

Roundtable on “Export Competitiveness and Diversification with Special Bonded Warehouse”

Nov 30, 2017

Background and Introduction

On the 30th of Nov 2017, the Policy Research Institute (PRI) of Bangladesh held a roundtable on Modernization of Special Bonded Warehouse scheme to Ensure Export competitiveness and Diversification. Senior Secretary of Internal Resources Division and Chairman of National Board of Revenue Mr.Nojibur Rahman was present as the chief guest. Former advisor to the Caretaker government, Dr. Mirza Azizul Islam, was the chair for the roundtable discussion. Other distinguished researchers, private sector business leaders and former policy makers of the country and people directly and indirectly involved in export policies also attended the event.



The program began with the opening remarks by Dr. Ahsan H. Mansur, Executive Director, PRI, and then followed by a keynote presentations by Dr.Zaidi Sattar, Chairman, PRI , Mr .Robert Preece, International Customs Bond Expert and Dr. Masrur Reaz, Senior Economist and Programme Manager, World Bank Group. Zakir Ahmed Khan, former finance secretary, Mr Asif Ibrahim, Former President, DCCI and AFM Shahriar Mollah, NBR Member (Bonds and IT), and Mr. Al Amin Pramanik, NBR Commissioner for Bonds, were among the panelists and discussants.

The main objective for the roundtable discussion was to highlight the ways and means by which Special Bonded Warehouse facilities could ensure export competitiveness to boost and diversify the export basket through expansion of the Non-RMG exports.

Main Observations from the Event

- The policy dialogue at the Policy Research Institute Conference Room was attended by representatives from various policymaking organizations, research institutes, opinion leaders, current and previous policymakers, business leaders and members of the print and electronic media. Notable businesses and institutions represented were NBR, World Bank, IFC, Ministry of Commerce, BEXIMCO, Apex Footwear Ltd, BGMEA, BPMA, LFMEAB, BUILD, RAHIMAFROOZ, BAPA, BDYEA and BKMEA.

- Among the panelists and other stakeholders, there was an acknowledgement about the importance of offering the special bonded warehouse (SBW) facility to the non-readymade garment sector to help diversify export items.
- At the roundtable it was said that SBW facility could boost non-RMG exports by 1.5 billion dollars annually. Export of non-garment products bought \$5-7 billion a year between 2012 and 2016. It was asserted in the round table that with an effective SBW system, the country would have had higher export earnings.
- Extending the SBW beyond the 100 per cent export-oriented industries to improve the capacity of the non-RMG sectors was also suggested at the discussion.
- The event was well covered in the print and electronic media. The Daily Star, New Age and Financial Express, the most important daily English newspapers, covered the event comprehensively as their lead business news. Bengali daily newspapers, including the most circulated Prothom Alo, also covered the event widely. Numerous TV journalists attended the event and telecast the relevant footage as part of their regular news coverage.

Keynote Presentation at the Event

In his detailed power point presentation, Dr Sattar said that Bangladeshi exporters should import raw-materials for their industries at 'world prices' under duty-free facility to ensure level-playing field and exploit the opportunity of cheap labor cost. According to PRI estimates, there are above 1,400 products in the non-RMG category that were exported in FY2017 by 3500 firms. They are importing inputs paying 50 per cent duty on an average. Tax exemptions via special bonded warehouse boost exports. He added that an average export growth from 2001 to 2017 period of RMG products were 20.8 per cent while it was 17 per cent for non-RMG products. Only footwear and leather goods exports registered an average 21 per cent growth during the period. Thus, non-RMG exports are in a disadvantaged position compared to that of the RMG exports. Export product diversification continues to be a challenge since the existing statutory regulatory provides SBW benefits to some selective non-garment exporters. Dr Sattar also mentioned in his presentation that the export sector faces global competition in export markets where there is no tariff protection. However, production for domestic market receives high tariff protection, which raises profitability. For these reasons, domestic sales of non-RMG products are much more profitable than its exports, hindering export-diversification. Since these non-RMG exporting firms are not 100 percent export-oriented, they do not always get the SBW benefit. He identified three big challenges of export diversification. They are:



- Extension of SBW to all non-RMG exports
- Not to be deterred by potential for leakage and abuse of the facility
- Modernization and automation of the SBW.

Dr. Sattar concluded his presentation saying that only 2.0 per cent of the SBW may be abused by the vested quarters. For this, 98 per cent of the exporters should not suffer.

In the keynote presentation of World Bank group, Masrur Reaz, senior economist and programme manager of Trade & Competitiveness of the World Bank Group, emphasized that there are about 750 SROs and most of them are designed to support the garment sector and with limited consideration of other sectors. He said that efficiency level not optimum due to the following reasons:

- Transaction by transaction focus, but trade is growing faster than NBR resources
- Significant amount of redundancy in documentation and data requirements and formalities
- Manual paper-based process
- Significant revenue leakage in the current regime

He recommended short-term, medium-term and long-term solution to address such problem including enactment of the new customs act and review of the processes for license issuance (short-term); automated license management system for applications and renewal (medium-term); introduction of bond mark type automated system to track and monitor imported raw materials, production and exports and the rise of Special Economic Zones (long-term).

Selected comments from the panel discussion:

Dr Ahsan said that the export diversification was a challenge for Bangladesh. SBW needs careful consideration for non-RMG exports.



The **NBR chairman** said that the revenue authority was in the process of automating the SBW facility that has already got approval of the Executive Committee of the National Economic Council (ECNEC). The NBR will take effective measures to address the anomalies of the SBW facility through framing new customs act, he added.

NBR member (customs bond and automation) **Shahriar Mollah** said it is not true that only the RMG exporters were enjoying the bond facility. There are some 4,909 active bond licenses. Of them, 2,847 are RMG exporters and rest 2,062 from non-RMG sector. It has been found that some 50 per cent of the non-

RMG exporters have bond licenses with some 21 home consumption bonded warehouse facilities are also there. So, non-apparel sectors also enjoy bonded warehouse benefit in line with the garment sector.

The former finance adviser to a caretaker government, **AB Mirza Azizul Islam**, said Bangladesh is heavily dependent on the exports of particular products. So export diversification is necessary to attain higher economic growth and thus calls for bonded warehouse benefits for all sectors to boost shipments.



Former finance secretary **Zakir Ahmed Khan** said that the exporters have to pursue the government with data and information, saying about the facilities they needed to sustain in the competitive market.

Former president of Dhaka Chamber of Commerce and Industry **Asif Ibrahim** said that the revenue board should frame a standard policy extending same facilities to all the potential export sectors for diversification of exports. Some non-RMG sectors like pharmaceuticals, leather, jute and home textiles and some others have huge potentials in the export market, adding that the NBR policies, including the bond facility, were highly biased to the RMG sector.

Md Shafayer Alam Khan, vice-president of the Bangladesh Dyed Yarn Exporters Association, said it took 53 days to renew the licenses of some firms in the sector. No objection certificates as well as renewals are usually issued within a week.



Representatives from different private sectors also demanded bonded warehouse licenses to industries that export at least 40 to 60 per cent of their total production. Bangladesh Plastic Goods Manufacturers and Exporters Association president Md Jashim Uddin, World Bank Group senior economist and trade and competitiveness programme manager Masrur Reaz, representatives from Bangladesh Paper Mills Association, leather and footwear sectors, dying and chemical association, among others, spoke at the meeting.