. The World Bank Group's latest Jobs Diagnostic Bangladesh report, published in 2022, states that jobs in the RMG sector grew by only 2% each year between 2017 and 2020, even as the export output from RMG grew by 5%. Furthermore, Bangladesh has a very low number of sectors with relative comparative advantage. A product space analysis shows that the exclusive export sector RMG has a low product complexity and provides less opportunity and feasibility to organically diversify into new and more sophisticated sectors.

The study draws upon a combination of cross-cutting analyses based on secondary sources, including databases from the World Bank, insights and analyses from peer-reviewed academic papers, and data from the Government of Bangladesh, the Bangladesh Bureau of Statistics, and The Bangladesh Garment Manufacturers and Exporters Association (BGMEA). These sources are extensively used throughout the report to support the analysis and findings. The study reviews the overall export development in Bangladesh and identifies specific and sustainable growth opportunities. Further the study analyses in details both the RMG and non RMG sectors, their respective growth, share and significance in Bangladesh total exports. The study focuses on the sectors such as ICT, pharmaceuticals, leather products, rubber and plastic, home textiles, jute, and engineering goods. The study identifies food processing, pharmaceuticals, footwear, and ICT as the priority sectors for Bangladesh's export diversification.

The study provides a comprehensive analysis of the factors influencing Bangladesh's export dependency and diversification that makes the country vulnerable to economic shocks and fluctuations in global demand. The study examines the export basket of Bangladesh and comparator countries over the past 15 years. It analyzes the impact of new products added to the export basket on the economy and overall export growth performance.

The study also analyzes Bangladesh's product space in comparison to competitor countries. It finds that Bangladesh's ready-made garment sector is less connected to other complex industries in the manufacturing sector. This makes it challenging for Bangladesh to improve its position in the regional complexity landscape. The study identifies advantageous sectors that have the potential to drive export growth in Bangladesh in long run. These sectors are selected based on an analysis of the Atlas of Economic Complexity and the authors' own research.

The study also presents challenges and recommendations for improving export performance in both RMG and Non RMG sectors. It summarizes the challenges and opportunities for Bangladesh in terms of export diversification and provides specific policy recommendations for priority sectors. These recommendations include short, medium, and long-term strategies to promote export growth and economic development. By implementing these recommendations, Bangladesh can harness the potential of these advantageous sectors to diversify its exports, enhance its economic complexity, and promote sustainable economic growth.

## Literature Review

### Factors Influencing Bangladesh's Export Dependency and Diversification: A Comprehensive Analysis

An in-depth analysis of the literature on Bangladesh reveals several critical factors contributing to the country's export challenges. Firstly, the lack of economic diversification emerges as a significant hurdle. Bangladesh's economy is relatively concentrated, with a notable emphasis on certain industries. This lack of diversification limits the range of products contributing to the export basket, leaving the country vulnerable to fluctuations in specific sectors. (UNCTAD, 2019).

Secondly, there is a pronounced focus on the intensive margin, characterized by a higher volume of existing products directed towards existing destinations. This strategy, while beneficial for immediate export growth, hinders the exploration of new markets and the introduction of novel products. Consequently, Bangladesh's export growth is largely reliant on expanding existing products to existing markets, limiting the potential for diversification. (World Bank, 2020).

Thirdly, the country exhibits low economic complexity, particularly in the ready-made garments sector (Hidalgo et al., 2017). This sector's limited connectivity to other complex industries within the manufacturing sector poses a challenge. Economic complexity involves the interrelatedness and sophistication of industries within an economy. In Bangladesh's case, the lack of connectivity between the ready-made garments sector and other complex manufacturing industries restricts the country's ability to diversify its manufacturing base. (Rodrik, 2018).

Lastly, the absence of entrepreneurial know-how and firm capability is recognized as a barrier (Alam, 2012). Limited entrepreneurial skills and the capacity of firms to adapt to changing market dynamics and explore new avenues hinder Bangladesh's ability to diversify its export portfolio. Entrepreneurial capabilities are crucial for identifying and capitalizing on emerging opportunities, promoting innovation, and navigating the complexities of global markets (Amin & Islam, 2015).

### Extensive Intensive Margins

Bangladesh's export growth is primarily attributed to increased exports of existing goods in established markets. However, its performance in expanding existing products into new markets or introducing new products to both old and new markets is notably limited compared to its regional counterparts (Jones et al., 2019). The notions of intensive and extensive margins in the context of export diversification can be clarified as follows.

The extensive margin pertains to the diversity and quantity of products a country exports. Conversely, the intensive margin refers to the concentration of a country's export revenue in a select few sectors, irrespective of the variety of goods it exports. Despite the array of products within the RMG sector, Bangladesh exhibits a high intensive margin because a substantial portion of its export income is derived from this singular sector (Nguyen & Smith, 2020).

Consequently, even with the diverse array (extensive margin) of products within the RMG sector, Bangladesh's overall export income is heavily reliant on few products under this sector. In comparison to other nations, Bangladesh's export revenue displays less diversification, as it predominantly leans on the RMG sector despite the extensive variety of products within this sector.

## Geographical Diversification

Bangladesh is heavily dependent on the export of garments. In 2022, garments accounted for over 85% of Bangladesh's total exports. This makes Bangladesh vulnerable to changes in demand for garments in its main export markets, such as the United States and the European Union. However, while improving the quality of existing exports is important, geographical diversification may be more beneficial than product diversification (Hausmann et al., 2007). By diversifying its exports geographically, Bangladesh can reduce its dependence on any single market, mitigate the risk of economic shocks, and earn more foreign exchange. However, improving the quality of existing exports is also important for Bangladesh to remain competitive in the global market.

Both theory and empirical work suggest that export diversification has a positive effect on per capita growth. Even more relevant to Bangladesh is that developing countries tend to benefit more from diversifying into higher-value-added products than most advanced countries. The above stated factors from the literature review collectively contribute to Bangladesh's export dependency on a few products, illustrating the need for strategic interventions to promote export diversification, enhance economic complexity, encourage innovation, and promote a more diversified and resilient export profile.

## Diversification Into New Products

A rank of countries based on how diversified and complex their export basket is. Countries that are home to a great diversity of productive know-how, particularly complex specialized know-how, are able to produce a great diversity of sophisticated products. The table shows the number of new products added to the export basket of Vietnam, Bangladesh, India, and Pakistan from 2006 to 2021.

**Table No. 1 New Products added in the export basket during the last 15 Years**

Country	New Products Added	Contribution US\$	Diversification Grade	ECI Ranking/ 133 countries	Share in exports %
Vietnam	41	145 billion	A+	61 <sup>st</sup>	37
Bangladesh	9	823 million	C	101 <sup>st</sup>	less > 1
India	16	6.12 billion	B	42 <sup>nd</sup>	less > 1
Pakistan	26	1.5 billion	B	94 <sup>th</sup>	4

Vietnam has been the most successful among the four countries in diversifying its exports and adding new products to its export basket from 2006 to 2021. Vietnam added 41 new products, contributing US\$145 billion to total exports representing a 37% share in total exports and US \$1,486 in income per capita. In contrast, India added 16 new products with a total contribution of US\$6.12 billion representing less than 1% share in total exports and \$4 in income per capita. Pakistan added 26 new products, contributing US\$1.5 billion representing a 4% share in total exports and \$6 in income per capita. Bangladesh added only 9 new products, contributing US\$823 million representing less than 1% share in total exports and \$5 in income per capita.

Furthermore, both India and Vietnam has a relatively high ECI score of, indicating a moderately complex and diversified economy. This is likely due to the country's success in diversifying its exports beyond traditional sectors such as agriculture and textiles. Bangladesh has a low ECI score, indicating a less complex and diversified economy. This is largely due to the country's heavy reliance on apparel exports as it accounts for over 85% of Bangladesh's total exports.

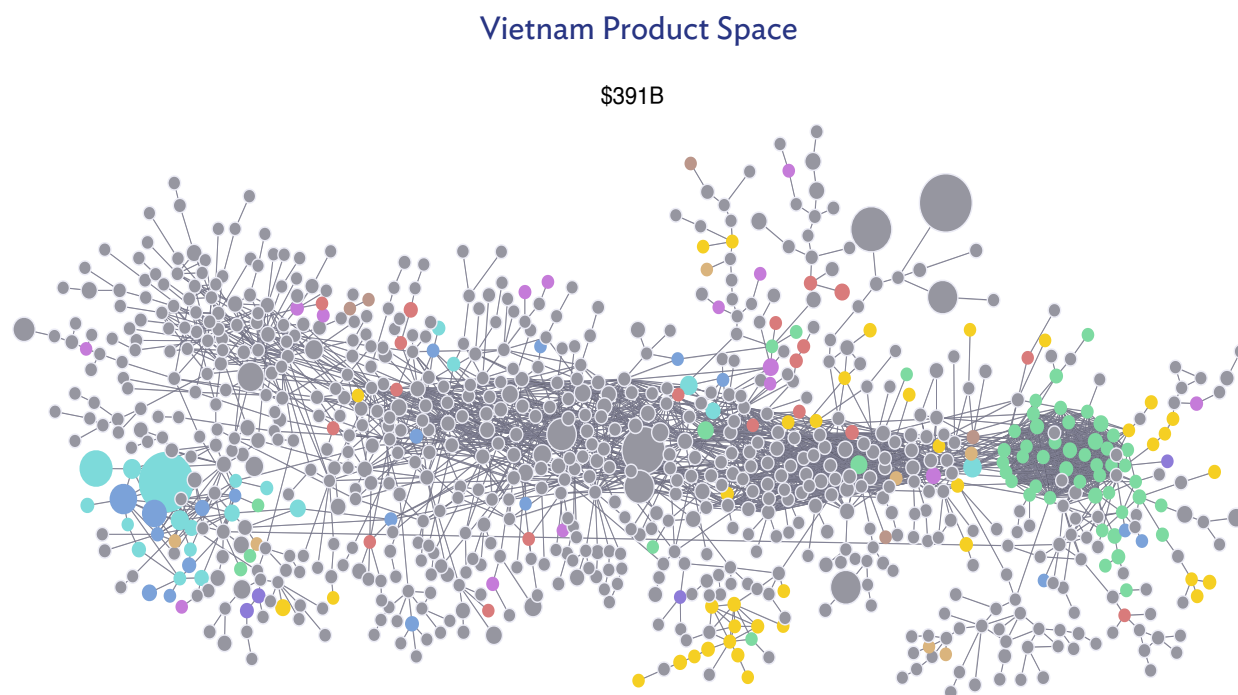
## Comparing Global Exports

Vietnam’s global market share of textile is 6.11%, which is higher than Bangladesh’s (3.60%), Pakistan’s (1.18%), and India’s (3.53%). Vietnam’s exports are more diversified than Bangladesh’s, Pakistan’s, and India’s. India and Vietnam have more diversified exports due to their more developed manufacturing sectors. India and Vietnam are also more integrated into the global economy. While Bangladesh is more dependent on a few key exports, such as textiles and apparel. This makes Bangladesh more vulnerable to changes in global demand or disruptions to supply chains

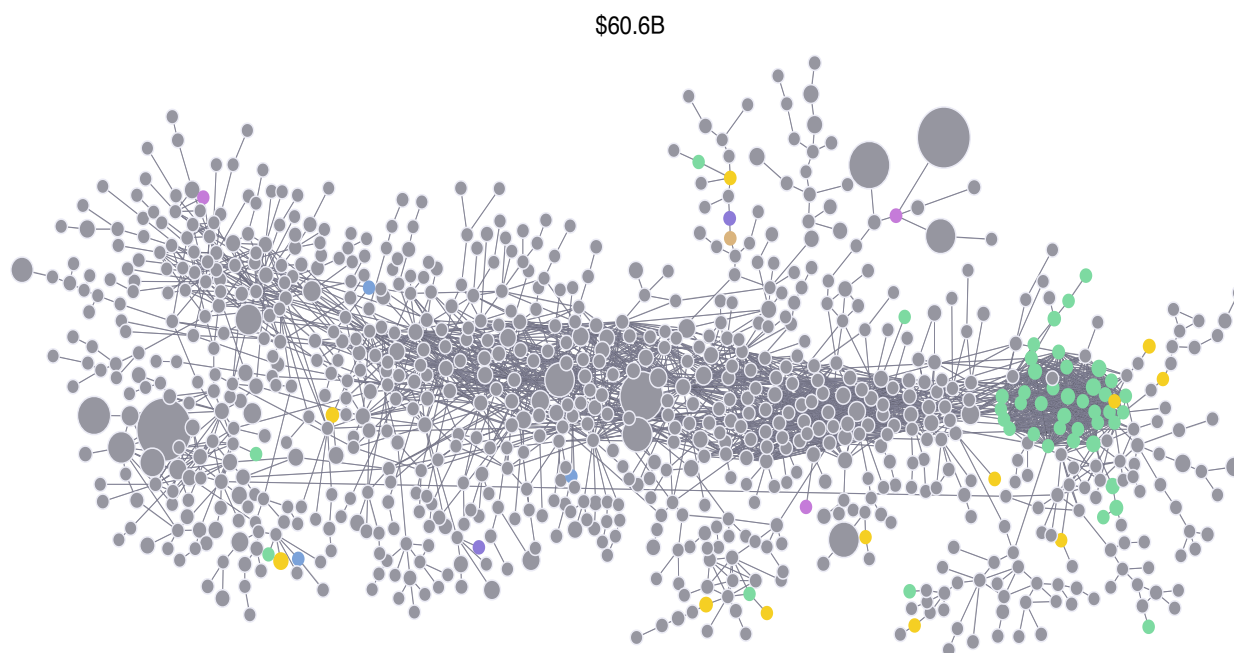


## Product Space

The product space of Vietnam is much more diversified than that of Bangladesh. Vietnam’s top exports are electronics, footwear, and textiles, while Bangladesh’s top exports are all related to the garment industry. Vietnam’s product space is also more complex than Bangladesh’s. Vietnam exports a wider variety of products, and its exports are more interconnected.



## Bangladesh Product Space



Bangladesh's product space is less diversified and less complex than Vietnam's. This makes Bangladesh more vulnerable to changes in demand for a particular product, and it also makes the country's economy less resilient to shocks. In order to diversify its product space, Bangladesh should focus on developing new industries and increasing its exports of higher-value-added products.

Bangladesh's existing productive capacity is unsatisfactory compared to its regional peers. The low economic complexity of the ready-made garments is preventing domestic companies from integrating into more sophisticated regional and global value chains. For instance, Vinatex, a Vietnamese textile company, which started as a traditional garment manufacturer, successfully diversified into high-tech textile products and footwear. By 2019, Vinatex had become one of Southeast Asia's leading textile and apparel producers, with a vast network of manufacturing facilities.

Another example is Samsung, a South Korean conglomerate that, starting with electronics, has expanded its portfolio to include semiconductors, telecommunications, and home appliances, demonstrating the benefits of diversification. In Pakistan, Engro Corporation is a notable example. Initially a fertilizer company, Engro has diversified into various sectors, including energy, petrochemicals, food, and telecommunications, showcasing successful diversification beyond the single industry.

The key to these companies' success lies in their ability to harness various dimensions of value chains, expanding their production capabilities and diversifying into more complex industries. The complexity of products can also be understood through the lense of the product space, which shows the connectedness between products. For example, India's exports of various manufacturing products such as car parts, ships, and mobile phones made it easier for India to diversify into similar and more complex manufacturing goods (Lian et al., 2021). In contrast, Bangladesh's ready-made garment sector is less connected to other complex industries in the manufacturing sector, making it challenging for Bangladesh to improve its position in the regional complexity.

## Bangladesh Export Performance

### A Comparative Analysis

The Bangladesh has the highest concentration of exports, followed by Pakistan, however Bangladesh consistently increasing the number of products exported while Vietnam and India have diversified export portfolio. Bangladesh growth was driven more by domestic markets, as the Trade-to-GDP ratio decreased to 27.72 % in 2022 from 48.2% in 2012. Exports accounted for about 12.9 % of GDP in Bangladesh, India 22.8 percent, Pakistan 10.5 percent, while Vietnam’s economy is highly export dependent with an export to GDP ratio of 94%. All these countries have improved their GDP per capita over the last decade. Vietnam has the highest GDP per capita among the four countries, followed by Bangladesh, India, and Pakistan. Vietnam’s rapid economic growth in recent years has been driven by a young and growing population, increasing integration into the global economy, and a focus on exports.

### Logistics Performance Index (LPI)

Bangladesh ranks 168<sup>th</sup> in the ‘Trading across Borders’ indicator in the World Bank’s Doing Business 2020 report. The multimodal connections between ports and the hinterland, encompassing rail services, air shipment capacity, and dependable road networks, are not fully developed. The export process in Bangladesh is still characterized by prolonged durations, with 228 hours required for documentary and border compliance compared to the South Asia average of 123 hours. Additionally, the associated costs are higher, with US\$590 incurred for documentation and border compliance in contrast to South Asia’s average of US\$480.

Table No. 2: Logistics Performance Index (LPI)

Country	LPI Rank	LPI Score	Custom	Infrastructure	International Shipment	Competence and quality	Tracking & tracing	Timeline
Vietnam	39	3.27	2.95	3.01	3.06	3.4	3.45	3.67
Bangladesh	100	2.58	2.3	2.39	2.56	2.48	2.79	2.92
India	44	3.18	2.96	2.91	3.21	3.13	3.32	3.5
Pakistan	122	2.42	2.12	2.2	2.63	2.59	2.27	2.66

Vietnam stands out as the best performer in logistics among these four countries. Bangladesh is positioned at 100th among 160 countries in the Logistics Performance Index (LPI) by the World Bank in 2022, reflecting some improvements in its transport and logistics infrastructure. However, there is still room for significant improvement. The transit times for shipping to and from major ports in Bangladesh remain non-competitive due to poor navigability, resulting in elevated logistics costs that act as an additional burden for exporters.

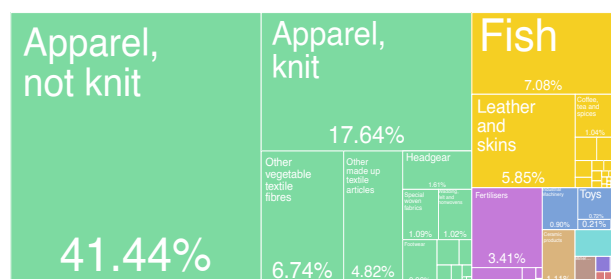
Bangladesh has a demographic dividend, but a skills mismatch holds productivity levels back. The country has a large pool of unskilled workers migrating from agriculture to labor-intensive industries. However, the institutional arrangements and infrastructure available for training and skill development are not sufficient to meet the current and future demands of the export sector. Unlike the RMG sector, non-RMG sectors in Bangladesh do not enjoy pre-shipment facilities like back-to-back letters of credit (L/Cs) and export cash credits that reduce transactional costs.

## Composition of Export Basket

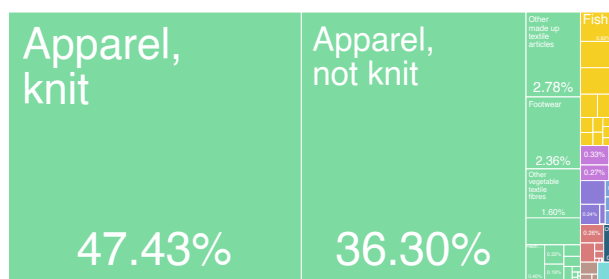
It is evident that the comparator countries are focusing on a number of sectors that can give higher return and can contribute to growth in export earnings and are gradually diversifying based on movements in global markets. The comparison of Bangladesh and Vietnam’s export basket in 1995 and 2021 shows that Bangladesh’s export basket remains heavily concentrated in the apparel sector over the years, Vietnam’s export basket has become more diversified, with electrical machinery and equipment, footwear, and apparel emerging as major export items.

This diversification has helped Vietnam reduce its reliance on a single export sector and made its economy more resilient to external shocks. In contrast, Bangladesh’s over-reliance on the apparel sector makes it more vulnerable to changes in global demand and trade policies. Vietnam’s export basket has changed significantly over the past 26 years. In 1995, the country’s main exports were coffee, tea and spices (14%), fish (10.10%), and articles of leather (2.97%). In 2021, the country’s main exports were mineral fuels, oils and waxes (21.72%), electrical machinery and equipment (41.52%), and apparel (11.46%). This shows that Vietnam’s economy has become more diversified over the past 26 years, with mineral fuels, oils and waxes now accounting for a larger share of total exports.

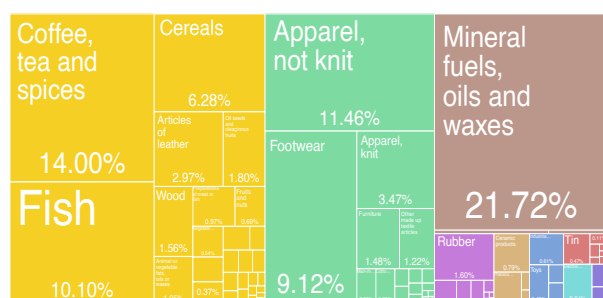
Bangladesh Exports Basket 1995



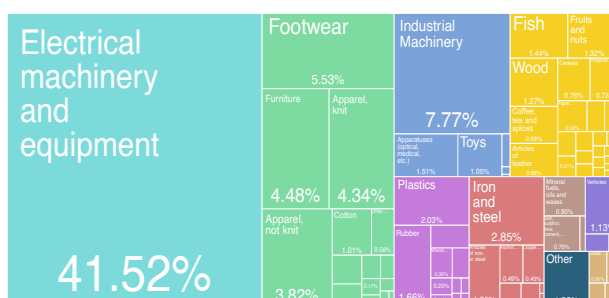
Bangladesh Exports Basket 2021



Vietnam Exports Basket 1995



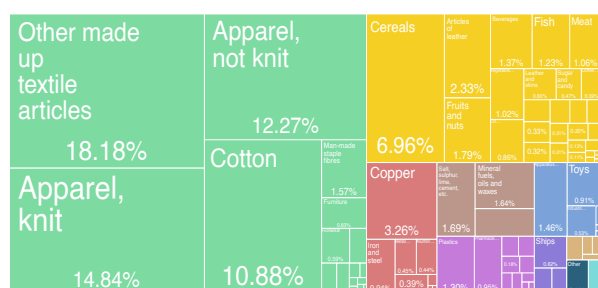
Vietnam Exports Basket 2021



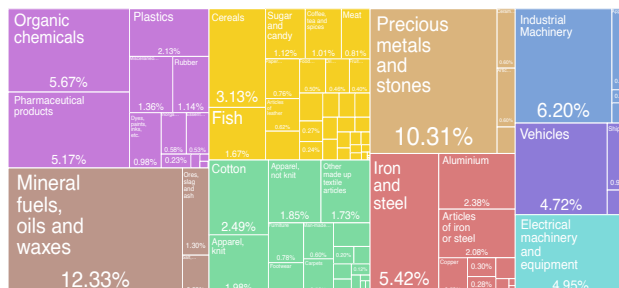
Bangladesh’s export basket is less diversified than Vietnam’s export basket. Vietnam’s top three exports sectors account for less than 50% of total exports, while Bangladesh’s top three exports sectors account for over 95% of total exports.

This means that Bangladesh is more reliant on a few key exports than Vietnam is. Additionally, Vietnam’s exports are more evenly distributed across a wider range of products, while Bangladesh’s exports are heavily concentrated in a few products. This makes Vietnam’s economy less vulnerable to shocks in any one industry.

Pakistan Exports Basket 2021



India Exports Basket 2021



The more diversified exports baskets of Vietnam, India, and Pakistan give these countries a number of advantages over Bangladesh. First, they make these countries less vulnerable to external shocks. Second, they give these countries more bargaining power in international trade negotiations. Third, they allow these countries to take advantage of new opportunities in the global market.

India’s exports are also more diversified, with a wide range of products and services being exported. The country’s top exports include petroleum products, gems and jewelry, machinery, and pharmaceuticals. Similarly, Pakistan’s exports are also diversified, with a wide range of products and services being exported. The country’s top exports include textiles, rice, leather products, and sports goods. To promote economic growth and reduce vulnerability, Bangladesh should focus on diversifying its export basket by developing new export sectors and increasing the competitiveness of its existing exports.

## Case study of Vietnam

The sensitivity of the economy to external shocks was revealed during the global economic slowdown in 2008-2009. Exports of manufactured goods fell by over 10% in 2009, leading to a slowdown in economic growth and job losses in the manufacturing sector. In order to help reduce vulnerability to economic shocks and promote the generation of jobs, the Vietnamese government has been implementing a trade diversification strategy since the early 2000s (WTO, 2019). This strategy has focused on promoting exports of a wider range of products and services, as well as expanding export markets beyond the United States and China. As a result of these efforts, Vietnam has been able to reduce its export concentration and increase the resilience of its economy to external shocks. For example, during the COVID-19 pandemic, Vietnam was one of the few countries in the world to experience positive economic growth. Vietnam has implemented a number of trade diversification strategies in order to reduce its export concentration and increase the resilience of its economy to external shocks.

- Vietnam has been working to diversify its exports beyond traditional products such as textiles and garments. The government has provided support for businesses to develop new products and services, and to enter new markets.
- Vietnam has been actively pursuing trade agreements with other countries in order to expand its export markets.
- Vietnam has been working to improve the business environment in order to attract foreign investment and promote exports. The government has reduced red tape, improved infrastructure, and strengthened intellectual property protection. (World Bank)
- Vietnam’s trade diversification efforts have helped to reduce the country’s vulnerability to external shocks. The share of exports to China has declined from 28% in 2010 to 18% in 2021. (Vietnam’s Economic Outlook, April 2022)
- Vietnam’s trade diversification strategies have been successful in reducing the country’s export concentration and increasing the resilience of its economy to external shocks. The country is now one of the most dynamic and promising economies in Southeast Asia.



## Case study of Malaysia

*In the 1950s, Malaysia's economy heavily relied on two primary commodities, rubber and tin. Initially, the focus was on producing consumer goods for the domestic market. However, the limitations of import substitution strategies became evident as the domestic market reached saturation, hindering further expansion. Consequently, there was a significant shift from inward-looking import substitution to outward-looking export promotion through diversification in the 1970s. Manufacturing progressively led Malaysia's remarkable economic expansion. The manufacturing sector's contribution to GDP increased from 13% in 1970 to around 30% by 1997, and its share of employment rose from 9% in 1970 to 26.4% in 1997.*

*The manufacturing sector played a crucial role in the economy's recovery from the 1998 recession, contracting by 7.5% but rebounding to a 4.8% expansion the following year. This showcased the sector's dominant position. Malaysia diversified its exports by promoting commodities like palm oil and transitioning to higher value-added products such as electronics and telecommunication equipment, moving away from the traditional mainstays of rubber and tin. Notably, the share of tin and rubber in total exports plummeted from over 60% in 1962 to less than 3% in 2008. The evolution of Malaysia's industrialization policies can be traced through three phases: export-oriented industrialization (EOI) based on import substitution in the early 1970s, a second round of import substitution focused on heavy industries in the late 1980s, and a sustained shift towards export promotion in the 1990s. The Industrial Master Plans (IMP) and IMP-2 were crucial in promoting export-oriented industrialization, outlining long-term plans for the development of various industries. IMP (1986-95) emphasized 12 industries based on resource-based sectors, while IMP-2 (1996-2005) embraced a 'Manufacturing ++' concept, integrating all components of the value-added chain and promoting intra-industry synergies.*

*To enhance resilience to external shocks and reduce dependence on a single sector like RMG (Ready-Made Garments) exports, Bangladesh could consider adopting a multi-faceted approach, drawing inspiration from Vietnam and Malaysia's strategies.*

## Feasible Exports Sector for Bangladesh

Data from the economic complexity Atlas is used to identify the most suitable sector for export diversification. The data is collected for the top 20 feasible sectors. List of sectors for identifying feasible sectors are complexity and opportunity gains of sector in the product space (2021).

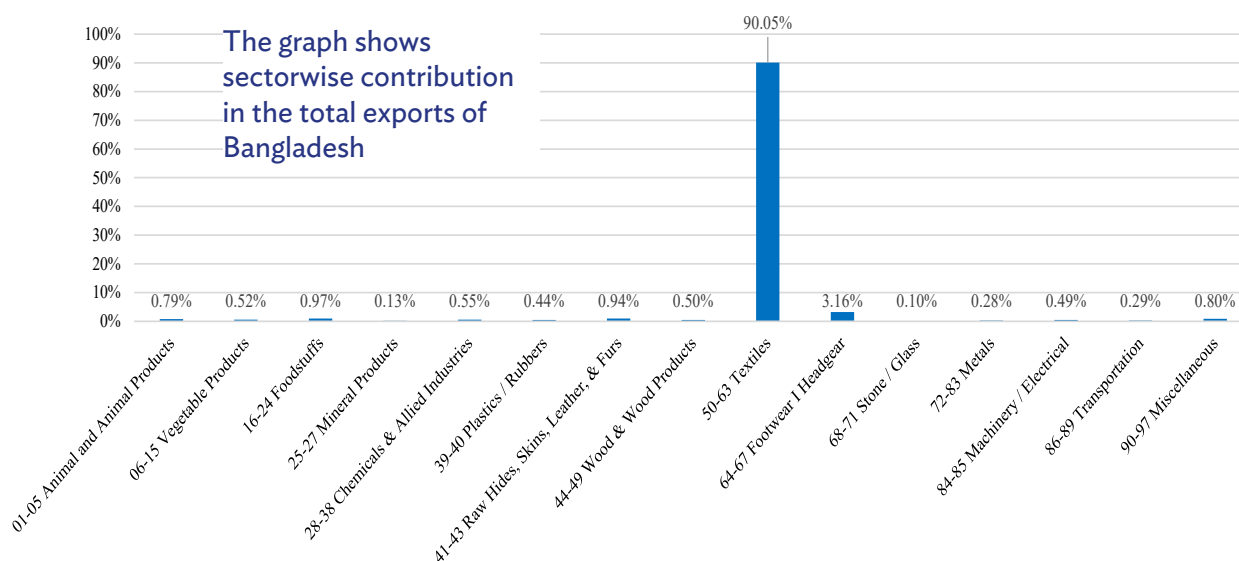
Within the RMG sector, the basket of export products has changed over years, but fashion garments or other high value products are only a small proportion of exports. On the product space (Hidalgo and Hausmann, 2009), RMG scores low in terms of complexity and opportunity gain, indicating a limited potential to organically diversify into new and more complex sectors. Product Complexity Index (PCI): This index measures the technological complexity and sophistication of a product. Higher PCI values indicate more complex and skill-intensive products. Opportunity Gain: This indicator represents the potential for export growth based on factors such as market demand, competition, and trade barriers. Higher opportunity gain values indicate greater potential for export expansion.

In the case of Bangladesh, the sectors identified have the highest potential for growth and export diversification which are characterized by relatively high PCI and opportunity gain values. While some of these sectors may involve longer distances to export markets, the potential rewards in terms of revenue and economic growth can outweigh the transportation costs.

Table No. 3: List of Sectors considered for identifying feasible sectors		
Sector Details	Product Complexity Index	Opportunity Gain
Pharmaceutical products	0.93	0.91
Industrial Machinery	1.01	0.977
Apparatuses (optical, medical, etc.)	1.01	0.894
Metal tools and tableware	0.789	0.832
Electrical machinery and equipment	0.858	0.823
Plastics	0.743	0.8
Organic chemicals	0.919	0.777
Miscellaneous articles of base metal	0.601	0.76
Vehicles	0.645	0.721

Additionally, Bangladesh can leverage its strategic location in South Asia and its access to major shipping routes to minimize the impact of distance on its export competitiveness. By investing in infrastructure, logistics, and trade facilitation measures, Bangladesh can further reduce transportation costs and improve its overall export performance. By focusing on sectors and products under these sector with high PCI and opportunity gain values, Bangladesh can identify and prioritize products and markets that offer the greatest potential for growth and export diversification. The government can create a supportive policy and regulatory environment that encourages investment, innovation, and export growth in the identified sectors. This may include providing incentives, streamlining regulations, and investing in infrastructure development. Addressing the factors Bangladesh can create a conducive environment for the growth of the identified sectors and enhance its export basket and competitiveness.

The following part of study analyses in detail the Bangladesh export sectors, encompassing both RMG (ready-made garments) and non-RMG sectors in terms of their existing potential for further growth and their contribution to the country’s overall exports . The sectoral analyses will also identify opportunities for export diversification by exploring the growing global demand for products from each sector. The data utilized for this sectoral analysis is sourced from the Export Promotion Bureau of Bangladesh and the ITC Trade Map Database, covering the period from 2010 to 2022, based on the data available on the Export Promotion Bureau of Bangladesh website.



## Textile Sector

The textile and clothing industry continues to play a pivotal role in driving Bangladesh's economic growth and development. The sector contributes over 90 percent in the total exports of Bangladesh. According to the latest figures, Bangladesh's gross domestic product (GDP) reached US\$460 billion in 2022, with textiles and garments accounting for an impressive 90% of export earnings. This sector remains the country's largest employer, providing jobs for millions of people, of which majority are women.



The textile sector, led by the RMG industry, plays a pivotal role in Bangladesh's economy. Although the textile and apparel industry is the largest in Bangladesh and is expanding, however, it faces massive challenges, principally because the country does not produce enough of the raw materials necessary, unfavorable trade policies, and inadequate incentives for expansion.

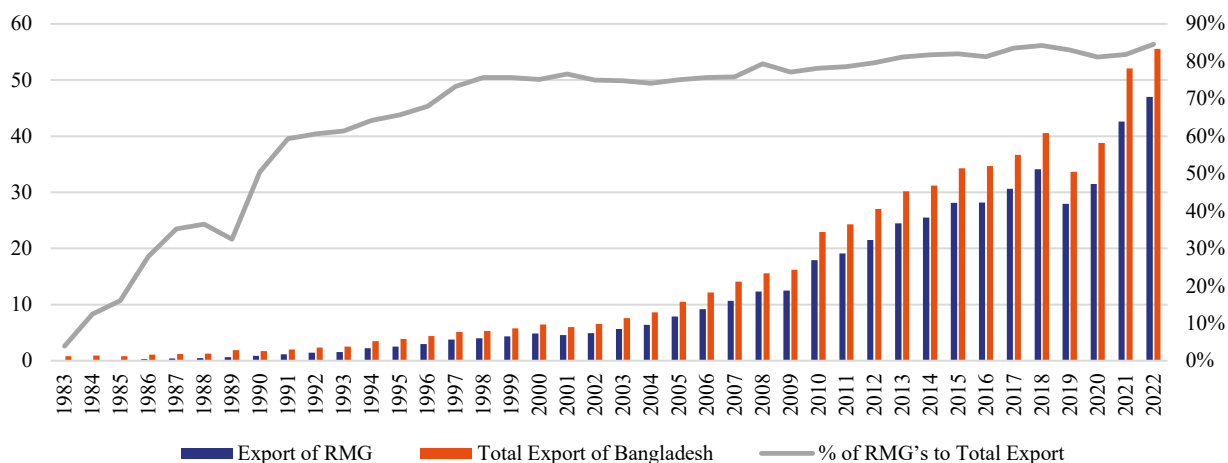


## Bangladesh Ready Made Garment (RMG) Sector

The Ready Made Garments (RMG) industry is a cornerstone of the Bangladesh economy, providing employment and income for millions of people, especially the poor. Over six million workers are directly employed in the industry, while more than twelve million are indirectly associated with it. The RMG industry has also had a significant social impact, bringing more than 3.2 million women into the workforce. The export-driven ready-made garments (RMG) sector, initially a small and non-traditional export industry in the late 1970s, which has witnessed remarkable growth over the past decade, boasting an impressive compound annual growth rate of 13 percent. The export escalated significantly, starting from only US\$3.89 million in 1983 to approximately US\$ 47 billion in 2022, marking a substantial growth. During this period, the export's contribution to total exports surged from a mere 3 percent to an impressive figure of over 85 percent.

The following graph depicts the consistent growth of the Ready-Made Garments (RMG) export as a percentage of the total export over the past three decades. This trend is a clear indication that the RMG sector significantly contributes to Bangladesh's economy, particularly in terms of the country's export activities.

Share of RMG exports in the total exports of Bangladesh (US\$ billion)



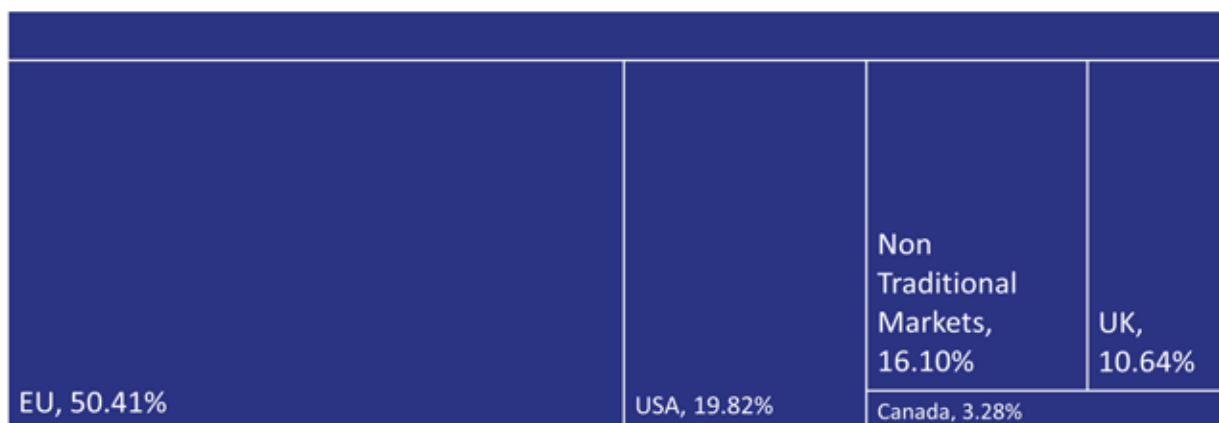
The RMG sector of Bangladesh is broadly categorized into two main groups, woven products and knitted products. Knitted items encompass shirts, pants, and trousers, while woven products include T-shirts, polo shirts, undergarments, socks, stockings, and sweaters. Together, these garment categories play a pivotal role in driving the country’s export revenue. Woven fabric exports from Bangladesh account for 46% of the total apparel exports, while knit fabric exports account for the remaining 54%. Bangladesh’s apparel exports are heavily dependent on these two main fabric types, with minimal contribution from other types of fabrics. This suggests a need for diversification in fabric production to reduce reliance on a narrow range of products and tap into new market opportunities.

### Bangladesh RMG Exports to the World



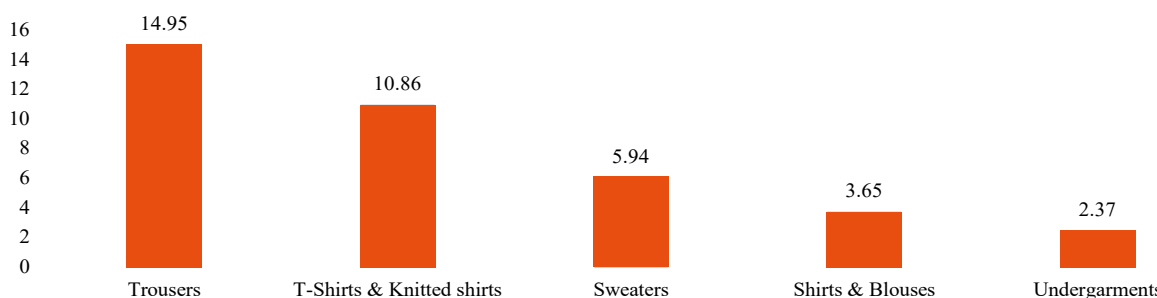
At present, there are more than 5,000 garment factories in Bangladesh, according to a private statistic; however, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) reports the number to be over 4,000. This is a substantial increase from the mere 384 factories in 1984-85. The RMG industry has now become the country’s largest export earner, experiencing a remarkable 10 percent surge in exports to reach US\$47 billion in the 2022-23 fiscal year compared to the previous year. Over the past two decades, this sector has seen unparalleled growth, emerging as the leading exporting industry in Bangladesh. It has quickly gained prominence in terms of foreign exchange earnings, exports, industrialization, and contribution to GDP. The EU countries, USA, UK, Canada, along with non-traditional markets, stand as the major importers of Bangladeshi RMG products.

### Bangladesh RMG Exports Destinations



Bangladesh’s main exports remain in garments products through the years, particularly trousers, T-shirts & knitted shirts, sweaters, shirts & blouses, and undergarments. During the year 2022-23 Trousers were the largest export item, valued at \$14.95 billion, followed by T-shirts & knitted shirts (\$10.86 billion), sweaters (\$5.94 billion), shirts & blouses (\$3.65 billion), and undergarments (\$2.37 billion). This reflects Bangladesh’s strength in the apparel industry and its ability to produce a wide range of garments at competitive prices. The RMG sector in Bangladesh is characterized by low wages and poor working

### Top RMG Goods Exported ( US\$ Billion)



conditions. The average wage for a garment worker in Bangladesh is about \$100 per month, and many workers are forced to work long hours in unsafe conditions. The RMG sector has also been criticized for its environmental impact, as the production of garments requires a lot of water and energy.

Bangladesh’s textile and garment industry is heavily concentrated in low-value-added products, such as basic t-shirts, shirts, and pants. This makes the country vulnerable to competition from other low-cost producers, particularly in countries like Vietnam and Cambodia.” - World Bank report, 2022

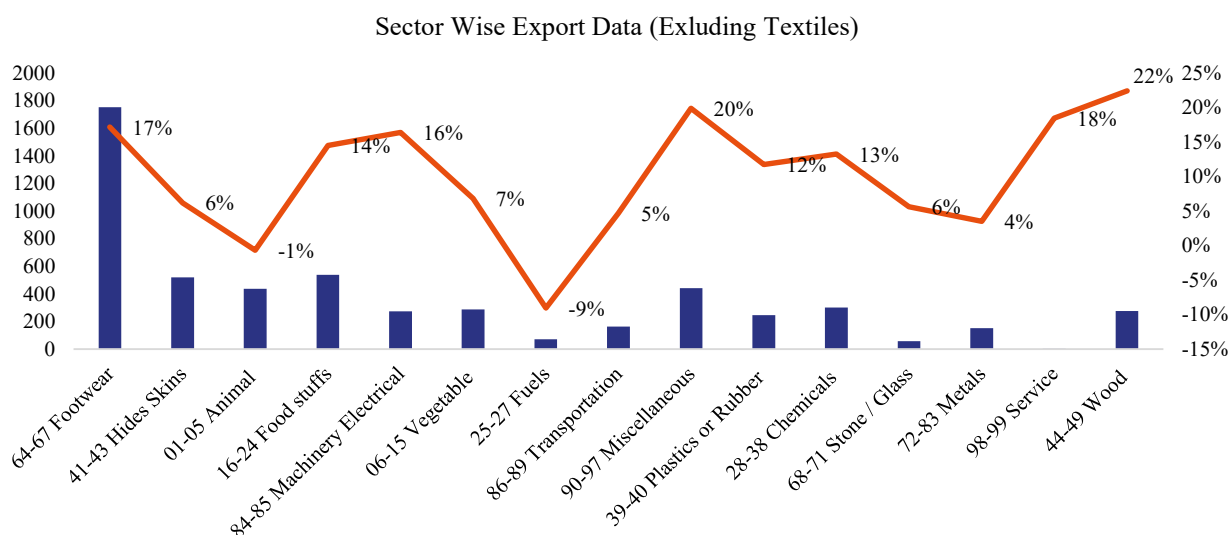
The apparel sector in Bangladesh is characterized by low productivity due to factors such as outdated technology, poor working conditions, and a lack of skilled labor.” - Asian Development Bank (ADB) report, 2020.

The apparel sector in Bangladesh is heavily dependent on a few major buyers, such as H&M, Walmart, and Gap. This lack of product diversification makes the sector vulnerable to fluctuations in demand from these buyers.” - International Labour Organization (ILO) report, 2021

The apparel sector in Bangladesh has been criticized for its environmental and social practices, including the use of hazardous chemicals and the poor treatment of workers.” - Human Rights Watch report, 2019.

## Analyzing the Non RMG sectors of Bangladesh

Excluding the RMG sector, Bangladesh’s exports across various sectors have shown a mixed performance in recent years. Some sectors have experienced significant growth, while others have faced challenges. The footwear sector has been a standout performer, with exports growing at a robust 17% CAGR. This growth is driven by rising demand for Bangladeshi footwear in international markets, particularly in Europe and North America.



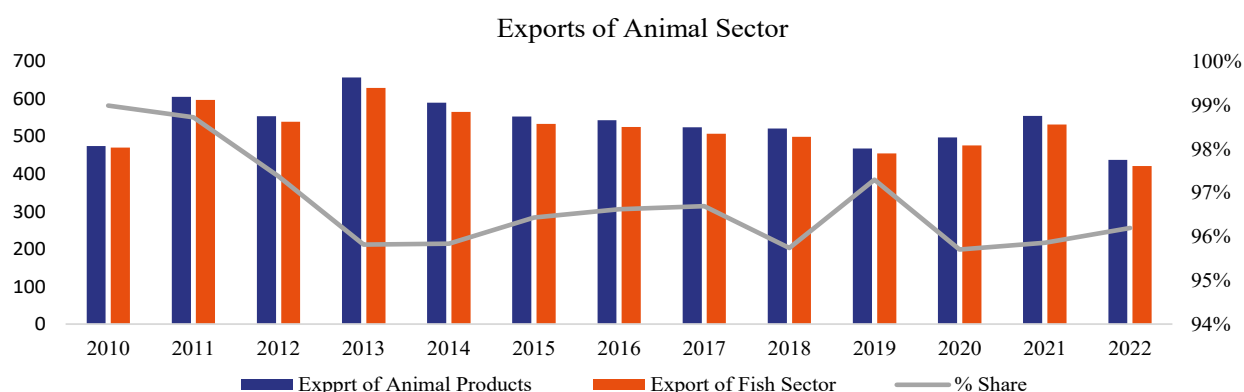
Bangladesh’s exports of hides and skins have shown a modest growth in recent years, with a CAGR of 6%. In 2022, the sector exported \$519.80 million worth of hides and skins, up from \$489.32 million in 2021. There is a growing demand for hides and skins in the global market, driven by the increasing popularity of leather products such as shoes, bags, and garments.

Exports of machinery and electrical products have also shown strong growth, with a CAGR of 16% and 7%, respectively. This growth is attributed to Bangladesh’s increasing competitiveness in manufacturing and the growing demand for electrical products in developing countries. The transportation sector has also performed well, with exports growing at a CAGR of 12%. This growth is primarily driven by exports of ships and boats, which have gained popularity due to their quality and affordability.

Sectors like vegetable products, plastics or rubber, and chemicals have relatively low export values compared to their potential. The government should focus on supporting high-growth sectors and addressing the challenges faced by struggling sectors to promote balanced and sustainable export growth. The following section will provide a more detailed analysis of the export performance of each sector, highlighting key factors driving growth or challenges, as well as potential opportunities for improvement.

### Animals Sector (Fish)

Bangladesh’s export of animal products has fluctuated over the past 13 years, with a general trend of decline in recent years. The exports peaked in 2013 at US\$ 657.72 million. Since 2013, the sector exports have declined, reaching US\$438.39 million in 2022. Fish Industry is the major contributor and constitutes for over 95 % share in the total exports from this sector.



Bangladesh’s fish sector has been a major contributor to the country’s export earnings, with exports reaching a peak of US\$630.24 million in 2013. However, fish exports have declined in recent years, reaching US\$421.74 million in 2022. Despite the decline, the fish sector remains significant in Bangladesh’s trade. Bangladesh has a large and productive fishing industry, with a coastline of over 700 kilometers and a vast network of inland waterways. This provides the country with a significant natural resource for fish production. Bangladesh also has a number of fish processing facilities that meet international standards, allowing it to export fish products to markets around the world. Following are the top fish export products of Bangladesh are:

Top Fish Exports	US\$ Million
030617: Other shrimps and prawns	276.35
030389: Other fish, excluding livers and roes	30.99
030289: Other Fish	28.93
030192: Live eels	14.71
030279: Other than Eels, Wrapped/canned	14.70

Bangladesh is a major exporter of shrimp and prawns, and this category accounts for the majority of the country’s fish exports. The fish sector in Bangladesh are all high-value products that are in demand in both domestic and international markets. Bangladesh has a number of potential markets for its fish exports, including: The European Union, The United States, Japan, China and Southeast Asia.

Based on the data from Export Promotion Bureau and ITC trade Map, Bangladesh has the potential to export US\$700 million worth of fish products, but is currently only exporting US\$421 million worth of fish products. This means that there is a gap of US\$279 million in unrealized export potential.

To bridge the gap, the government of Bangladesh needs to help to address the challenges to realized the export potential by providing incentives for businesses to invest in the fish sector.

This includes providing financial assistance, tax breaks, and access to land Investing in infrastructure.

Further, Fish exporters do not have the information they need to identify and enter new markets. Bangladesh faces competition from other fish exporting countries, such as India, Vietnam, and Thailand.

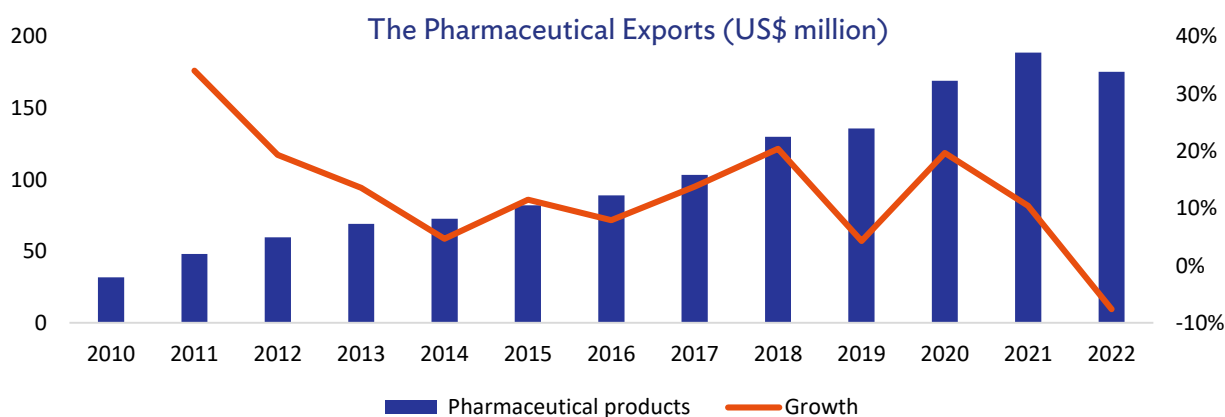
With the right policy framework and by addressing the challenges, Bangladesh’s fish sector has the potential to become a leading export sector for the country.

## The Pharmaceutical Sector



The pharmaceutical sector in Bangladesh showed a steady upward trend in exports from 2010 to 2021, indicating a consistent growth and expansion of the industry. The export values experienced a significant increase from \$31.83 million in 2010 to \$188.78 million in 2021.

This represents a noteworthy growth of approximately six times over the 11-year period. The year 2020, marked by the COVID-19 pandemic, saw a substantial increase in exports from US\$135.79 million in 2019 to US\$169.02 million. This suggests that the pharmaceutical sector played a crucial role in providing essential medicines and medical supplies during the pandemic.



Despite its global aspirations, the pharmaceutical industry in Bangladesh remains among the manufacturing sectors with the lowest export orientation. Pharmaceuticals account for less than 1% of Bangladesh’s total exports. Although pharmaceutical exports have nearly doubled over a decade, from US\$ 56 million in 2008-09 to US\$ 105 million in 2018-19, their growth rate of 6% lags behind the overall export growth rate of 9%. This disparity is primarily attributed to the rapid expansion of the ready-made garment (RMG) industry. Data for 2021 indicates that Bangladesh’s pharmaceutical exports reached USD 169 million (Export Promotion Bureau, 2023).

Over the past decade, Bangladesh’s pharmaceutical Industry has witnessed remarkable growth, reflected in the steady increase in the value of pharmaceutical products. This surge indicates an expanding market and rising demand for pharmaceutical products within the country.



Approximately 90% of Bangladesh's pharmaceutical exports consist of finished products, making the country a modest net exporter in this category. Despite this growth, only 7% of the total value added generated by the pharmaceutical industry in Bangladesh is exported. This sets it apart from countries like Thailand, South Africa, Turkey, and India, where a larger proportion of value added is derived from export revenues.

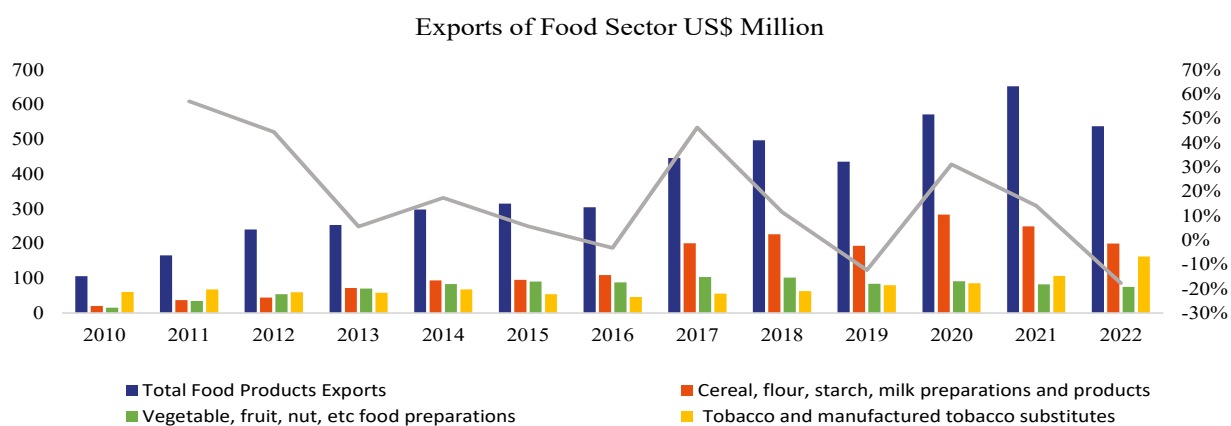
Over the past decade, Bangladesh's export market has become more concentrated, with the top three export destinations accounting for 46% of total exports in 2018-19, a significant increase from 27% in 2008-09. Bangladesh's pharmaceutical industry is increasingly focusing on Eastern markets. Vietnam, Myanmar, and the Philippines are among the top five export destinations, collectively accounting for 44% of total pharmaceutical exports. Although modest in volume, Bangladesh's pharmaceutical exports play and have the potential to play a crucial role in providing safe and affordable medicines to Least Developed Countries (LDCs). Pharmaceutical companies in Bangladesh are actively engaging with foreign firms through joint ventures and overseas investments.

The pharmaceutical industry holds the potential to play a pivotal role in the phase of Bangladesh's development in terms of both exports growth and contributing significantly to the economy.

- To achieve continued success, Bangladesh needs to transform its economic model by diversifying its export base, promoting innovation and quality-driven industrial development, and establishing strategic international partnerships.
- Bangladesh faces the challenge of overcoming the duality of its industrial model, which includes an export-oriented ready-made garment (RMG) sector and highly protected industries catering to the domestic market. The pharmaceutical industry can serve as a valuable ally in the ongoing socio-economic transformation of Bangladesh.
- It offers substantial industrial linkages and spillovers, extending from agrifood to chemicals. Furthermore, the pharmaceutical industry operates within international networks, necessitating a robust local foundation in science, research, and development.
- It also carries significant social implications, including the capacity to ensure drug availability and affordability, and the creation of well-paid direct and indirect jobs.
- The COVID-19 pandemic has highlighted the global need for more geographically dispersed drug manufacturing capacities and centers of excellence in pharmaceuticals. With over 2 billion people worldwide lacking access to essential drugs, according to WHO estimates, a sound, trustworthy, innovative, and effective pharmaceutical industry in Bangladesh would benefit not only the country but also the global community.
- Bangladesh's pharmaceutical industry has undergone a remarkable transformation, with a strong focus on safeguarding and bolstering its domestic industry to ensure access to essential drugs for its population. The pharmaceutical industry serves as a powerful catalyst for dense and diverse innovation, promoting industrial ecosystems. Bangladesh must prepare and update its policies to make them more innovation-oriented and globally compliant.
- Additionally, Bangladesh needs to make continued progress in improving its national quality infrastructure system. This is essential to ensure traceability, safety, and compliance with standards, which are fundamental attributes of competitiveness in the heavily regulated pharmaceutical industry.

## Food Sector

The sector includes a wide range of products, from cereal and flour to fruits and vegetables to tobacco products. The food products sector's share in total exports is relatively small, at around 0.9%. In recent years, Bangladesh's food products exports have shown a steady increase, with the sector exporting a total of US\$653.01 million worth of products in 2021 up from just US\$ 106.02 million in 2010.



The food products are exported to a variety of countries around the world, with the top export destinations being India, Nepal, the United States, the United Kingdom, and Malaysia. The sector Cereal, Flour, Starch, Milk Preparations, and Products emerges as the largest contributor to the Bangladesh's food product exports, consistently contributing over 40% to the total in most years. This sector has experienced substantial growth, with exports escalating from a mere US\$ 20 million to an US\$ 200 million by 2022, reaching all time high exports at US\$ 283 million during the year 2020.

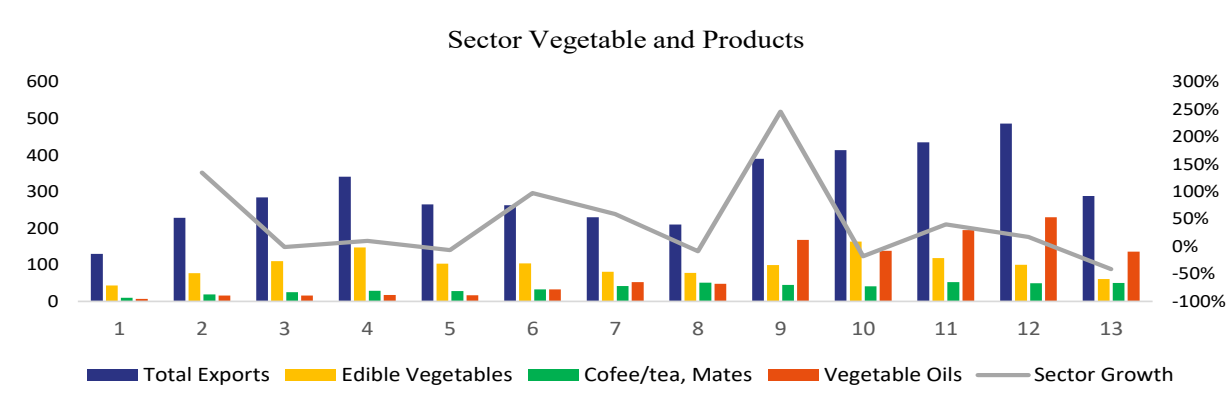
Top Exports	US\$ Million
240120: Tobacco, partly or wholly stemmed/stripped	146.69
190590: Other bread, etc, nes; communion wafers, rice paper, etc	56.12
200989: Juice of any other single fruit or vegetable other than Cranberry	51.33
190531: Sweet biscuits	34.36
190219: Uncooked pasta, not containing eggs, not stuffed	33.36

The data from the the ITC Trade Map Export Potential reveals the untapped opportunities within the sector. Among the top exports potential products are HS-190230 Pasta' holds untapped potential amounting to US\$ 8.9 million and HS-190590 Bread, Pastry' exhibits significant untapped potential, estimating at US\$ 18 million. China shows the largest absolute difference between potential and actual exports leaving room to realize additional exports worth US\$ 97 million in this sector.

Bangladesh's food processing industry requires significant investment in new technologies and equipment to enhance food quality and safety. Limited access to finance hinders food processing businesses' ability to invest and expand. Weak infrastructure, especially in rural areas, poses challenges in transporting food products for export. To address these challenges, the government and stakeholders must collaborate to: Improve food quality and safety by investing in food processing technologies, implementing food safety standards, and training food handlers. Explore new export markets for Bangladeshi food products, particularly in countries with growing demand.

## Vegetable Sector

The sector has contributed over US\$400 million annually to the country's foreign exchange reserves. The sector employs workers in a variety of occupations, including farming, processing, and transportation. Bangladesh's total vegetable oils and fats exports have fluctuated over the past 13 years, with a general trend of growth. However, exports declined sharply in 2022, from US\$486.91 million in 2021 to US\$288.75 million.



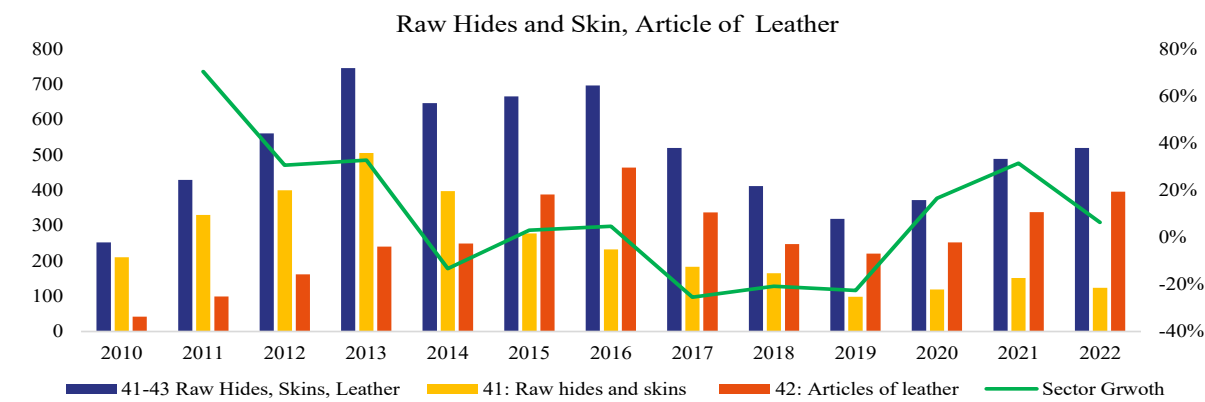
Edible vegetables are the largest contributor to the sector, accounting for over 50% of the total in most years. The top export markets for Bangladesh's vegetables sectors are India, Nepal, China, United States, Malaysia, Singapore, United Arab Emirates, and Saudi Arabia. The government of Bangladesh is working to diversify the country's export markets for vegetable oils and fats products and to open up new markets in other countries.

Top Exports	US\$ Million
151590: Other fixed vegetable fats and fractions, nes	111.76
071190: Other vegetables and mixture provisionally preserved	44.45
091099: Other spices, nes	36.79
140490: Vegetable products, nes	13.02

The data from ITC trade map export potential reveals that the Bangladesh's sector has the potential to export US\$630 million worth of products, but in 2022, actual exports amounted to only US\$288 million. This means that there is a significant gap of US\$342 million in unrealized export potential. Bangladesh's vegetable oil and fats sector has the potential to be a major contributor to the country's economy. The country has a large and productive agricultural sector, and it is a major producer of edible vegetables, coffee/tea, mates, and vegetable oils. Bangladesh also has a number of vegetable oils and fats processing facilities that meet international standards. By addressing the challenges facing the sector and implementing supportive policies, the government can help to unlock the untapped export potential and ensure that the sector reaches its full potential.

## Leather Sector

Bangladesh's leather industry exports various leather products, including hides and skins of bovine animals, goats, and other animals as well as tanned and crust leather. Over 60% of these exports are destined for Korea, Hong Kong, and China, while approximately 15% of high-quality leather is exported to Italy and Spain. This industry plays a significant role in Bangladesh's economy, contributing to its export earnings and employing a substantial workforce.



Exports reached a peak of US\$745.63 million in 2013, but declined in subsequent years, reaching a low of US\$318.85 million in 2019. Exports have rebounded in recent years, reaching US\$519.80 million in 2022. Exports of raw hides and skins have also fluctuated significantly in recent years, reaching a peak of US\$ 505.54 million in 2013 and a low of US\$98.31 million in 2019. Exports of articles of leather have shown a more consistent growth trend in recent years, increasing from US\$ 41.84 million in 2010 to US\$ 400 million in 2022 and contributing almost 80 percent exports share under the sector and represents a strong compound annual growth rate (CAGR) of 19%, driven by factors such as rising demand for leather products, government support, a skilled workforce, and a robust supply chain. Following are main products of exports for Bangladesh in this category of articles of leather and hides and Skins are:

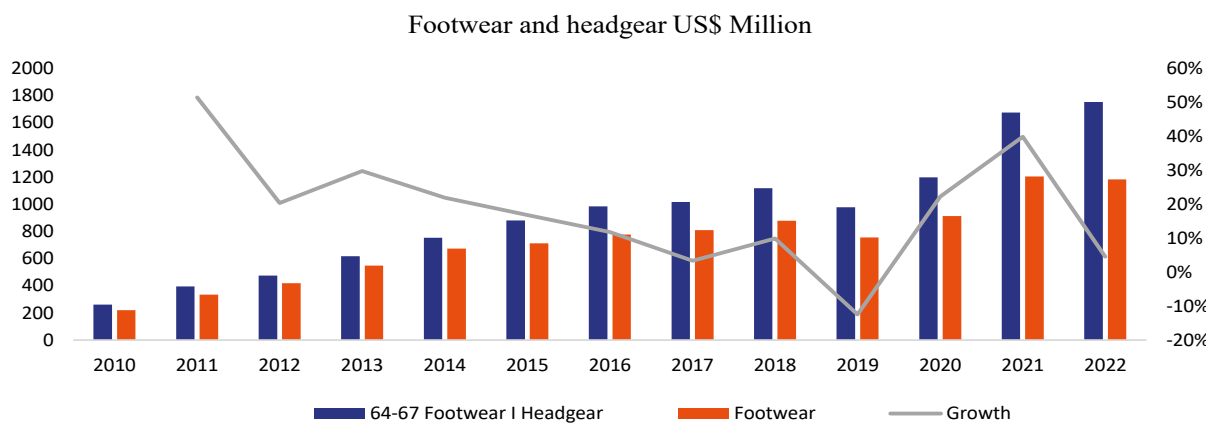
Top Exports	US\$ Million
420212: Trunks, suit-cases..., etc, with outer surface of plastic or textiles	80.81
410449: Tanned/crust Hides & Skins Of Bovine/equine Animals	79.68
420221: Handbags with outer surface of leather	66.71
420292: Cases and containers, nes, with outer surface of plastic or textiles	66.35
420329: Protective gloves, mittens and mitts for trades, nes, of leather	30.39

## Footwear Sector

Bangladesh’s footwear market is growing steadily, the country’s low labor costs and abundant supply of raw materials make it an attractive location for footwear manufacturing. The government’s supportive policies and initiatives are also expected to contribute to the growth of the footwear industry in Bangladesh. Bangladesh’s footwear and headgear sector has shown a strong growth trend in recent years, with exports increasing from US\$261.17 million in 2010 to US\$1.76 billion in 2022. The footwear sub-sector is the dominant part of this sector, accounting for the majority of exports. Footwear exports increased from US\$221.87 million in 2010 to US\$1,182.67 million in 2022. Bangladesh has become a major exporter of footwear, with its products being sold in markets all over the world. In 2022, the sector accounted for approximately 3.8% of total exports, up from 1.6 % in 2010. The Footwear



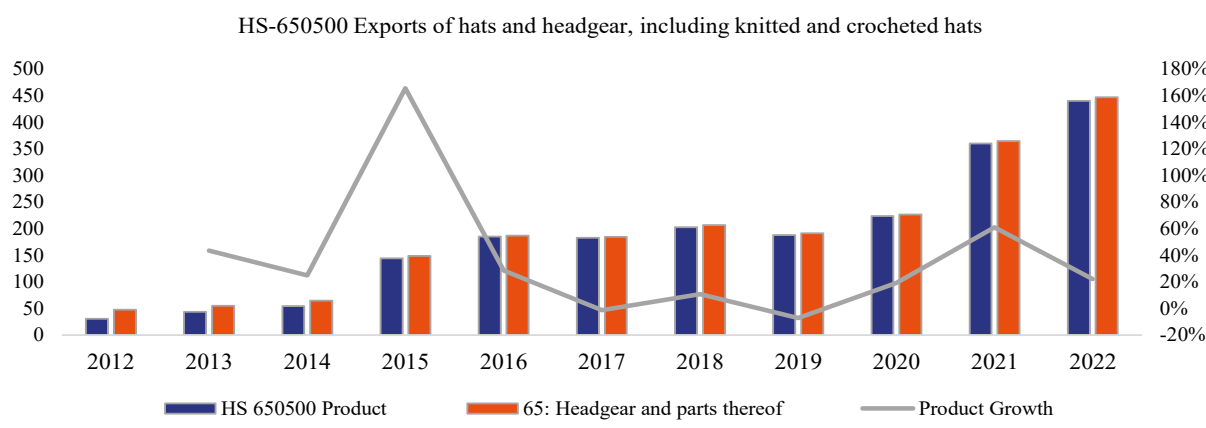
market is expected to achieve substantial revenue, projected to reach US\$ 3.33 billion by 2024, with an anticipated annual growth rate of 5.66% (CAGR 2024-2028). The dominant segment within this market is Textile & Other Footwear, forecasted to contribute significantly with a market volume of US\$ 1.52 billion in 2024. In comparison, the United States leads in revenue generation, expecting to reach US\$91.51 billion in 2024. The thriving Bangladeshi footwear industry attributes its success to the country’s advantageous factors, including low labor costs and a rich supply of raw materials.



According to the ITC trade Potential Map The footwear export potential for Bangladesh is estimated to be around US\$ 2.7 billion. This indicates that there is significant room to realize the untapped potential gap. The top exports category HS 6403: Footwear, with rubber, plastics, leather soles, leather uppers, contributing a substantial US\$ 703.81 Million. Following are the top products under this sector:

Top Exports	US\$ Million
650500: Hats and other headgear, knitted or crocheted	440.40
640391: Footwear with rubber... soles and leather uppers, covering the ankle	412.58
640419: Sports footwear, with rubber or plastic soles and textile uppers	214.84
640399: Footwear with rubber... soles, leather uppers, not covering the ankle	180.70
640299: Footwear, nes, not covering the ankle, of rubber or plastics	103.90

Bangladesh is a major exporter of a wide range of footwear, including leather footwear, sports shoes, and other types of footwear made of rubber or plastic. The growth in the sports footwear segment is a positive development for Bangladesh’s footwear industry. By continuing to focus on quality and innovation, Bangladesh can further strengthen its position in the global footwear market.



HS 650500 is the top exported product under the footwear and headgear sector in Bangladesh, with an export value of US\$440.41 million in 2022. This category includes a wide range of hats and headgear, including knitted and crocheted hats, lace hats, felt hats, and hairnets. These products are popular among consumers due to their comfort, style, and affordability.

Bangladesh has a strong comparative advantage in the production of these products, due to its low labor costs and skilled workforce. Exports increased from US\$30.33 million in 2012 to US\$440.41 million in 2022, representing a CAGR of over 31%. According to ITC trade map export potential, the export potential for HS 650500 product is estimated to be US\$1.1 billion, while actual exports are currently only US\$ 440 million. This indicates that there is significant room to realize the export potential gap of US\$ 690 million.

Description	CD	SD	VAT	AIT	RD	AT	Total
HS-64 Footwear	25	45	15	5	3	5	88
HS- 41 Hides & Skin	5	0	0	5	0	5	15
HS- 65 Headgear	25	0	15	5	3	5	53
HS- 42 Article of Leather	25	20	15	5	3	3	71
HS- 39 Article of Plastic	25	45	15	5	3	5	98

Bangladesh imposes a range of duties on imports, including customs duty (CD), supplementary duty (SD), value-added tax (VAT), advance income tax (AIT), regulatory duty (RD), and advance trade VAT (AT). Bangladesh’s duties on these selected sectors can have a significant impact on trade, both in terms of the cost of imported goods and the competitiveness of Bangladesh’s exports. The high duties on footwear and articles of leather and Plastic make it more difficult for Bangladesh to export these products, while the low duties on hides and skins make it more affordable for Bangladesh to import these raw materials. The moderate duties on headgear provide some protection to Bangladesh’s domestic industry while still allowing for some imports.

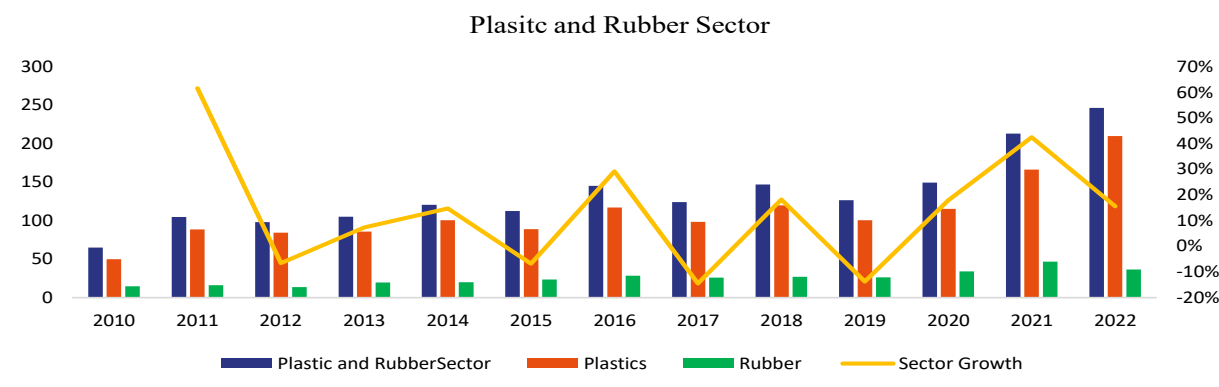
**Current Policy Environment of the Leather Sector in Bangladesh:** The leather sector in Bangladesh has undergone significant changes in its policy environment over the years. The import tax regime in Bangladesh has seen reforms in recent years, However, leather and leather goods exporters have to pay a number of additional levies, taxes, and fees, which have emerged as a dominant component of trade taxes for some product categories. Bangladesh qualifies for GSP benefits under preferential treatment to its exports in the form of reduced or zero rates of customs duties in many countries. However, the country faces challenges in accessing components and accessories for manufacturing quality finished leather, and there is a shortage of skilled workers in the sector. Access to finance is also a challenge for smaller tanneries and SMEs, and technology constraints hinder the sector’s ability to move up the value chain.

The government provides incentives and support to the leather sector, but these are often short-term and make it difficult for investors to make informed decisions. To address these challenges and promote the growth of the leather sector, the government needs to implement long-term policies that provide sustainable support to investors, address the shortage of skilled workers, and improve access to finance and technology.

Vietnam, a country with a similar population and economic profile to Bangladesh, provides a useful example. In 2022, Vietnam exported US\$19 billion worth of footwear, US\$8 billion worth of plastic products, and US\$3 billion worth of leather products. To achieve similar export success, Bangladesh needs to address the challenges facing its plastic, leather, and footwear industries.

## Plastic and Rubber Sector

The sector exports have shown a steady increase over the past 13 years. In 2022, the sector exported a total of US\$ 246.41 million worth of products, up from US\$64.90 million in 2010. Plastics industry is the major contributor under this sector, accounting for over 80% of total sector exports through the years with an average annual growth rate of 11.5%. and contributes 0.5% to total exports.



Data from Export Promotion Bureau and ITC Trade Map Potential Exports revealed that Bangladesh has the potential to export US\$344 million worth of goods under this sector, but in 2022, actual exports amounted to only US\$246 million. The domestic plastic market was valued at \$2.4 billion in 2015 and is now estimated to be worth over US\$3.5 billion in 2023. Exports are growing at an average annual rate of 26%. Bangladesh exports plastic products under HS code 39 (Plastic goods).

Top Exports	US\$ Million
950300: Categories of toys such as wheeled toys, plastic models	50.20
392620: Articles of apparel and (including gloves, mitts) of plastics	35.38
392321: Sacks and bags (incl. cones) of polymers of ethylene	26.67
401590: Articles of apparel and clothing accessories of vulcanized rubber	25.12
392490: Household and toilet articles of plastics	18.27

The Toys are a recent addition to the export basket with an export value of close to US\$ 50.2 million in 2022, and they have grown at an average annual rate of 50% in the last 6 years. Bangladesh exports of Toys (HS 950300) that includes products such as wheeled toys, plastic models, etc. China is the major exporting country of this category with its export amounted to almost US\$ 50 Billion during the year 2022. The global market for this segment is US\$71 billion and it is growing at an annual rate of 4%.

**Challenges and Opportunities for Bangladesh’s Plastic Sector:** Bangladesh’s plastic sector has shown promising growth in recent years, but it also faces a number of challenges that hinder its full potential. The government of Bangladesh needs to take a number of steps, including accrediting testing laboratories, developing national standards to improve the quality and safety of plastic products, facilitate trade, and protect consumers and the environment. Classifying the sector as a priority for access to finance, investing in skill development, providing incentives for technology upgrading, supporting market access, and encouraging product diversification.

Further, the government should also focus on promoting sustainable practices in the plastic sector. This includes encouraging the use of recycled plastics, reducing the production of single-use plastic products, and improving waste management to protect the environment and ensure the long-term sustainability of the plastic sector.

## Light Engineering Sector

The sector is a rapidly growing sector contributing significantly to economic development, job creation, and foreign trade. It encompasses a wide range of products, including industrial machinery, transportation equipment parts, electrical equipment, ferrous and non-ferrous casting products, agricultural machinery, printing and packaging machinery, construction machinery, and spare parts for various machinery and equipment. This labor-intensive sector employs around 6 lac people across approximately 40,000 companies. Recognizing its importance, the government has prioritized the development of the light engineering sector, particularly in the areas of auto parts, bicycles, motorcycles, and batteries.

Light Engineering Exports (US\$ Million)	2017	2018	2019	2020	2021	2022
HS 72-73 Iron and Steel	48.56	63.25	55.95	128.86	154.68	69.81
HS 74 Copper Wire	53.18	37.59	24.77	55.24	67.98	47.01
HS 82 Stainless Steel Ware	4.37	8.11	4.00	3.03	3.74	2.84
HS 84 Engineering Equipment	41.38	52.73	66.47	96.31	241.56	145.5
HS 85 Electric Products	61.96	61.21	39.39	67.48	100.1	128.45
HS 8712 Bicycle	85.73	84.24	82.84	130.89	167.95	142.24

In terms of exports, the sectors are in its infancy, and the few key products that are exported into the global market. Japan, China, USA, Germany and Hong Kong are the major export destination for the products from these sectors. The export policy of 2021-24 has designated this sector as a highest priority, and the government provides financial and other incentives to facilitate its expansion. Additionally, a 15% cash incentive is offered on exports from this sector. The government's support and the sector's potential for low capital investment, low energy costs, and environment-friendly production processes contribute to its growth and competitiveness. As a result, the light engineering sector plays a vital role in augmenting Bangladesh's industrial base and volume of foreign trade.

Bicycles are the single largest export product in the sector. Bangladesh's bicycle export industry has witnessed remarkable growth over the past decade, driven by strong domestic demand, government support, competitive pricing, and growing international demand. With a compound annual growth rate (CAGR) of 39% from 2010 to 2022, the sector has expanded rapidly. The exports grow from just US\$ 72 million to US\$ 167 million in 2021.

Bangladesh's bicycles find a significant market presence in the European Union (EU), representing the largest consumer base for these products. Notably, Bangladesh benefits from a duty-free quota-free market access arrangement in the EU, enhancing its competitiveness in this market. The EU's anti-dumping ban on Chinese bicycles has further propelled Bangladesh's bicycle exports, creating a favorable environment for the industry's growth. The global exports of bicycles estimated at around US\$ 12 billion, Bangladesh's current contribution to global trade in bicycles is less than 1%. Despite this, the country's strategic positioning in the EU market and the supportive trade environment suggest potential avenues for further expansion and increased global market share in the bicycle industry.



In 2021, Bangladesh exported US\$ 157 million Worth of Bicycles



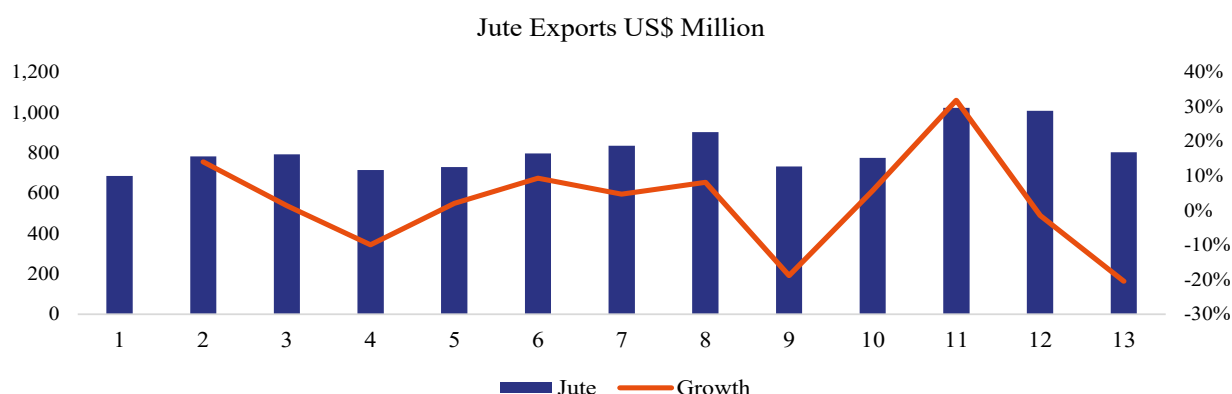
**Constraints and Policy Recommendations:** The government considers light engineering products, including bicycles, as special development sectors. The 7th Five-Year Plan emphasizes attracting FDI in the sector to increase investment and facilitate technology transfer, and the government plans to establish SEZs to encourage investments from countries like Japan, China, and India. Bangladesh enjoys GSP benefits in selected countries, including zero import duties in 38 countries and duty-free access for 50 LDCs under the EU’s “Everything but Arms” scheme. – Major constraints in the engineering goods sector include the availability, cost, and supply of raw materials, as well as the negative impact of foreign sourcing of components on lead times and input costs.

Therefore, it is recommended to reduce the cost and lead time for raw materials by establishing importing houses or central bonded warehouses in trade zones or special economic zones. Collaborating with foreign universities and institutes for skill development, and improving market access by providing financial incentives for manufacturers to participate in international trade fairs.

Another crucial aspect involves the development of an SME credit scoring methodology, providing a basis for commercial banks to extend pre-shipment finance benefits to the engineering sector, akin to those enjoyed by the ready-made garment industry.

## Jute Sector

Bangladesh has declared jute products as the “product of the year” to increase exports to various countries. Despite being the second largest jute producer globally, with an average production of 9 million bales (70% of global production), the country’s jute exports have been facing challenges.



Jute highest export value was recorded in 2020 at US\$ 1,022.82 million, while the lowest export value was recorded in 2013 at US\$ 714.44 million. The jute sector has been impacted by factors such as the loss of major markets which have shifted to alternative materials for carpet production. Additionally, the increase in jute yarn prices and the decrease in consumer demand due to inflation in Europe have also affected exports. To address these challenges, entrepreneurs emphasize the need for producing quality jute and providing policy support, including tax exemptions and bond facilities with the right measures,

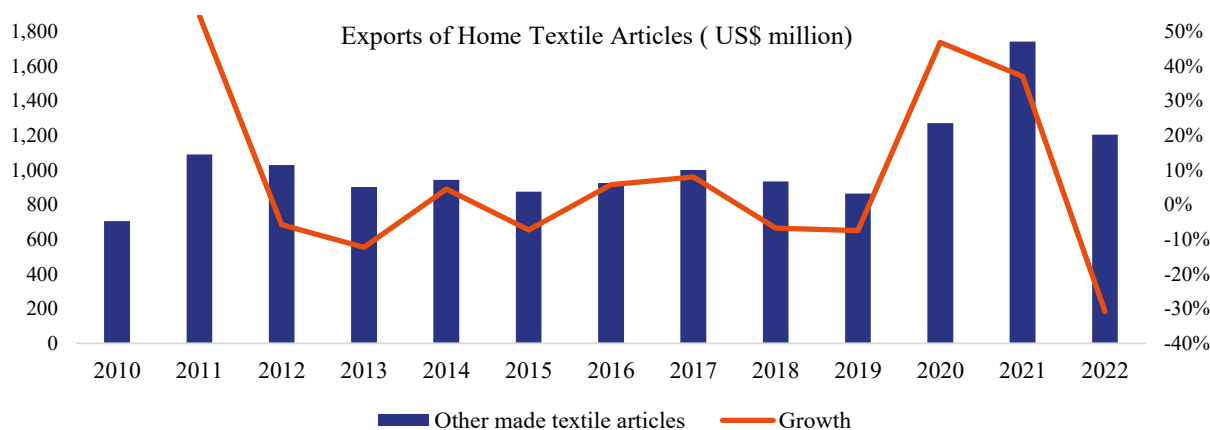
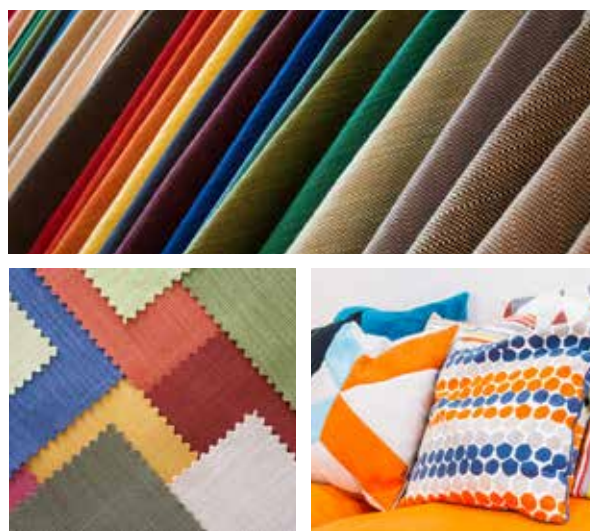
jute exports can rebound and contribute significantly to Bangladesh’s economy. The table shows the top jute products, along with their exports potential.

Top Exports ( US\$ Million)	Exports	Unrealized potential
530710: Single yarn of jute	398.89	195
530310: Jute,etc raw or retted	188.35	83
630510: Sacks and bags of jute, etc	109.84	60
530720: Multiple or cabled yarn of jute	99.06	74
531010: Unbleached woven fabrics of jute	95.18	41

In 2022, Bangladesh exported \$550 mn in Jute Yarn, making it the one of largest exporter of Jute Yarn in the world. At the same year, Jute Yarn was the 20<sup>th</sup> most exported product in Bangladesh. The main destination of Jute Yarn exports from Bangladesh are: Turkey (\$223 mn), China (\$119 mn), India (\$45.7 mn), Indonesia (\$22 mn), and Russia (\$15.5 mn). However there is a further potential for growth, by focusing on quality improvement, exploring new markets, and promoting the use of jute products as sustainable and eco-friendly alternatives, Bangladesh can further boost its jute exports and strengthen its position as a leading jute producer and exporter.

## Home Textile Sector

The Bangladesh home textile industry is flourishing, with a market size estimated at US\$ 3.67 billion in 2024. The industry is projected to grow further, reaching USD 4.51 billion by 2029, with a CAGR of 4.25 %. According to the report by Mordor Intelligence Private Limited The COVID-19 pandemic temporarily affected the sector, but it has since rebounded due to growing consumer spending and demand for home renovations. Bangladesh’s home textile industry is known for its decorative textiles, and its products are exported worldwide. The segment offers a wide range of bed and bath linens, besides also varying kitchen linens, curtains, upholstery items, and carpets or rugs.



The sector has experienced steady growth over the past decade, the sector’s value increased by approximately 22%, indicating an average annual growth rate of 2.2%. The exports reached around US\$ 1.8 billion in the year 2021 making it significant billion dollars into the exports earning of Bangladesh

Top Exports ( US\$ Million)	Exports	Unrealized potential
630622: Tents of synthetic fibers	255.38	381
630231: Bed linen of cotton	182.75	112
630260: Toilet linen and kitchen linen	174.47	119
630221: Printed bed-linen of cotton	114.81	310
630790: Made up articles (incl. dress patterns)	113.10	72

Bangladesh’s home textile manufacturers are embracing sustainability by shifting their focus towards natural fabrics like soya, bamboo, silk, and polyester. This eco-friendly approach aligns with the growing global demand for environmentally conscious products. Additionally, Bangladeshi manufacturers excel in fashion creation and design, setting them apart in international markets. Unique motifs and patterns are a hallmark of the country’s home textile industry.

Bangladesh has the potential to achieve US\$100 billion in home textile exports by leveraging its existing strengths and addressing key challenges. Firstly, the country has a strong foundation in producing man-made textile fibers, which are essential raw materials for home textiles. This gives Bangladesh a competitive advantage in terms of cost and quality. Secondly, there is a huge potential for growth in the domestic home textile market, which can serve as a springboard for export expansion. Despite its immense potential, the home textile industry in Bangladesh faces several challenges that need to be addressed for sustained growth:

**Infrastructure Development:** Continued investment in infrastructure, including reliable electricity supply, efficient transportation networks, and improved logistics, is crucial to meet growing export demands and compete effectively in the global market.

**Technology and Innovation:** Encouraging the adoption of advanced technologies, such as automation, digital printing, and design software, will enhance productivity, product quality, and design capabilities, allowing Bangladesh to offer a wider range of innovative home textile products.

**Market Diversification:** While Bangladesh already has a strong presence in traditional export markets, diversifying into emerging markets, such as South America, Africa, and the Middle East, can provide new growth opportunities and reduce dependency on a few key markets.

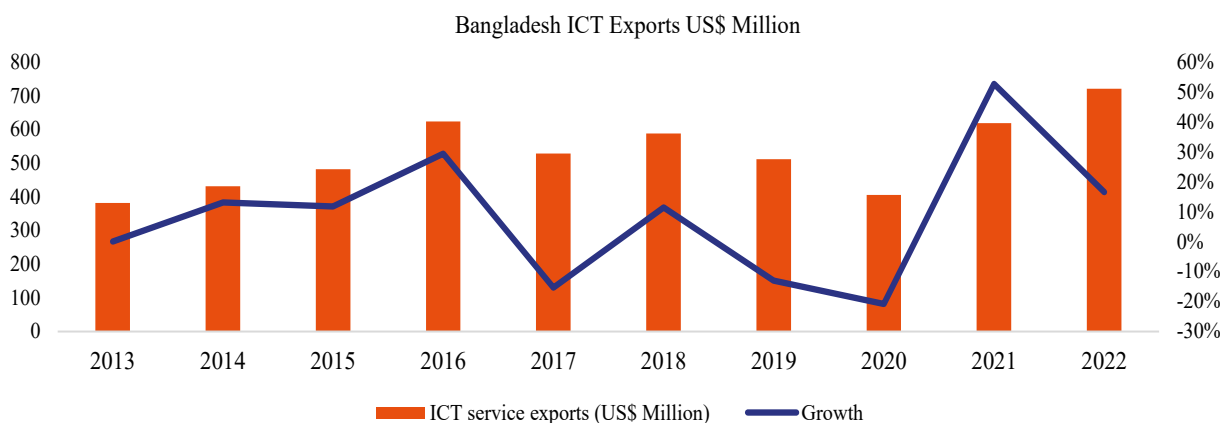
Bangladesh’s home textile sector holds immense potential to drive export growth and contribute significantly to the country’s economic development. With its cost competitiveness, skilled workforce, and supportive government policies, Bangladesh is well-positioned to increase its market share in the global home textile industry.

To achieve this ambitious goal, Bangladesh needs to focus on addressing challenges, embracing innovation, and pursuing market diversification adopting advanced technologies, and improving infrastructure, the country can overcome the challenges it faces and unlock the full potential of its home textile sector. Additionally, diversifying export markets and exploring new opportunities in emerging markets will help Bangladesh reduce its dependency on a few key markets and expand its global reach.

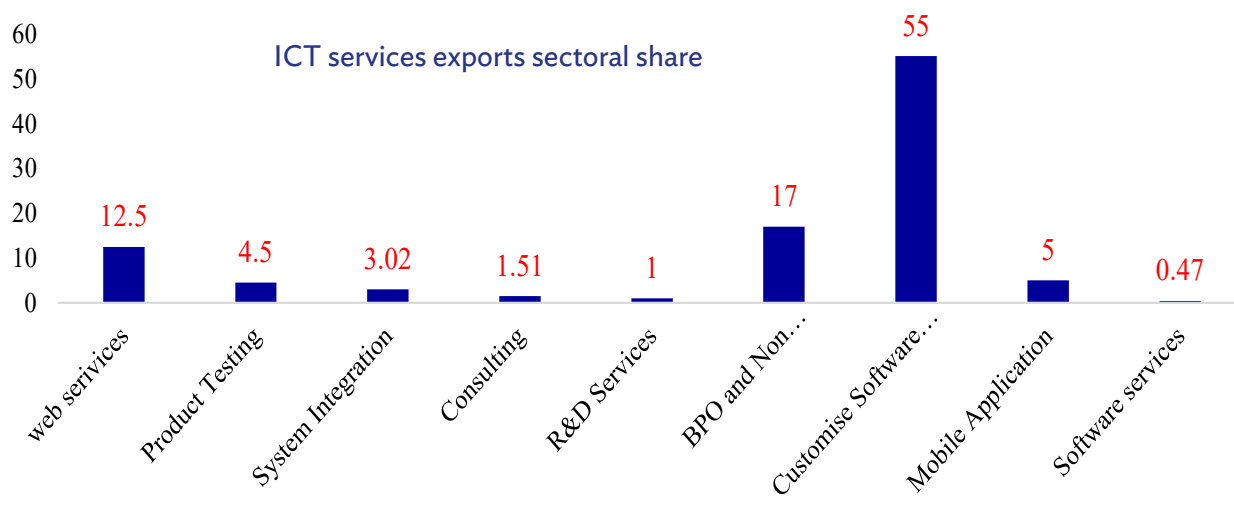
## Information and Communications Technology (ICT) Sector



The ICT sector has had a transformative impact on economies around the world, and Bangladesh is no exception. In Bangladesh, the ICT sector has been a key driver of economic growth in recent years. According to the world bank statistics, the sector has grown at an average annual rate of 10% over the past decade, and contributes significantly to the country’s GDP. The ICT sector has also had a positive impact on Bangladesh’s global exports. The data from the world developing indicators (World Bank) shows that in 2022, Bangladesh’s ICT exports totaled US\$ 721 million, up from just US\$381 million in 2013. This growth has been driven by strong demand for Bangladesh’s ICT products and services in markets such as the United States, the United Kingdom, and the European Union. The sector has also helped to boost Bangladesh’s global exports. The ICT sector is now one of the most important sectors of the Bangladesh economy, and it has the potential to continue to grow in the coming years.



The following table shows the market share of different segments of the ICT sector in Bangladesh. Customize Software Development is the largest segment of the ICT sector in Bangladesh, with its share of 55% in total ICT exports. Which means Bangladesh has the potential to become a major player in the global Customize Software Development market.



With a surging demand for information technology-enabled services and industrial automation, Bangladesh's IT firms have significantly broadened their global presence by exporting software and other services. According to the Bangladesh Association of Software and Information Services (BASIS), over 350 local firms are presently exporting IT products to approximately 80 countries, including the US and European Union nations.

This marks notable growth since 2019 when the number of exporting firms was 250, operating in about 40 countries. Although the IT sector in Bangladesh has evolved significantly since its nascent stage in the 1980s, it grapples with the major challenges: foreign exchange regulation and revenue issues, inadequate internet connectivity and infrastructure, and a shortage of skills for high-end IT products. Among these challenges, IT firms in Bangladesh emphasize the critical nature of ease of doing business. On policy matters, IT firms can repatriate their earnings but are subject to a 15% tax when sending funds abroad for reinvestment. Therefore, there it is necessary to revise foreign exchange regulations and revenue policies to stimulate ICT exports in the country.

## Role of ICT in Diversifying Bangladesh Exports.

Bangladesh's economic landscape, heavily dominated by garment exports, is facing a crucial juncture that demands diversification. In this context, the Information and Communication Technology (ICT) sector is emerging as a pivotal player capable of steering the country towards a more varied and resilient export portfolio. Although garments currently constitute a staggering 90% of Bangladesh's exports to the European Union (EU), the ICT sector presents a promising avenue for diversification.

Major buyers of Bangladesh's ICT products and services include the United States, the United Kingdom, the European Union, the United Arab Emirates, Saudi Arabia, South Africa, Malaysia, and Singapore. Recognizing the untapped potential, the government now aspires to elevate ICT exports to US\$ 5 billion by 2025. However, In the last fiscal year, ICT exports amounted to approximately \$1 billion, signaling a significant gap between the set target and the current reality.

The computer and related services sector possesses immense potential for diversifying service exports from Bangladesh. This is attributed to its remarkable growth in domestic and international demand, expanding export volume, and job creation. However, Bangladesh's contribution to these services in the global supply chain remains low. Given that information technology is a sophisticated field, Bangladesh needs to evolve from traditional pitching methods commonly used in the manufacturing sector to effectively position itself in the competitive ICT landscape. This shift towards the ICT sector not only holds the promise of economic diversification but also positions Bangladesh as a player in the global

digital economy. It necessitates a comprehensive strategy that includes not only addressing immediate challenges but also promoting an environment conducive to the growth of the ICT sector.

This includes investments in education and training, the creation of a supportive regulatory framework, and initiatives to attract foreign direct investment (FDI) in the ICT domain. In essence, the trajectory towards a U\$5 billion ICT export target is not merely a numerical goal but a transformational journey that requires a paradigm shift in how Bangladesh approaches and engages with the global digital marketplace.



To address the issues and cater the global demand of ICT services, Bangladesh needs to Develop or update national education curricula to align with global technological advancements. Promote collaboration between academia and industry to ensure curricula reflect current and future industry needs.

Pursue mutual recognition of certificates with internationally renowned institutions to enhance the acceptability of Bangladeshi qualifications. This will increase the global demand for ICT-enabled services from Bangladesh.

Establish Hi-tech Parks equipped with quality infrastructure and utility services. Attract domestic and foreign direct investment to these parks to boost export earnings from the ICT sector.

Development of Content Delivery Network to reduce import costs and increase foreign currency earnings through exports. This network will enable faster and more efficient delivery of digital content to global audiences.

Develop training institutions and internationally recognized training curricula to increase the export of professionals and implement policies to encourage these professionals to return to Bangladesh and contribute their knowledge and expertise to the local industry.

It calls for a blend of policy reforms, investment in human capital, and a proactive stance in adapting to the dynamic landscape of information and communication technology.



## Tourism & Travel Sector

Bangladesh is renowned for its abundant natural beauty and rich biodiversity. The country boasts two globally recognized natural wonders—the Sundarbans, the largest mangrove forest globally, and Cox’s Bazar, home to the world’s largest unbroken sea beach. Additionally, Bangladesh encompasses historically significant archaeological sites, including two UNESCO World Heritage sites: the Shaat Gombuz Mosque and the Paharpur Buddhist Temple. The landscape is further adorned by picturesque hilly areas in regions such as Rangamati, Khagrachori, Bandarabans, Chittagong, and Sylhet.

In 2019, the total contribution of the tourism and travel sector to Bangladesh’s GDP was BDT 1,024.6 billion (4.4% of GDP). In 2020, due to the COVID-19 pandemic, the tourism sector experienced a significant decline, with its contribution to GDP falling to BDT 680.3 billion (3.0% of GDP). In 2021, the tourism sector showed signs of recovery, with its contribution to GDP rebounding to BDT 857.2 billion (3.6% of GDP). In 2022, the tourism sector continued to recover, with its contribution to GDP reaching BDT 983.4 billion (4.0% of GDP).

Among various sectors, tourism possesses substantial yet untapped potential. If this potential is adequately harnessed, tourism could emerge as a significant service sector contributing to Bangladesh’s major export earnings. The tourism sector is intricately linked with several other service sectors and inherently possesses the capability to create positive impacts on various aspects of the country’s socio-economic development.

Travel & Tourism (T&T) Development Index 2021 ( selected countries)				
T&T Key Indicators	Bangladesh	Vietnam	India	Pakistan
Overall score ( 1=worst, 7= best)	3.3	4.1	4.1	3.6
T&T Global Rank out of 117	100	52	54	83
International tourist arrivals, thousand	323	3837	17910	965
International tourism inbound receipts (US\$ million)	217	2500	13036	438.1
T&T Industry GDP (US\$ million)	2264	8235	42084	3214.9
T&T Industry % of GDP	0.6	2.4	1.6	1.2
T&T Industry Employment, 1000 Jobs	462	2394	14501	745
T&T Industry % share of Employment	0.7	4.5	3.3	1.2

Source: *Travel & Tourism Development Index 2021: Rebuilding for a Sustainable and Resilient Future*. Published 24 May 2022.

Bangladesh has an overall score of 3.3 out of 7, ranking 100<sup>th</sup> out of 117 countries in the Travel & Tourism (T&T) Global Rank. Bangladesh has a lower overall score, ranking, and performance in the T&T sector compared to Vietnam, India, and Pakistan. It attracts fewer international tourists, generates less inbound receipts, and has a smaller T&T industry in terms of GDP, employment, and its share of the economy. There is potential for Bangladesh to improve its T&T industry by investing in infrastructure, promoting tourism attractions, and enhancing the overall experience for visitors.

Develop exclusive tourist zones, especially for international tourists, have to be built in major tourist destinations like Cox's Bazar, Kuakata, Saint Martin etc.

The zones should be furnished with facilities and recreational services that meet international standards. It is essential to devise strategies for the advancement of sustainable tourism, eco-tourism, adventure tourism, and similar endeavors.

It is essential to construct sufficient and high-quality roads and highways, ensuring the safety of tourists by widening narrow roads. Priority should be given to ensuring effective connectivity to end-points.

Insufficient availability of accurate information for foreign tourists about Bangladesh's tourism sector is seen as a significant barrier to the sector's growth in the country.

Development of an integrated online portal with descriptions of all the tourist destinations along with online booking facilities is a must. Information and support centers with the facilities of money exchange, hotel booking and tour packages must be set up.

Setting up internationally accredited training and educational institutions is crucial to guarantee a continuous influx of proficient tourism professionals, such as tour guides, fostering the growth of the tourism sector in Bangladesh.

The sustainable progress of the sector demands the efficient execution of the National Tourism Policy. A robust coordination mechanism between relevant government bodies and the private sector is equally essential for the policy's effective implementation.





## Conclusion and Way Forward

The sectoral analyses reveal that Bangladesh's export sector is heavily reliant on a single sector, RMG, which accounts for over 85% of its foreign exchange earnings. However, there are signs of export diversification, with six sectors surpassing the half a billion US dollar mark in export earnings and four others reaching the billion-dollar mark over the past decade. Agricultural products, jute and jute goods, leather and leather products, and home textiles have crossed the billion-dollar earnings threshold, while light engineering, footwear products (excluding leather), ICT and Travel & Tourism have reached the half-billion-dollar mark. Other products like chemicals, rubber, carpets, furniture, specialized textiles, plastic products, glass and glassware, headgear and caps, and bicycles also show potential for export diversification due to their increasing export earnings over the last 13 years.

The study comprehensively analyzes Bangladesh's both non RMG and RMG sectors, despite the significant growth over the years, recent signs of retraction highlight the urgent need for export diversification. Several other sectors have the potential to drive economic diversification and job creation. However, these sectors need to be nurtured and supported to reach their full potential. Furthermore, Bangladesh needs to learn from larger export-driven economies such as India, Vietnam and Malaysia to diversify its export basket and reduce its reliance on a single sector.

Bangladesh's export sector faces multifaceted challenges, including a skills mismatch in the workforce, particularly in assembly line skills, impacting productivity. The country grapples with limitations in attracting foreign direct investment (FDI) beyond Export Processing Zones (EPZs), and domestic investment faces constraints. The regulatory environment, characterized by poor working conditions and perceived leniency in enforcing standards, resulted in the loss of the Generalized System of Preferences (GSP) advantage in the US market. High import tariffs on finished goods discourage skill improvement, and non-RMG sectors lack pre-shipment facilities, rendering them susceptible to exchange rate fluctuations. The preferential access Bangladesh enjoys in export markets is pivotal for competitiveness, but the potential loss of GSP+ status or FTAs could lead to significant negative impacts, including additional tariffs and a decline in competitiveness, industrial production, and employment.

To overcome the challenges, Bangladesh needs to focus on overall economic capability improvements, including structural diversification, technological upgrading, skills development, and institutional strengthening. Attracting foreign direct investment (FDI) is also crucial. From a sectoral perspective, the leather goods sector, plastic, ICT, agriculture, footwear, light engineering and travel & tourism sectors showed a significant potential for further expansion due to remarkable growth over the years, indicating a promising trend towards export diversification. With proper policy and fiscal support from the government, one or more of these sectors have the potential to emerge as a major contributor to the economy, like the Bangladesh readymade garment sector.

## Recommendations for Promoting Export Diversification

Bangladesh needs to enhance the competitiveness of its key export sectors to achieve export diversification. This can be done by:

- Enhance compliance with international standards and engage PR firms to improve the perception of Bangladeshi products, enabling greater market diversification and penetration.
- Develop an SME credit scoring methodology for movable assets as collateral and extend pre-shipment finance benefits to all export-oriented industries.
- Organize country-specific exhibitions and fairs, identify prominent international digital marketing avenues, and implement a targeted country promotion strategy to increase business opportunities for exporters.

Bangladesh needs to take measures that promotes a conducive environment for export diversification and to boost overall exports, create jobs and support sustained economic growth, these are:

- Bangladesh should prioritize a few high-potential export sectors and develop sector-specific export roadmaps. It should also improve access to finance for non-RMG sectors and ensure a stable policy environment for raw material availability.
- Bangladesh should develop a comprehensive five-year roadmap to improve compliance with environmental and social standards in export sectors, and establish a monitoring mechanism to track progress. It should also identify gaps in national product standards and align them with international requirements. To enhance access to finance for non-RMG export sectors, Bangladesh should increase funding allocation, offer incentives to banks, and automate the GSP application process.
- Bangladesh should improve trade logistics by extending special bonded warehouses to all export-oriented manufacturers and easing duty drawback claims. It should also establish a national compliance framework for export sectors and support private sector-driven technology and service centers. Additionally, a database with information on international markets and opportunities should be developed and a national guideline/framework for CETP (Central Effluent Treatment Plant) industrial waste management and operations should be introduced.

The policymakers need to support firm-level diversification efforts. Key Challenges include high export failure rates and limited diversification by existing exporters. To facilitate export diversification, policymakers can focus on the following key areas:

- Encourage investments in innovation and research and development (R&D) to help firms acquire the capabilities needed for successful diversification.
- Encourage firms to improve their environmental and social standards and implement sustainable practices.
- Assist firms in strengthening their production base and improving their performance in the domestic market before they venture into international markets.





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