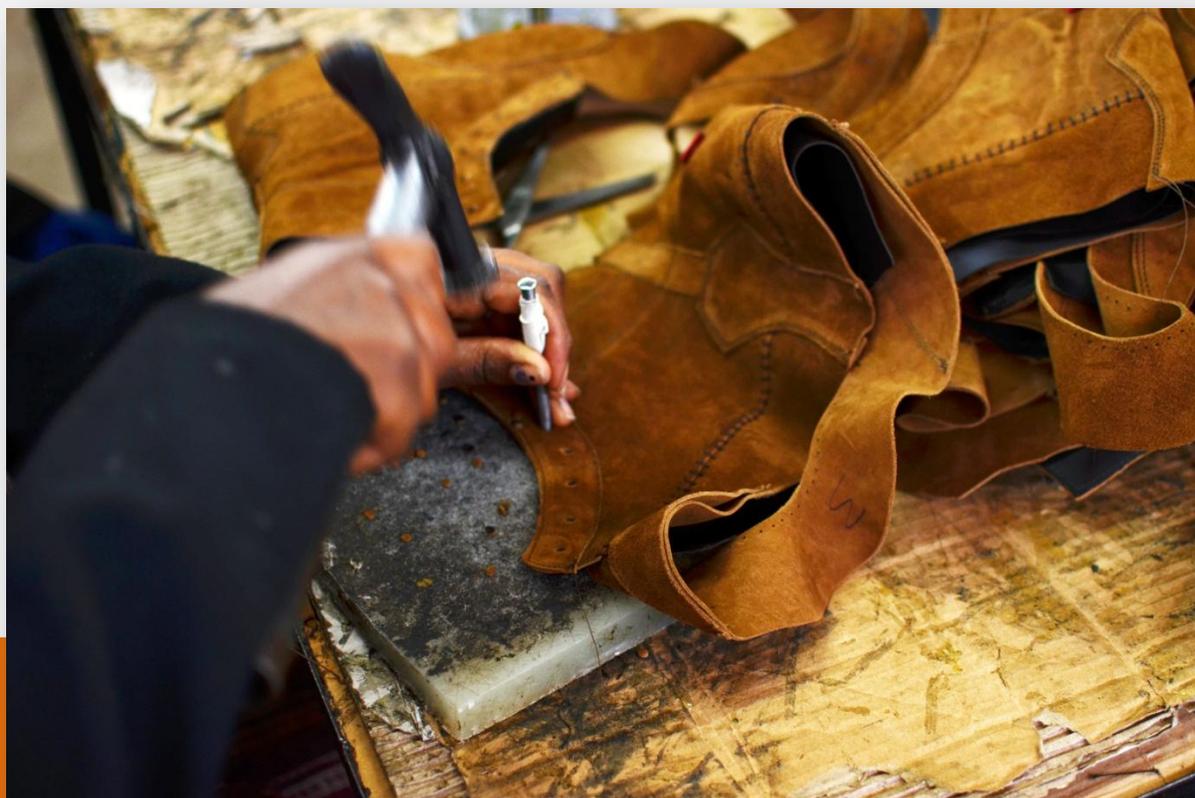


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## LEATHER INDUSTRY OF BANGLADESH



Department of Research

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# Leather Industry of Bangladesh

Subrata Howlader<sup>1</sup>

## A. Industry Classification

International Standard Industrial Classification	Code
<b>Leather Industry</b>	<b>151</b>
▣ Tanning and dressing of leather; dressing and dyeing of fur	1511
▣ Manufacture of luggage, handbags and the like, saddler & harness	1512
▣ Manufacture of footwear	1520

## B. Industry Analysis

### Introduction

The leather industry is the second largest export sector of Bangladesh. The Government of Bangladesh has declared this sector as a priority sector. The history of this industry in Bangladesh is not too old. The first tannery of Bangladesh has been established in Narayanganj by R.P. Shaha in the 1940s. Later on, it was shifted to Hazaribagh area in Dhaka city. Basically, the leather industry has been developed in Bangladesh since the 1970s. At the end of 1990, the leather industry got importance by foreign investment (Hasan, 2012).

### Industry Overview

In 2011-12, the total number of leather firms was 930, among them 23 units were categorized as the large firm, 100 medium, 274 small and 533 were micro firm. At the same period, the total person engaged in leather firms were almost seventy-six thousand, among them, fifty thousand were male and rest were female. They earned TK.8380 million as their salary and wages benefit. Their gross output was almost TK.7000 million. In 2011-12 the number of people engaged in this sector increased by a yearly compound growth rate of 22.4 percent compared to 2001-02. At the same period, value added per worker declined at a yearly compound rate of nearly five percent. The average employment size also declined at a yearly compound rate of almost 12 percent due to the technological development of leather industry, which reduced the dependency over labor force (BBS, 2012).

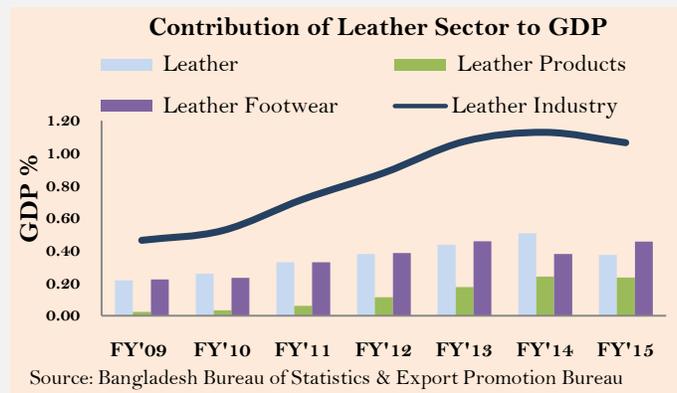
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Leather Industry Overview and Growth					
Description	Enterprises with 10 or More Workers			Yearly Growth (%)	
	1991-92	2001-02	2011-12	2001-02	2011-12
Number of Establishment	77	35	930	-54.55	2557.14
Number of Person Engaged	5302	10005	75524	6.6	22.4
Average Employment Size	69	286	81	15.3	-11.8
Value Added (Million Tk. in 1995-96 Price)	1124	4712	22180	15.4	16.8
Fixed Asset (Million Tk. in 1995-96 Price)	824	1897	28595	8.7	31.2
Value Added Per Worker (000's Tk. in 1995-96 Price)	212	471	293.7	8.3	-4.6
Fixed assets per worker (000's Tk. in 1995-96 Price)	155	190	378.6	2	7.2
Share in Manufacturing Value Added (%)	1.4	2	1.4	3.6	-3.4

**Source: Bangladesh Bureau of Statistics, Census of Manufacturing Industries 1991-92, 2001-02 and 2011-12**

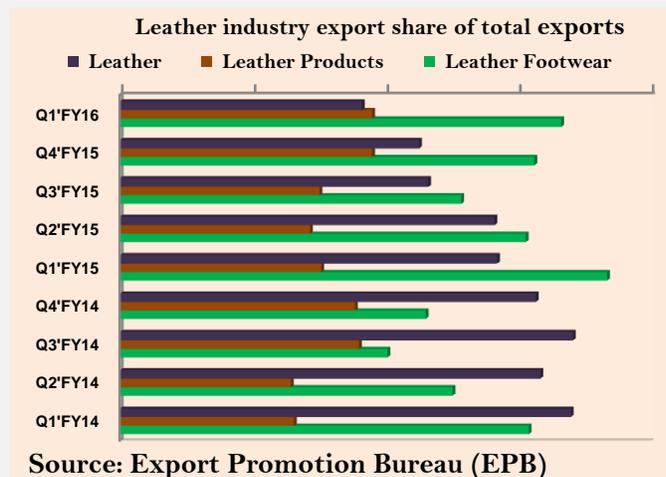
### GDP Contribution

Every year, the contribution of the leather sector to GDP is increasing. So, it has been expected within few years it will be an important sector of the economy of Bangladesh. In FY15, the contribution of the leather sector to GDP (constant Price) is 1.06 percent, where leather footwear added major portion though it decreased slightly compared to FY14 comprising 1.13 percent of GDP.

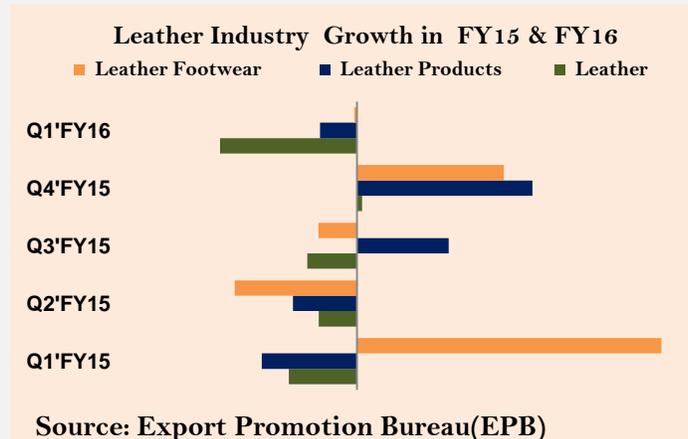


### Export Performance

In the FY15, Bangladesh earned USD1.13 billion from the export of leather, leather goods and leather footwear. Comparing to the FY14 it was a growth of 0.5 percent. At the end of October in FY16 Bangladesh earned total USD358.73 million from leather export. Of these, USD159.55 million is from exporting footwear and USD108.40 million is from exporting Leather products. In the FY15, earnings from leather footwear, leather products and leather were USD 483.81million, USD249.16million, USD397.4 million respectively.



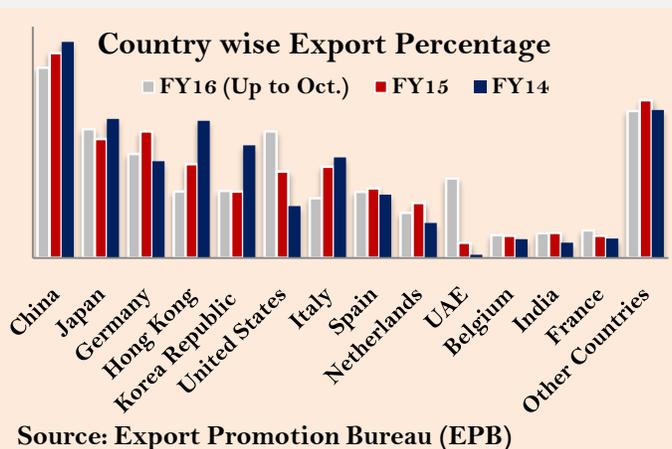
The leather industry of Bangladesh has been suffering a big blow as demand in major international markets has been dropping along with the serious concerns over the environmental danger formed by the leather industry. The leather export of Bangladesh has fallen by 31.6 percent in the first quarter of FY16, where highest fall was for raw leather by 24.4 percent. One of the main reasons of deteriorating export was EU and USA buyers have reduced their purchases from Bangladesh amid concerns over the environmental hazards of leather production. EU and USA are the biggest markets for Bangladeshi leather products. Other reason could be that china is one of the main buyers of our rawhide and skins were not performing well in footwear manufacturing in recent times.



RMG Sector has a strong dominance over the countries total exports. After RMG, the leather sector represents the second largest export sector of Bangladesh. In the FY15 it has been seen that RMG accounts for more than 80 percent of the total exports in the country. After RMG, Leather sector bears the percentage of more than 3 percent of the total country's export. Among the total export of USD31208.94 million, in FY15 only three sectors (RMG, Leather and Jute) individually accounted for more than USD800 million. Therefore to slacken the pressure on the balance of payment and to participate effectively in the global trading system, export diversification is mandatory for the economy at this stage.



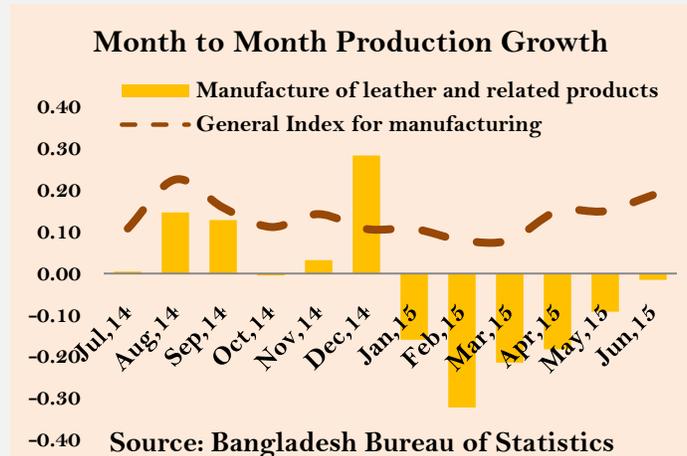
Within the total size of USD215 billion of the global leather market, Bangladesh now exports only 0.5 percent of the global leather and leather goods market. Bangladesh earned the major portion of export revenue from the leather sector by exporting raw hides and skins to China. Other major countries for leather exports are Japan, Germany, Hong Kong, USA, Spain, Italy, Korea Republic and Netherland. In FY15 China contributed



17.7 percent of total leather export. After China, Germany and Japan contribute 10.3 and 10.9 percent respectively.

## Production and Supply Chain

Manufacture of leather and related products are in a position of the slump over the last 6 months likely due to the political crisis from the beginning of this year. Leather manufacturing and processing in Bangladesh is mostly export oriented. When export order declined, production will also decline. From the beginning of the year 2015, the country faced political crisis and Hartal took place frequently throughout the year. Due to Hartal, all manufacturing firms faced a critical business crisis especially leather



industry. This industry faced a negative growth in production, though there was a potential demand in export in the international market. On January 2015, production growth declined by 16 percent and on February production growth decreased by a higher amount which was 32 percent. It is noticeable that, Hartal may be the big reason for the negative growth in production of leather and leather related goods as well as affecting the export negatively. After February 2015, Production growth is gradually coming to the positive horizon most likely due to the opposition political parties are giving a negative eye to Hartal. Eid-ul-Adha (Feast of Sacrifice) is the time when the rawhide is available in Bangladesh and production of leather and leather related goods are supposed to accelerate at that time. But production growth is not at its expected level and the trade of rawhide is almost in a slump position. This situation was created most likely due to negative growth in production that causes ability in rawhide for production. So willingness to pay for rawhide got down.

## Demand and Foreign Direct Investment

As a consequence of plus one strategy recently China is withdrawing them from the global market. For the last twenty years, those western companies invested in china have drawn themselves due to rising of production cost and other business challenges. Now they are looking for other growing Asian markets both to reduce costs and over-dependence on China. Bangladesh has a potentiality to attract foreign investors in this sector in



Bangladesh as because of low labor cost, availability of rawhide, leather processing infrastructure and some government incentives including duty-free machinery imports. According to Leather Goods and Footwear Manufacturers and Exporters Association, more than 51 foreign companies have expressed their interest in establishing joint-venture footwear units in Bangladesh. If the opportunity is gripped, then it has been expected to grow to a USD15 billion sector within few years from annual USD1.13 billion leather industry (LFMEAB, 2016). FDI inflows (net) in leather and leather goods have been increasing for the last six years in Bangladesh which resulted from different pragmatic initiatives of the Government. In 2014, highest investment (10.1 billion) came from South Korea while 6.42 and 4.82 billion came from Netherlands and Hong Kong respectively (Bangladesh Bank, 2015).

## **Environmental Issue**

The condition of most of the tanneries of Bangladesh is dissatisfying. Very often it is seen that trimmed leather, pieces of flash from cow and buffalo hides, hair, liquid and solid wastes generated at different stages of production are spread and piled all over the place in the tannery (Human Rights Watch, 2012).

- Workers in the tanneries usually do not wear protective masks. A large number of tannery workers are suffering from adverse health conditions such as prematurely aged, discolored, itchy, peeling, acid-burned, and rash-covered skin; fingers corroded to stumps; aches, dizziness, and nausea; and disfigured or amputated limbs (Human Rights Watch, 2012).
- In Hazaribagh, liquid wastes of the tanneries go into the Buriganga River and cause serious harm to the fish and other species living there. Harmful materials in liquid waste seep into the surrounding cropland and underground water levels and in this way the tannery waste poisons the soil, water, and air of the area (Human Rights Watch, 2012).

## **Government Initiative**

Government Initiative for relocating tannery from Hazaribag mentioned below:

- In June 2009, the High Court asked the Government to relocate the tanneries from Dhaka to a proposed leather estate at Hemayetpur, Savar by February 2010.
- The movement to the relocation of tanneries from the capital to Savar was suspended for a long time due to disagreements between authorities and tannery owners over who should bear the cost of the move.
- On October 13, a MoU was signed between Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Tanners' Association (BTA) and Bangladesh Finished Leather, Leathergoods and Footwear Exporters Association (BFLLEA).

As per the agreement, the Government will offer a compensation package worth Tk.2.5 billion to 155 factories and assign Tk. 6.39 billion for the installation of the central water treatment plant (CETP) - a must for red-category factories discharging toxic chemicals (Dhaka Tribune, 2013).

## **Conclusion**

Bangladeshi Manufacturers are seeing bright prospects for the leather sector after the readymade garment industry, because China, Vietnam, and Brazil, the three largest leather exporters have shifted their focus from it due to rising labor costs. Thus if Bangladesh focuses on environmental issues and attracts investors by providing them with land and capital at affordable rates, the sector is forecasted to become the second-largest earner of foreign currency after readymade garments (The Financial Express, 2015).

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## About ECRL

Emerging Credit Rating Limited (hereinafter referred to as ECRL) began its journey in the year 2009 with the motive to deliver credible superior & quality credit rating opinion in various industry segments around Bangladesh. ECRL obtained credit rating license from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules 1996 and also received Bangladesh Bank Recognition as an External Credit Assessment Institutions (ECAI) in October 2010.

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