



Export Trend of the Leather Industry of Bangladesh: Challenges to Sustainable Development

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ABSTRACT

Purpose: The principal objectives of the study are to find out the contribution scenario of the leather sector towards the economic development of Bangladesh and to know the background of the leather industry, export performance, item wise contribution, country-wise export trend and contribution in GDP.

Methodology: The present study is a descriptive one and based on mainly secondary information. The data was collected from various journals, research articles, thesis papers, newspapers, online news, survey reports, and annual reports and files. In this study, a descriptive technique was adopted in tabular form, column chart, line chart, pie chart, bar chart to analyze the results and represent collected data and information.

Findings: The leather sector of Bangladesh is the second-largest export earners after the ready-made garments sector. This sector contributes enormously to the socio-economic development of Bangladesh. The research findings reveal that the export contribution of leather was 8.14% in FY 1990-91, but after that, the contribution of leather sector is decreasing, one of the main reasons is the export trade had been single-handedly driven by the RMG sector, now its share is almost 2.52% (\$1.01billion) of the export earnings. The study shows that the export earnings from leather footwear were 60% growth rate in FY 2018-19 due to riding the trend of increased leather footwear exports in the United States, whereas, the contribution of processed leather and leather products is 24% and 16% respectively. The study also reveals that the leather sector is contributing significantly to the GDP. Leather items are exported from Bangladesh to about 53 countries of the world. The leather sector is also a major employer of semi-skilled or unskilled workers, directly employs around 200,000 people and around 850,000 are connected to the sector indirectly.

Limitations: I faced some difficulties for collecting data. Moreover, the study could not deliberate the reflection of statistical tools for analysis of the data.

Practical Implications: The export earnings from the leather industry were in good shape before the inception of tannery relocation. But the tanneries are suffering from 2017 as the relocation hit the production of leather processing because some tanneries are not yet in operation. For improving the export performance, the study will be helpful for stakeholders, industry owners, and management, BTA, BFLGFEA, LFMEAB and buyer's association.

Originality/Value: The study findings clearly showed and explained the comparative position of the export trend among processed leather, leather footwear and leather goods.

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1. Introduction

Bangladesh is an emerging economic country in South Asia with a high population density in the world. The readymade garments industry of Bangladesh commonly known as the RMG sector is the top ambassador of Bangladesh as a country in the global market. Bangladesh has a long great history of undertaking leather processing business. The leather sector is a source of exports, employment, and economic growth as well as beneficial for our whole society (Arbeid, 2017). Leather sector is the second-largest export sector of Bangladesh after ready-made garments. Bangladeshi leather is extensively known around the world for its high quality (Paul et al., 2013) and covered exports account for a mere 0.6% of the global leather (ADB, 2018). The first tannery of Bangladesh was established in 1940 by the famous entrepreneur Late Mr. Ranada Prashad Saha in Narayanganj (Billah, et al. 2000; Biswas and Rahman, 2013). At the beginning of this industry, tanneries were mostly placed in Narayanganj, after that Hazaribagh area of Dhaka city was the main location for tanneries in Bangladesh (Biswas and Rahman, 2013), but now 105 out of the 155 tanneries have shifted from Hazaribagh to Savar industrial park though factories are not functioning properly. 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). This industry has not just contributed through the dollar earning but also playing a vital role in socio-economic development prospects, creating a huge number of employment opportunities mostly for the poor illiterate in the workforce of the country. Through the export of leather, leather products, and leather footwear goods, Bangladesh now becomes a flagship brand in the developed countries of the globe. Total export earnings from the leather sector had reached more than 8% in the fiscal year of 1990-1991 valued by 134 million USD (\$0.14billion).

Bangladesh's leather industry possesses 240 tanneries, 3,500 MSMEs, 2500 footwear making units 90 large firms, this sector directly employs around 200,000 people and around 850,000 people are connected to the sector indirectly (ADB, 2018). Among total employment, there is presence of 23% female in the overall leather industry but in footwear, export sub-sector employs more than 70% of females (ADB, 2018). Total employment in the industry in 2016 was 129,000- up from 91,000 in 2013. The leather industry that includes both the leather processing industry and the shoe and leather goods manufacturers is going through the preliminary level of the boom. 56% of the leather is sourced from cows, 30% from goats and the remaining from buffalo. Companies that source leather from Bangladesh include Nike, Puma, CK, H&M, Hugo Boss, Armani, Timberland and many more, only 15%-18% of total leather supplies are required to meet domestic demands, almost 76% of tanneries are export-orientated and exported products include shoes, bags, wallets, belts and finished leather (Bliss, 2017). At present, there are about 15 exports oriented shoe manufacturing units located mostly in and around Dhaka

city (Ahamed, (n.d.). The Hazaribagh tannery complex is only 70 acres of land. The leather products of Bangladesh are exported to about 53 countries. The Bangladeshi leather industry is positioned fourth in Asia after India, China, and Pakistan. About 95% of leather and leather products of Bangladesh are marketed abroad, mostly in the form of crushed leather, blue wet leather, finished leather, leather garments, and footwear. Most of the small tanneries are family owned and operated as cottage type industries. Many of them are established as proprietorship or partnership.

The most promising markets for Bangladeshi leather, leather goods, and footwear products to Germany, Italy, France, Netherlands, Spain, Russia, Brazil, Japan, China, UK, Singapore, Poland, the US, Canada, and Taiwan, etc. (Paul et al., 2013, Sajib, Hossain, & Tanvir, 2016). The composition of leather and leather goods from Bangladesh underwent a structural change. Whereas in 2008, 62% of all export earnings by the leather sector came from finished leather, by 2014, this proportion came down to 39%. The growth of the footwear industry has increased from 20% of total sectorial export earnings in 2003 to 43% in 2015. From FY2013-14 up to FY2016-17 the leather sector engaged an approximate optimistic average annual growth rate of 11%. However, in the fiscal year, 2017-18 leather sectors suffered a huge drop of 12.03%, which was in an upward trend with a growth rate of 6.29% in FY2016-17. Since all the tanneries are yet to become fully operational at the estate, there is a crisis of finished leather as well. According to Export Promotion Bureau (EPB) data, however, Bangladesh earned \$1.23 billion from the leather sector in the FY 2016-17, accounting for 3.54% of the country's total merchandise exports where the sector's export target for this fiscal year was \$1.38 billion. In FY2017-18 (July-June), the overall export target from the leather industry was 1380 million USD, which is achieved by 294.49 million USD with an overall export performance of 1085.51 million USD.

Export Promotion Bureau (EPB) calculated that leather products earned \$336.8 million a year-on-year fall of 27% even leather footwear jumped the downward trend, growing by over 5% to \$565.6 million in the fiscal year 2017-18. In the last fiscal year, export earnings from processed leather dropped by 21%, from \$232.6 million to \$183 million. However, exports earning from the leather footwear posted a 7.48% growth to \$607.88 million in FY2018-2019. The comparison between 2012 to 2018 the growth rate of finished leather shown that finished leather export had decreased tremendously throughout the last seven years. In FY2012-13, in leather sector export, the contribution of finished leather was 46% which is reduced to only 16% in FY2018-19. Whereas, the contribution of leather products and leather footwear exports was 19% and 35% in FY2012-13 which is increased to 24% and 60% respectively in FY2018-19. Leather footwear experienced a positive growth rate in FY 2018-19 due to riding the trend of increased leather footwear exports in the United States. Leather product and leather footwear export of Bangladesh in the US has already increased by 34.10% in 2018-19.

To enhance the momentum of the leather sector, the roadmap outlines the strategy for enhancing the leather sector export of Bangladesh with a vision to become amongst the top 10 leather exporting countries by 2025 and to achieve a target of \$5 billion by 2021. But at present, the leather industry of Bangladesh suffers a big blow as downward reason in the export amount is the issue aroused from tannery transfer from Hazaribagh to Savar in 2017. Besides, some tanneries are not yet in operation as they have not yet completed the construction of building in the Savar leather industrial park that is affected the production capacity and buyers are not making orders over compliance issues, which is largely dependent on the completion of CETP (Faiz et al., 2019; Hossain, 2019). Besides CETP there are also concerns about solid waste management which are causing considerable pollution in the area. As of now, 105 out of the 155 tanneries have started operations in the park and the factories are not operating in full slap (Star Business Report, 2018).

2. Objectives of the Study

The main objective of the study is to address the recent declining export trend in the leather sector of Bangladesh. However, to achieve this purpose, the study also seeks to detail by the following objectives:

- to have an idea about Bangladesh export trend of the leather sector from 1990-2018;
- to address the contribution of the leather sector in total export and GDP of Bangladesh;
- to describe product based contribution of leather sector and country-wise export trend.

3. Literature Review

The literature review exhibits the overall scenario of the leather sector in Bangladesh and its contribution to the Bangladeshi economy through its enormous export number and by doing so developing the social structure through creating employment opportunities for the mass unskilled labor force. Khan (2017) stated that the government of Bangladesh has identified the leather sector as one with considerable growth and investment potential, ranking second in the export sector. Currently, Bangladesh produces and exports the quality of buffalo and cow, sheep and goat leathers that have a good international reputation for fine surfaced skins. Tanneries in Bangladesh produce more than 16 million of hides and skins per year. In addition, there are about 30 modern shoe manufacturing plants engaged in the production of high-quality footwear, with over 2,500 smaller footwear manufacturers. The sector employs approximately 558,000 people directly. Bliss (2017) found that Bangladesh exports leather and leather goods around 53 countries

such as China, France, the USA, Germany, Italy, South Korea, Netherlands, and Vietnam. In 2017 Bangladesh goals to export \$1.22 billion of leather and leather goods, focusing on high-quality 'Bengali black' leather demanded by European leather manufacturers but exported \$1.08 billion. According to the professional experts of different groups, there are 220 tanneries in Hazaribagh. Among them, there are 13 big, 75 medium and 132 small tanneries. Only 35 tanneries installed modern technologies in their production system (BSCIC, 2002). Biswas and Rahman (2013) identified that the government of Bangladesh imposed 100% export duty on wet leather in 1977 so that tanneries feel encouraged to produce crust and finish leather. Since then local tanneries started to produce finished leather through the export of the processed leather goods consist of wet blue leather mostly until 1981. Patwary (2017) described that tannery business in Hazaribagh got momentum and the number of tanneries had increased to around 200 before the liberation war. With the passage of time, the tannery industrial area at Hazaribagh has expanded by more than 270 of small and big tannery factories. Razzaque (2018) stated that in 2017, the total value of leather and leather goods exports from Bangladesh stood at \$1.2 billion, accounting for 3.54% of the country's total merchandise exports. The industry's contribution to total output or gross domestic product (GDP) is estimated to be 0.35%. Total employment in the industry in 2016 was 129,000 up from 91,000 in 2013. During the same period, the industry's share in total employment rose from 0.16% to 0.22%. Mamun et al., (2016) stated that as per SMI 2011-12 total person engaged in leather firms is almost seventy-six thousand, among them fifty thousand are male and the rest are female. They earned 8380 million as their salary and wages benefit. According to the records of the Bangladesh Tanners Association (2016), approximately 3,000 workers are employed in the tanning industry. Alongside there are about 100 qualified technologists including foreign experts who are working in different tanneries. Sajib, Hossain, and Tanvir (2016) revealed a survey data and shown that a total of 18059 employees are directly employed in leather sector units having above 15 working force. About 60% of workers in the tannery industry are skilled (having experiences of more than 3 years), about 21% are semiskilled (having experiences of 1-3 years), around 15% are unskilled (having experience of less than 1 year) and less than 4% are professionals. Most of the employees about 80% are full-time employees, and most of them belong to the skilled employee category. A notable number of about 18% of all the manpower are seasonal employees. Of the total employees, about 59% are employed in the leather processing units, 37% in the footwear manufacturing units and the remaining 4% are in leather goods manufacturing firms. Among the employees about 73% are male.

Hossain (2019) published a statement of general secretary of Bangladesh Tanners Association (BTA), that the export earnings from the leather industry were in good shape

before the inception tannery relocation, but now the tanneries are suffering a huge as the relocation hit the production of leather processing. Besides, some tanneries are not yet in operation as they have not yet completed construction of building in the Savar industrial park and it affected production capacity and buyers are not making orders over compliance issues, which is largely dependent on the completion of CETP.

4. Methodology

The present study has made on descriptive research and the research technique has relied based on information from secondary sources. The data was collected from various journals, research articles, thesis papers, newspapers, online news, survey reports, and annual reports and files of Export Promotion Bureau (EPB), Bangladesh Bureau of Statistics (BBS), Bangladesh Tanners Association (BTA), Bangladesh Finished Leather and Leather Goods and Footwear Exporters Association (BFLLGFEA), Leather Goods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB) and BGMEA. After the completion of the data a descriptive technique was adopted in tabular form, column chart, line chart, pie chart, a bar chart to analyze and represent collected data and information.

5. Results and Discussion

5.1 Magnitude of Tannery Industries

From the very beginning of industrialization in Bangladesh, tanning industries have been playing a significant role in the country's economy. In international markets, its leather products have been earning important amounts of foreign currency. According to a World Bank's survey (1997), there are about 270 tanneries in Bangladesh, 11 are large, 26 are medium, 23 are light-medium, 110 are small and the remaining 100 are cottage size units. The large, medium and the light-medium sized tannery factories produce export-oriented crust and finished leather (World Bank, 1997). According to (BBS, 2012) survey of manufacturing industries in 2011-12, the total number of leather firms is 930, among them 23 units are categorized as a large firm, 100 are medium, 274 are small and 533 are micro firm. Nearly 90% of all leather footwear making units are located in and around Dhaka city with some leather footwear making units existing in Chittagong and Khulna city and Bhairab of Kishoreganj district. Within Dhaka city, there is a concentration of small and medium leather footwear making units include Siddique Bazaar and Bongshal, Lalbag, Nazirabazar, Sitpatli, Bangladuar, Alu Bazar, Dakkhin Moishundi, Pagla and Nawabpur (Ahmed & Bakht, 2010). On the other hand, according to LFMEAB (2016), there are about 220 tanneries, 2500 footwear making units and 20 large firms in Bangladesh. Of them, 114 are registered with the directorate of industries. Among them, Apex Tannery Ltd., ABC Leather, Akij footwear limited, Bata Shoe, Bay tannery, Bengal Leather Complex Ltd., Crescent Tannery Ltd., Chowdhury Leather & Com. Ltd., Dhaka

Hide & Skin limited, Helena Enterprise Ltd., H & H Leather Industry Ltd., Janny's footwear limited, Kalam Brothers Tannery Ltd., Karim Leathers Limited., Lexco Limited, Model Trade International, Ruma leathers Limited are big players. Others are mostly of small and cottage type not under the official government list. As of now, 105 out of the 155 tanneries have started operations in the park and the factories are not operating in full slap (Star Business Report, 2018).

5.2 Sources or Categories of Leather

There are 3 subsectors under the leather sector such as i. leather tanning ii. leather footwear and iii. leather goods. The principal raw materials for this industry are cowhides and goat skins. Bangladesh produces about 220 million sq.ft. leather consisting of 63.98% cowhides, 32.74% goat skins, 1.09% sheepskins and 2.19% buffalo hides (Export Promotion Bureau, 2014). The leather industry products include leather-based garments, shoes, belts, bags, jackets, suitcases, wallets and other items. About 85% of leather and leather products exported are in the form of crushed leather, blue wet leather, finished leather, leather garments, and footwear. The rawhide of footwear and leather product industry are mainly collected from the livestock. The livestock population of Bangladesh has shown a steady growth trend which indicates that Bangladesh has enough raw materials that are required to support the increasing production of leather and leather goods.

Table 1. Overview of Livestock in Bangladesh (In Million)

| Livestock Species | 2010-11 | 2012-13 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|-------------------|---------|---------|---------|---------|---------|---------|
| Cow | 23.12 | 23.34 | 23.64 | 23.79 | 23.94 | 24.09 |
| Buffalo | 1.40 | 1.45 | 1.46 | 1.47 | 1.48 | 1.49 |
| Goat | 24.15 | 25.28 | 25.60 | 25.77 | 25.93 | 26.10 |
| Sheep | 3.01 | 3.14 | 3.27 | 3.34 | 3.40 | 3.47 |
| Total Livestock | 51.67 | 53.21 | 53.97 | 54.36 | 54.75 | 55.14 |
| Growth Rate | - | 0.71% | 0.71% | 0.71% | 071% | 0.72% |

Source: Department of livestock service, 2018

5.3 Contribution of Leather Sector in Employment

The emergence of the leather sector is seen to the best thing happened in Bangladeshi economy by not only its contribution through the export earning but also the creation of generous employment opportunity for labor force especially bringing women to the mainstream of the economy. However, during 2009-10 and 2013 the number of employed

people in the leather sector increased from 85,000 to 91,000 (BBS, 2016). Leather sector is also a major employer of semi-skilled workers, which is a vital step towards alleviating unemployment. Currently, it is estimated that 150,000 persons are employed in the footwear industry, 30,000 persons are in the leather goods industry and another 8,000 persons are involved in exporting leather and by-product processing (Biswas, 2013). According to ADB (2018), the labor-intensive sector directly employs around 200,000 people and around 850,000 people are connected to the sector indirectly.

5.4 Total Export Earnings of Bangladesh and Export Earnings from the Leather Sector

Tannery industry is enormously important to the economy of Bangladesh. Leather sector of Bangladesh played an important role in the overall economic development of the country. The country earns a good amount of its valuable foreign exchange from the export of processed leather, leather products, and leather footwear. The industry is completely operated in the private sector. In the FY2016-17, total export earnings of Bangladesh were \$34.65 billion, at this time only 1.68% rises from the \$34.25 billion in FY2015-16. This was the lowest growth rate in the last 15 years. While export earnings from the leather sector were barely \$1.23 billion but this was the highest export earnings from the leather sector from its initial period to recent years, it became a 6% growth rate and hold 3.36% of export share from the leather sector.

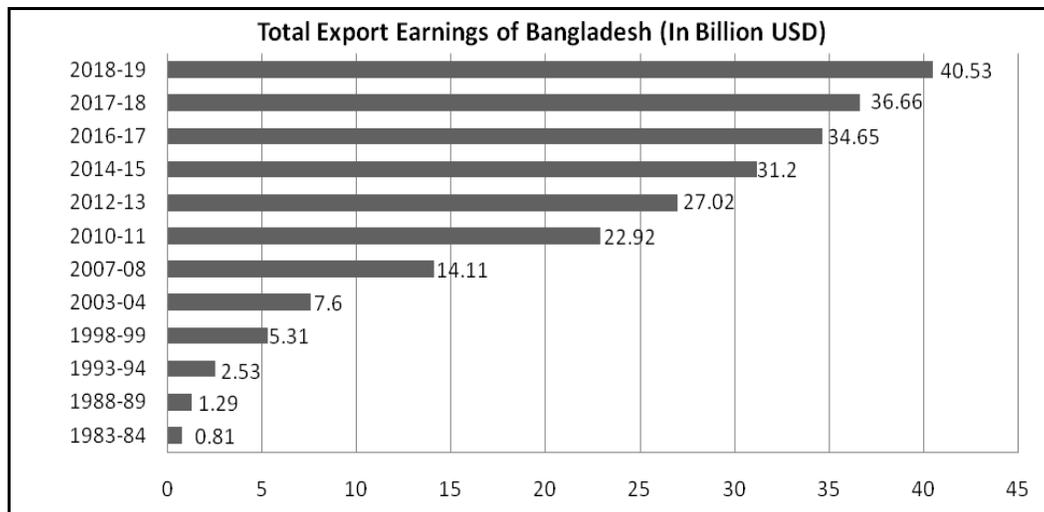


Figure 1. Total Export Earnings of Bangladesh (In Billion USD).

Source: Authors' calculation based on EPB statistical yearbook (2019).

According to the provisional data by the Export Promotion Bureau (EPB), during FY2017-18, the total export earnings of Bangladesh was 36.66 billion USD, when the RMG sector was the largest foreign currency earner in the country and has gathered about

\$30.60 billion that was almost 8.7% higher compared to the \$28.15 billion of the fiscal year 2016-17. But in the FY 2017-18, the total export earnings from the leather sector was only 1.08 billion USD, when the percentage of export contribution in total export of Bangladesh was simply 2.96 and export growth (%) rate was almost 12% lower compared to the \$1.23 billion of the fiscal year 2016-17. That was the 2nd highest negative growth rate. However, there is always a \$6 billion export earnings gap between total export earnings of Bangladesh and RMG contribution in total export from FY2015-16 to 2018-19. That means, total export earning of Bangladesh is increasing by \$6 billion every year for the last four years only by RMG contribution. On the other hand, export earnings from the leather sector are decreasing day by day as in FY 2018-19 export growth rate by leather sector was (-6%) where export earnings were decreased from 1.08 billion (2017-18) to 1.01 billion (2018-19).

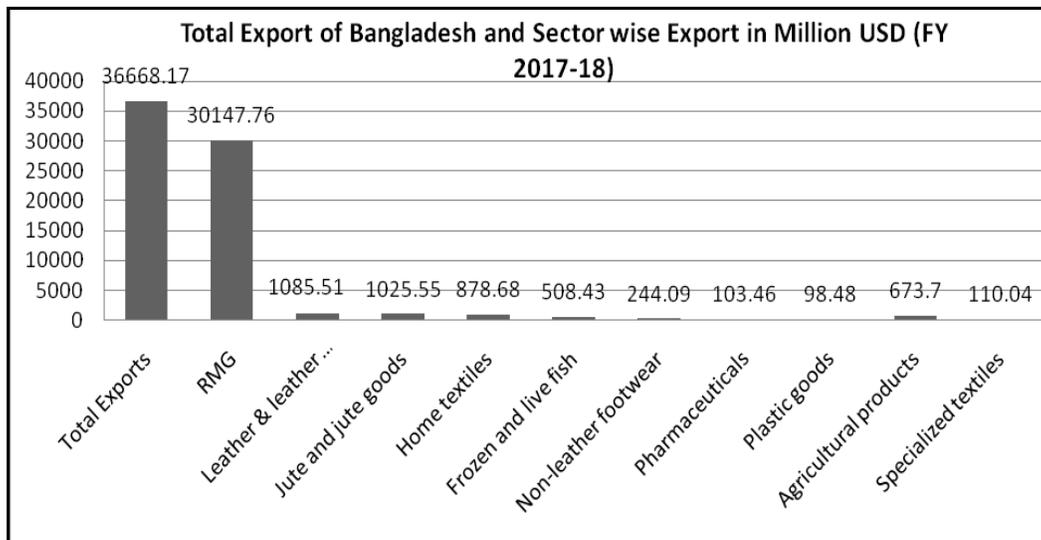


Figure 2. Total Export and Sector Wise Export of Bangladesh
 Source: Authors’ calculation based on EPB statistical yearbook (2019).

The lucrative performance of export trade has been single-handedly driven by the RMG sector, which has easily proved by its share in total exports rising from virtually nothing in 1980 to 84.21% valued by \$34 billion FY2018-19 (Razzaque & Eusuf, 2007). The leather sector accounts for roughly 1085.51 million USD in total export earnings of Bangladesh by FY2017-18. However, export earnings from the country’s leather sector, the second-largest earner of foreign currencies after ready-made garments sector (RMG) sector and its development is considered by the government a priority for export diversification and employment enervation (Ahamed, (n.d.). Garment shipments brought home \$30147.76 million, up 11 percent in FY2017-18, according to data from the Export Promotion Bureau. Apart from ready-made garments sector (RMG), only two categories

of products like leather and jute were able to cross the \$1 billion mark in the fiscal year 2017-18, thus leather and leather goods, which earned \$1.08 billion, but down 12.03 percent. The earnings were also 21.34 percent below the annual target of \$1.38 billion. Leather and leather goods have been bringing in more than \$1 billion for the last five years on the back of higher shipments of quality products to the EU, the US, and Japan. It declined in the fiscal year 2017-18 as most of the tanneries that shifted to the Savar leather estate from the city's Hazaribagh area are yet to become fully operational. After a gap of three years, jute and jute goods again crossed the \$1-billion mark in export earnings as the demand for the natural fiber is increasing globally.

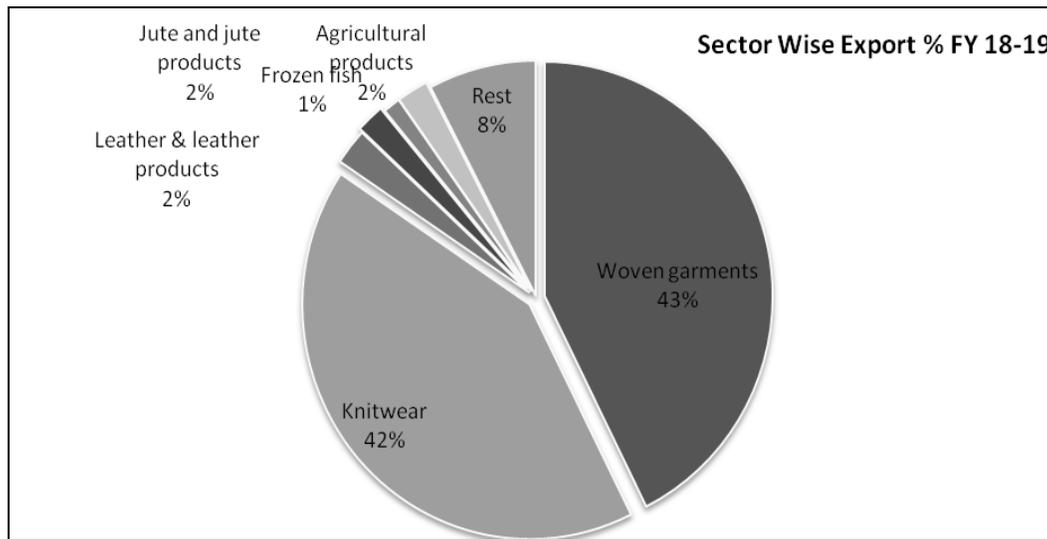


Figure 3. Sector-wise Export Contribution (%) of Bangladesh.
Source: Authors' calculation based on EPB statistical yearbook (2019)

(Figure 3) exhibits the export performance scenario of Bangladesh. In the beginning, the export was dominated by woven garments but knit garments export has grown tremendously throughout the last two decades as the time goes knit sector emerges as a strong complementary source of export earnings. The knitwear sector's significant contribution to the country's export share was only 14.15% in FY 92-93. Since then it gradually increased its share in exports. While the contribution of woven garments to the export basket was 69.23% in FY2000-01, the knitwear sector's contribution rose to 30.77%.

In FY2013-14, the knitwear sector for the first time exceeded the woven sector and became the leader with export value. The country's merchandise export earnings grew by 10.55 percent in FY 2018-19 to \$40.53 billion in the immediate past fiscal year riding on a high volume of garment shipment in a favorable external business environment. In FY 2018-19 export earnings from the garments sector were accounted for over 84 percent of

the national exports amounted to \$34.13 billion, the growth rate was 11.49 percent year-on-year. (Figure 3) also shows that export earnings from woven garments are \$16.88 billion in the fiscal year 2018-19 which covered around 43% of total export and \$17.24 billion followed by 42% from the knitwear sector. Leather, leather products and footwear goods contribute only 2.52% and earned \$1.01 billion. On the other hand, jute and jute products, frozen fish and agricultural products shared 2%, 1% and 2% in total exports of Bangladesh and earned \$0.81, \$0.5 and \$0.9 billion respectively.

5.5 Export Earnings from the Leather Sector

The contribution of the leather sector to the country’s export has experienced phenomenal growth over the years. The leather sector has evolved as the position of second export earning sector of Bangladesh. Over the fifty years, the journey of the leather sector has secured the vital fuel of growth in our employment and economic development. While export earnings from the apparel industry were barely \$1 million in 1978, it became \$34133.27 million in 2018-19 fiscal years holding 84.21% of the total export of the country. Export of leather, leather products, and leather footwear goods held about \$137 million in 1990-91 and increased to \$462.88 million, which was around 3.3 percent of total export earnings in FY2007-08 showing a trend growth rate of 11.6% (Ahmed & Bakht, 2010).

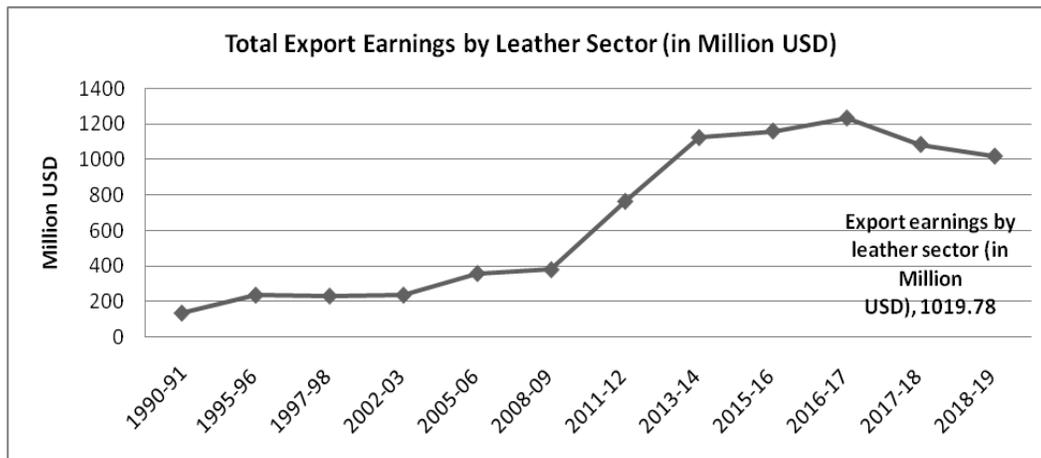


Figure 4. Total Export Earnings by Leather Sector.

Source: Authors’ calculation based on EPB statistical yearbook (2019).

(Figure 4) shows that the leather sector’s significant contribution to the country’s export share was 8.14% valued by 137 million USD in FY1990-91. Since then it gradually increased its contribution to exports earning. In 1998, the sector exported 178 million sq. ft of leather and earned \$232.75 million (Gombault et al., 2013). For the last 5 years, from FY2013-14 up to FY2016-17 the sector retained an approximate positive

average annual growth rate of 11%. However, the sector earned 1124.17 million USD in FY2013-14 and shared a 30% year-on-year growth rate, then the sector extended export earnings to 1234 million USD in FY2016-17 which was the height export earning year and export contribution for leather sector. But unfortunately, after that, the export of the leather sector has been on the downward trend and in FY2017-18 (July-June), the overall export target of the leather industry was 1380 million USD, which is underachieved by 294.49 million USD with an overall export performance of 1085.51 million USD. However, in FY2017-18 Bangladesh's export earnings from leather suffered a huge drop of 12.03%, which was in an upward trend with a growth rate of 6.29% in FY2016-17. According to Export Promotion Bureau (EPB) data, in the last fiscal year (2018-2019), leather sector also was exported with a negative annual growth of 6% valued by 1019.78 million USD and failed to achieve of the export target of 9.27% which was targeted valued by 1124 million USD set by the country's government for the period. Dhaka tribune stated that the main reason behind the downward in the export amount of leather sector is the relocation of leather tanneries from Hazaribagh, the center of the country's tanning industry, to Hemayetpur, Savar and international buyer's compliance restrictions on Bangladeshi finished leather industry (Hossain, 2019).

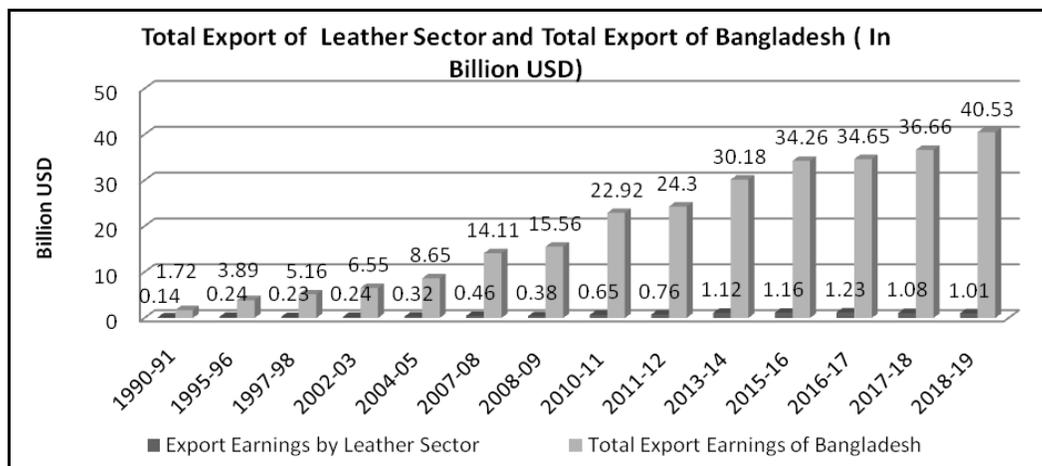


Figure 5. Comparison between Total Exports of Bangladesh and Exports by Leather Sector.

Source: Authors' calculation based on EPB statistical yearbook (2019)

(Figure 5) shows that Bangladesh's current export amount of \$40.53 billion is rather small in comparison with countries like the Philippines (\$74bn in exports), Vietnam (\$170bn in exports), Indonesia (\$220bn in exports), small countries in East Asia such as Malaysia (\$200bn in exports), Singapore (\$500bn in exports) are enormously prosperous exporting countries in the world (Razzaque, 2018). However, Bangladesh dynamically enlarged its range, value, and volume of exports with RMG and other important export items after the 1990s. It comes to export growth while upholding export diversification,

especially the industry that holds great potential is leather, leather products, and footwear goods-the 2nd largest exporters in our economy. In the decade of the 1990s, Bangladesh’s leather sector exports \$0.14 billion, which in the present decade increased to just over \$1.01 billion by the end of the fiscal year 2017-18. In May 2014, the Bangladeshi leather sector crossed the USD 1 billion mark in annual exports for the first time and play a significant role in GDP. In FY15, Bangladesh earned the US \$1.13 billion from the export of leather, leather goods & leather footwear. In the fiscal year 2017-18, Bangladesh’s export earnings from leather suffered a drop of over 12% to \$1.08 billion, which was \$1.23 billion in the fiscal year 2016-17. In FY2018-19 exports from leather, leather goods, and footwear were declined around 6.06% to \$1.01 billion, also down from \$1.08 billion in FY2017-18. However, the industry is currently facing a sharp decline due to non-compliant factories in environmental issues in the recently built Savar tannery industrial estate that holds back foreign buyers.

5.6 Export Contribution of Leather Sector in Total Export (%) of Bangladesh

The history of the tannery industry in Bangladesh is not too old; the first tannery was established in 1940. 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). Bangladesh’s leather exports account for a mere 0.5% of the global leather. There was seen remarkable export performance by leather sector in the 1990s, whereas the export contribution of leather sector in total export (%) of Bangladesh was 8.14% in FY 1990-91, but after that, the contribution of leather sector is decreasing, one of the main reasons is the export trade had been single-handedly driven by the RMG sector, which has easily proved by its share in total exports rising from virtually nothing in 1983 shared only 3.89% and now contributing 84.21% in 2018-19 (BGMEA, 2019).

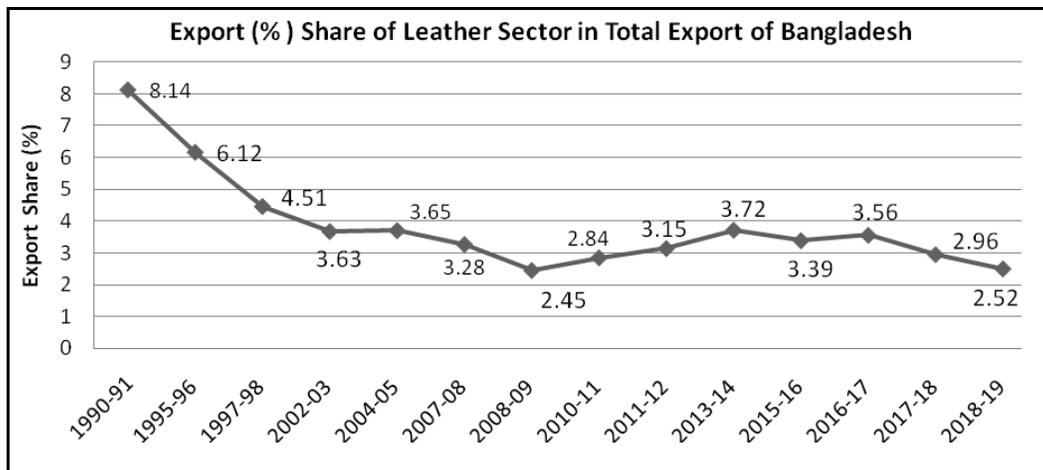


Figure 6. Contribution of Leather Sector in Export Share of Bangladesh.
 Source: Authors’ calculation based on EPB statistical yearbook (2019).

Since the FY 2013-14, Bangladesh's export has exposed slight growth and then the export has enlarged from USD 30.19 billion in 2013-14 to USD 40.54 billion in 2018-19. During the same period, the export of leather sector has decreased from USD 1.12 billion in 2013-14 to USD 1.02 billion in 2018-19. As a result, the contribution of the leather sector in total export has decreased from 3.72% to 2.52%. In FY2016-17 leather sector stood the highest value of export earnings at \$1.23 billion, accounting for 3.56% of the country's total merchandise exports. In this framework, the sector has been underperforming for the last 2 years contained in declining export performance. In FY2017-18 and FY2018-19, the export performance of the leather sector decreased by 12.03% and 6.06% respectively. The relative share of the leather sector to total export earnings also decreased to 2.52% in FY2018-19 for 3.56% in FY2016-17. The trend of growth falls in recent years because of the lower earnings of some firms and due to higher competition among the firms.

5.7 Growth Rate of Leather Sector

Initially, the export growth rate of Bangladesh leather sector was negative during 2001-2002 to 2002-2003 because of the global economic recession. After that period the growth rate started increasing significantly and reached 15.46% in 2006-2007, as the demand for quality raw material for finished leather goods increased in developed countries. But again as a consequence of global economic shock, the export growth rate declined very rapidly and became negative in 2008-2009 (-18%). The figure shows that the export growth rate is recovering now due to the global market demand for Bangladesh leather and leather goods. Since 2009-10, compared to the single-digit growth in export earnings during the 1990s, the industry is experiencing a phenomenal growth rate, reaching above 20 percent; it has very recently reached near a billion dollars in exports.



Figure 7. Contribution of Leather Sector in Export Growth (%) Rate
Source: Authors' calculation based on EPB statistical yearbook (2019)

The whole large and complex project of shifting Hazaribagh tanneries to Savar has had adverse effects on the whole leather tanning process, claimed the tanners. In the fiscal year 2017-18, Bangladesh’s export earnings from leather suffered a drop of over 12%. According to the Export Promotion Bureau (EPB) data, the leather sector has recently been facing a gradual decline of around 6.06% by export earnings in FY2018-19.

5.8 Export of Processed Leather, Leather Footwear and Leather Goods (In Million USD)

Almost 95% of leather items of Bangladesh are export-oriented, the majority are in the form of crushed leather, finished leather, leather products, and leather footwear products (Riyadh, 2016). These types of products almost comprise the 2.52% of total leather sector export from Bangladesh in terms of earning in 1019.78 million USD in FY 2018-19. The yearly domestic supply of hides and skins is around 200 million square feet, containing cowhides is 63.98%, 32.74% goatskins, sheepskins are 1.09%, and 2.22% buffalo hides.

In FY 2009-10 the contribution from processed leather, leather footwear, and leather goods was 459.25 million USD, where processed leather was USD 226.1 million, leather products and leather footwear products were USD 29.06 and 204.09 million respectively. According to Export Promotion Bureau (EPB), Bangladesh earned a total of USD1160 million from leather exports in FY2015-16. Among them USD 494.02 million was from exporting leather footwear products, USD388.22 million was from exporting leather products & USD277.90 million was from exporting raw leather (Figure 8).

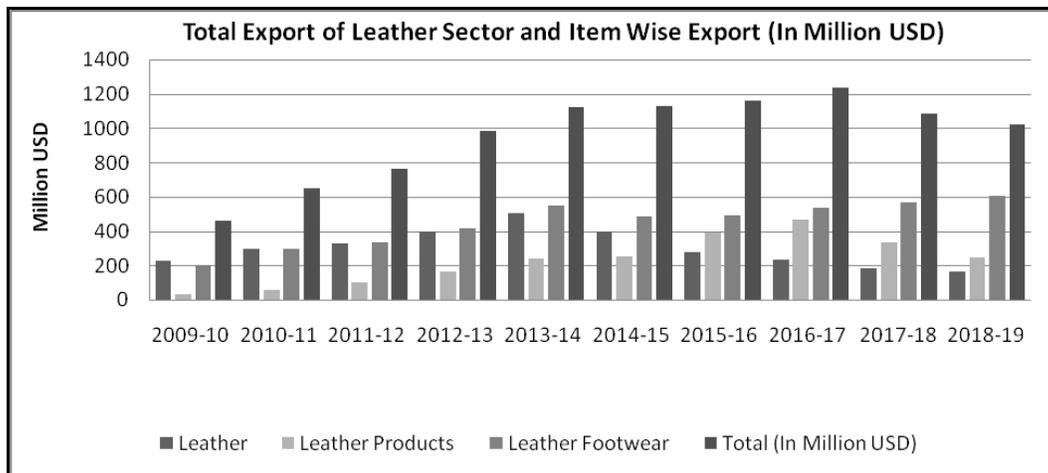


Figure 8. Export Contribution of Leather, Leather Footwear and Leather Goods.
 Source: Authors’ calculation based on EPB statistical yearbook (2019).

In FY 2016-17, leather sector earned peak amount from its beginning and reached \$1233.99 million, in this financial year leather products were (\$464.43 million) the

highest amount in export performance but processed leather declined by 16% to \$232.61million against \$277.9 million in 2015-16 and leather footwear hold a quite increasing position from this period. However, exports earning from the leather footwear posted a 7.48% growth to \$607.88 million in FY2018-2019, which was \$565.6 million in the FY2017-18. Of the total earnings from the leather sector in FY19, leather products earned \$247.28 million, down by 26.58%. The earning was \$336.81 million in the previous year. Processed leather exports also dropped by 10% to \$164.62 million in 2018-19 against \$183.1 million a year ago. However, Leather footwear export was less affected by this relocation and continued to see positive growth as most of the raw material for exported footwear is coming from import source relishing buyers' preference.

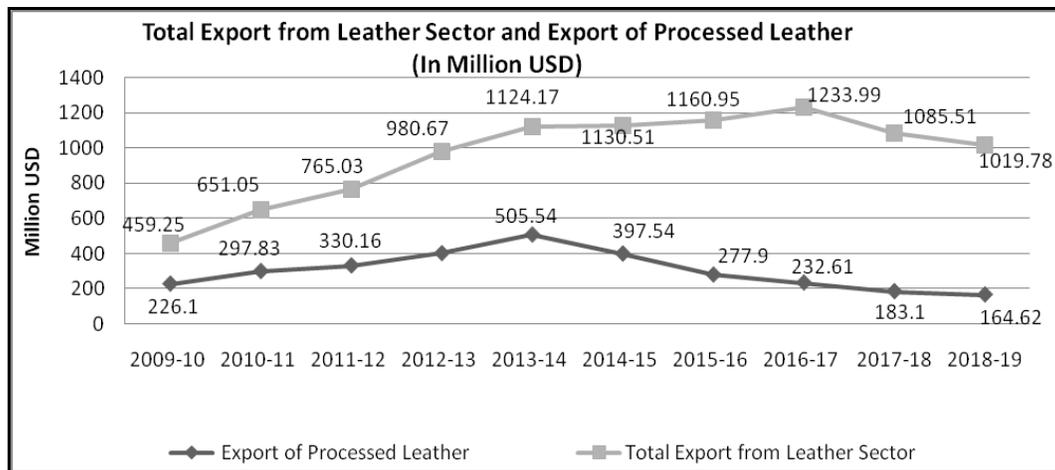


Figure 9. Comparative Position of Processed Leather Export.

Source: Authors' calculation based on EPB statistical yearbook (2019)

The processed leather sector's significant contribution to the country's export share was \$226.1 million (15%) in FY 2009-10. Since then it gradually increased its share in exports. While the contribution of the leather sector to the export basket was \$1124.17 million in FY2013-14, the finished leather sector's contribution rose to 505.54 million where 26% increased export performance from the last year 2012-13. After that, the export of the leather sector has been on the downward trend since 2013- 14. The export quantity of processed leather came down from \$505.54 million in FY 2013-14 to \$ 164.62 million in FY 2018-19. It seems that one of the main reasons behind the decline of export trends is the degraded situation of the raw hides of the crushed animals. As a result, the quality of finished leather has deteriorated which further reduced the value of finished leathers that products are being exported. Another downward reason in the export amount is the issue aroused from tannery transfer from Hazaribagh to Savarin 2017. Besides, some tanneries are not yet in operation as they have not yet completed the

construction of building in the Savar leather industrial park that is affected the production capacity and buyers are not making orders over compliance issues, which is largely dependent on the completion of CETP (Faiz et al., 2019; Hossain, 2019). The finished leather category had a negative growth rate of 21.28% in 2017-18 compared to the last fiscal year (FY2016-17), which has achieved export earnings of 183.1 million USD when the projected target was 240 million USD. Export earnings from finished leather saw a 5.42% decline to \$76.24 million in the first 5 months of FY19, while leather products registered a 49% fall to \$94.18 million. Thus the item of finished leather had a negative growth rate of (-10%) to \$164.62 in 2018-19 compared to the last fiscal year 2017-18, which had achieved export earnings of 183.10 million USD.



Figure 10. Comparative Position of Export Leather Products.

Source: Authors’ calculation based on EPB statistical yearbook (2019).

The overseas export item over 250 manufacturers is producing various leather items products such as travel goods, leather jackets, bags, shoes, slippers, hand gloves, case holders, purses, wallets and belts (Ahamed, (n.d.). In FY 2009-10 the contribution of export performance in leather products was \$29.06 million and (Figure 10) also shown that the export amount of leather products had grown tremendously throughout the financial year to 2016-17. In FY 2016-17 the export growth of leather products was \$464.43 million in comparison to \$1233.99 million of the total export of leather sector. Both, the export of leather products and total export of leather sector experienced a negative growth rate from FY 2016-17 to 2018-19. So it is clear that leather products had shown promising growth from FY 2010-11 but in FY2017-18 and FY2018-19, the category of leather goods export growth had been declined with a negative growth rate of 27% in both years, which was decreased of export earnings from 464.43 million to 247.28 million USD, when the expected target was 340 million USD in FY 2018-19. The

main reason behind the reduction in the popularity of Rexine worldwide, which is a cheaper imitator of leather (Faiz et al., 2019).

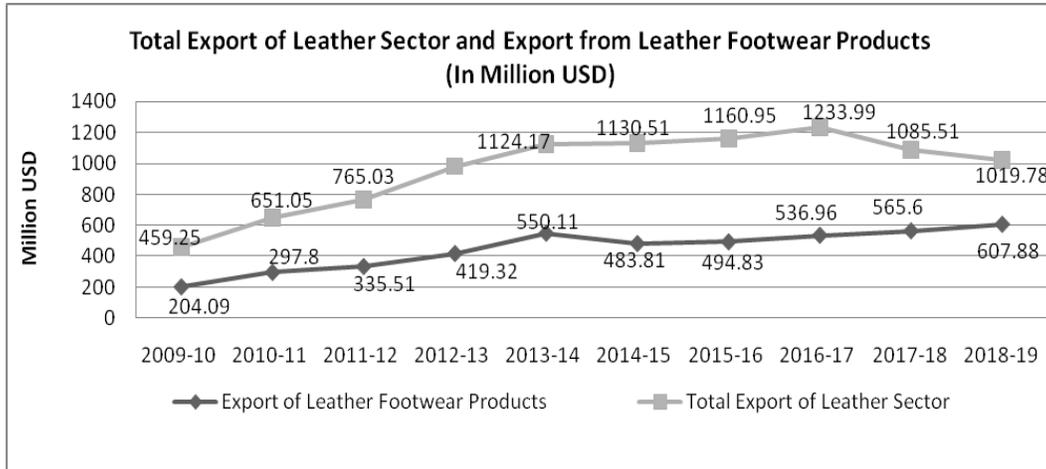


Figure 11. Comparative Position of Export Leather Footwear Products.
Source: Authors' calculation based on EPB statistical yearbook (2019).

The contribution of leather footwear products to the country's export has experienced phenomenal growth over the years. Gradually, the export of leather footwear products has evolved as the leading export earning source among leather sectors of Bangladesh. While export earnings from the footwear industry were barely \$ 204.09 million in FY2009-10, but within a short time, it extended to \$607.88 million in 2018-19 fiscal years. Before 1990-91, there was no export of leather footwear but apart from 1990-91 to 2007-08, leather footwear export increased at a trend rate of 16.7% and stood at nearly \$115 million in 2007-08 raising the share of leather footwear products in total export of leather and leather goods from a paltry 2% in 1990-91 to 28% in 2007-08. The growth rate of leather footwear was mainly driven by the increase in footwear exports to the United States. Exports of leather footwear to the United States had increased from \$31 million in 2013-14 to \$143 million in 2018-19. However, the lucrative performance of footwear export trade had been increased to 24% and 28% respectively in FY 2013-14 and FY 2014-15, which has easily proved by its share in total exports rising of the leather sector. After that, the leather footwear industry rise in export earnings to \$607.88 million, where the total export earnings from the leather sector are \$1019.78 million. (Figure 11) proved that the footwear industry tremendously improving day by day and there had added only \$400 million from other sub-sectors of the leather sector in FY 2018-19. Nearly 90% of all leather footwear making units are located in and around Dhaka city with some leather footwear making units existing in Chittagong and Khulna city and Bhairab of Kishoreganj district. Within Dhaka city, there is a concentration of small leather footwear making units in two areas known as Siddique Bazaar and Bongshal.

5.9 Item Wise Export Share of Leather Sector (2012-2019)

(Figure 12) exhibits the performance scenario of processed leather, leather footwear, and leather products. In FY2012-13 the export percentage was dominated by processed leather but as time goes the leather footwear sector emerges as a strong complementary source of export earnings. The comparison between 2012 to 2018 the growth rate of processed leather shown that finished leather export had decreased tremendously throughout the last seven years. In FY2012-13, in leather sector export, the contribution of processed leather was 46% which is now reduced to only 16% in FY2018-19. Whereas, the contribution of leather products and leather footwear exports was 19% and 35% in FY2012-13 which is increased to 24% and 60% respectively in FY2018-19.

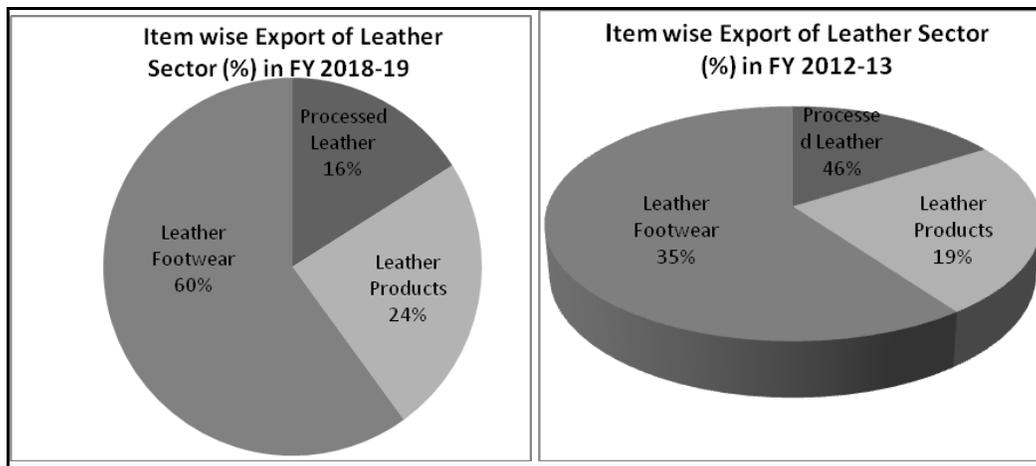


Figure12. Item wise Export Contribution of Leather Sector.
 Source: Authors’ calculation based on EPB statistical yearbook (2019).

Leather footwear experienced a positive growth rate in FY 2018-19 due to riding the trend of increased leather footwear exports in the United States. Leather product and leather footwear export of Bangladesh in the US has already increased by 34.10% in 2018-19. Because two US brands have already expressed their interest to purchase leather footwear from renowned brands of Bangladesh named Apex Footwear, for this reason, they are trying to relocate their sourcing from China (Dhaka Tribune, 2019). It has also experienced a decline rate in FY 2018-19 of finished leather due to the adverse impact of the recession fell on the import demand of China and Japan across the entire commodity spectrum. However, the leather products import of China from Italy and France during 2017 and 2018 increased more than average growth. From 2016 China’s import from Italy increased by 470 million when relocation of tanneries in Bangladesh was started. It can be stated that Bangladesh’s export share to China is partly snatched away by Italy and France due to losing competitiveness (Islam, 2019).

5.10 Regional Export Share of Leather Sector

Processed Leather, leather products and footwear goods of Bangladesh are exported to around 53 countries of the world. About 95% of leather items of Bangladesh are marketed abroad, mostly in the form of crushed leather, blue wet leather, finished leather, leather garments, and footwear. The Bangladeshi leather industry is positioned fourth in Asia after India, China, and Pakistan (Arbeid, 2017). Most leather and leather goods export to Germany, Italy, France, the UK, Belgium Netherlands, Spain, Russia, Brazil, China, Singapore France, Germany, Poland, the US, Canada, and Taiwan are the big markets for the sector. (Paul et al., 2013; Sajib, Hossain, & Tanvir, 2016). Recently in FY2018-19, the major export destination of Bangladesh for leather, leather products, and footwear are United States, Germany, China, Italy, Japan, Netherlands, Hong Kong, etc. Especially, the United States, Germany, and the Netherlands are the most prominent export destinations for Bangladeshi leather footwear. However, Hong Kong, China, and Italy are the main importer of Bangladeshi finished leather to manufacture leather goods and leather footwear in their industry. Bangladesh exports most of its leather goods to mainly the United States and Japan (Faiz et al., 2019). Bangladesh also entered the new market and has been doing well in India, Nepal, and Australia.

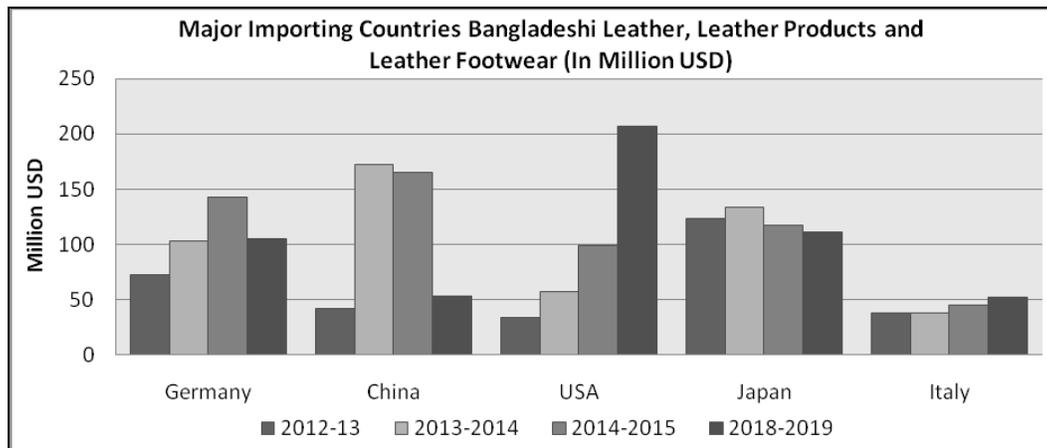


Figure 13. Country-wise Export Contribution of Leather Sector.

Source: Authors' calculation based on EPB statistical yearbook (2019).

The bar charts show that in FY 2018-19 the total export volume to USA is 207.14 Million USD whereas it was 33.49 million in FY 2012-13, achieved an almost 174 million growths which is quite remarkable. Because a comparative analysis shows that Bangladesh exports very high-quality raw leather and some Bangladeshi leather articles and finished products are also of good quality. While China, India, and Vietnam export 24%, 19%, and 41% respectively of their export sales of finished leather articles to the USA. The share of Bangladesh's exports to the USA, the largest importer of leather and

leather items, is substantially lower than that of its competitors and the corresponding figure for Bangladesh is only 7% (Razzaque, 2018). On the other hand, the Chinese market shows a tremendous fall which is only 52.72 million USD in FY 2018-19, where once upon a time the export contribution in Chinese market was the highest position in FY 2013-14 valued by 172.65 million USD. The export volume of leather items in the Italian market is increasing day by day.

5.11 GDP Contribution of Leather Industries in Bangladesh

The export share of the leather sector resulted in its magnificent contribution to the country's GDP as well. The growth of finished leather, leather products, and leather footwear exports have certainly had favorable effects on macroeconomic balances and the overall manufacturing sector. It is in this context, the leather sector led export growth is proved to have transformed Bangladesh from a predominantly aid-dependent country to a largely trade-dependent nation (Rahman, 2004). The contribution of the leather sector to GDP has been increased year by year. But in recent years the contribution of merchandise leather exports to the country's GDP came down surprisingly. The GDP contribution of the leather sector to total GDP was just 0.40% in FY 2000-2001, but it declined during FY 2002-2004 because of an economic downturn in Bangladesh. The sector contributes to accounts for 3.65% of the total export earnings in 2004-2005 and almost 0.32% of the GDP contribution in 2005 (ILO-IPEC, 2007). After that, the sector plays a significant role, was improved by 0.47% to GDP till 2007. Leather manufacturing is also on a declining trend in 2008-09, this contribution was 2.45% share in total export. According to the Bangladesh Export Promotion Bureau (EPB), in 2010-11, the sector's share in GDP was 0.36%, which declined to 0.29% in 2014-15. The share of exports from the leather sector in the country's total exports in 2015-16 was around 3.5% (EPB data) (BBS, 2016). In FY15 it has been seen that the contribution of the leather sector to GDP was 1.06 percent of the total value of GDP at the terms of constant price, where leather footwear added a major portion. But in FY14 it was 1.18 percent in terms of total value of GDP. On the other hand, Bangladesh registered a 7.81% GDP growth in FY18, which was 7.28% in the previous year. According to the latest data of Bangladesh Bureau of Statistics (BBS), the contribution of merchandise exports to the country's GDP came down to 13.37% in fiscal year 2017-18 from 13.95% in FY 2016 -17.

6. Conclusion and Recommendations

Leather Industry developed in Bangladesh on a large-scale mainly in the 1970s. Bangladesh leather industry is well established and ranked second in terms of export earnings, is moving ahead day by day though slow but with an identical steady growth. Because of its high-value addition and huge growth and employment opportunities, the leather sector has already been declared a thrust sector of the country. In recent times the leather products of Bangladesh are being well recognized throughout the world. The

availability of raw materials is the biggest strength the sector has. When it comes to export diversification, looking for strong alternatives to RMG then the leather and leather products sector comes as the biggest contender. When RMG has brought up many leading brands in Bangladesh with their direct presence they will be very happy to put their own orders of leather products in the same country Bangladesh from where they are sourcing garments. So the growth of the textile and RMG sector is actively helping the growth of leather and allied industries like footwear and other leather goods industry. In April 2017, the government stopped rawhide supply to the Hazaribagh area and forced about 200 tanneries to shift to Savar Leather Industrial Estate. As a result, the export from leather products is dropping because many tanners failed to move their business to Savar. The sector has been witnessing a negative growth rate since FY2017-18 after the relocation of tanneries to Savar industrial area. The sector witnessed a growth of 6.29 percent in 2016-17 and the export earning was US\$ 1234 million. In the eleven months of the fiscal year 2018-19, export volume from leather products declined by 5.53% compared to the previous fiscal year of 2017-18. According to statistics provided by the Bangladesh Export Promotion Bureau (EPB), the export earnings from leather and leather products were US \$943.83 million in the July-May period of the 2018-19 fiscal year. During the same period in the previous fiscal year of 2017-18, the earning was US\$ 999.07 million. So it should be taken proper steps as soon as possible. In this regards, I would like to recommend the concern authority to consider the following recommendations:

- The relocation of tanneries from Hazaribagh to Savar should be done as soon as possible with a CETP.
- Sustainable infrastructure should be developed through creating a specialized leather industry zone with follow compliance of environmental rules and regulations.
- Though it is expensive, owners should maintain ETP in every tannery industry as mandatory for industries.
- The government should monitor the industries through ensuring sufficient power and utility, develop sustainable and lucrative partnerships between buyers and sellers through effective political and commercial negotiations and also special loan instruments should be created for the leather sector.
- Last but not the least for the sustainability of the leather sector forward integration through developing positive brand image and accessing new market and product segments is necessary.

That would help this industry to boost towards a new level. Putting challenges on one side, a prospering future is waiting for the leather sector of Bangladesh in the near future on the other side.

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