

International Business Forum of Bangladesh (IBFB)

**Formulation of Policy Guidelines for Development of
Motorcycle Industrial Sector in Bangladesh**



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Executive Summary

Motorcycle is an important and affordable mode of transportation, especially for the middle income groups of the society in Bangladesh. It has been found that the motorcycle industrial sector is one of the fastest growing industrial sectors in the country; its sales growing rate in average more than 25% annually. But its locally manufacturing growing rate in average is more than 200%. After inception of the country in 1971, only CBU/SKD motorcycles were imported for at least three decades. Since then, CBU/SKD and CKD motorcycles are being imported until now. Since beginning, major portion of the country's demand is being fulfilled by importing from other countries.

After 2000, the motorcycle industrial sector took a boom and several enterprises took pragmatic initiatives to manufacture locally. This positive development of the industry came from great demand for motorcycles in Bangladesh market. However, 37 years later, manufacturing of motorcycle locally has been started by two local enterprises. Presently, these two industries possess production capacities of about 5 lakh motorcycles annually. But there is a great opportunity of increasing capacity as per demand of the market. Presently, in different stages of import, production, distribution and maintenance, more than 5 lakh people are engaged directly in this sector.

With the growth of population and their income level, market demand of motorcycle is also growing rapidly. This fast development of the market volume in the country demands an appropriate and congenial policy framework with proper planning and roadmap for the sustainable development of the sector. A strategic planning is utmost important to establish a globally competitive motorcycle industrial sector in Bangladesh. The policy will proliferate manufacturing quality, marketing strategy, appropriate government supports and healthy competition environment. It will promote the industry to commensurate international standards, so that the locally produced products acquire productivity and competitiveness in the global market.

Realizing the importance, the International Business Forum of Bangladesh (IBFB) undertook an initiative to prepare a policy guideline & strategy planning to assist the manufacturers, CKD industries, CBU/SKD dealers and all other stakeholders involved in this sector. IBFB commenced work from October 2011. Majority of efforts and time were used to collect and collate data from all stakeholders and other possible sources to initiate preparation of the strategic planning and policy guidelines. A number of stakeholders' meetings were conducted where views were exchanged and opinions of the stakeholders were taken. A working committee comprising of 12 (twelve) members from major stakeholders was formed to jointly work to streamline the policy framework considering the situation of all market players of the sector with an ultimate goal of building a robust globally competitive motorcycle industrial sector in the country. In the preliminary stage, the background, history, present scenario and conditions, potency, problems and prospects, constraints and challenges of the sector were identified.

To facilitate harnessing for the development of the motorcycle industrial sector, several major key issues were identified. The policy guidelines were streamlined and a new tariff structure has been proposed after consultations among manufacturers, CKD industry, CBU/SKD dealers, other stakeholders and relevant government authorities. The proposed policy is being formulated with a

wide and projected vision to develop the sector so that local manufacturing (localization) occurs in a diversified manner and imports are curtailed substantially with a significant raise of employment generation and thereby leveraging economic growth in the country. Thus, the proposed policy encourages to develop backward & forward linkage industries in the sector to facilitate local manufacturing of various parts and components of different brands of motorcycles in the country. The ultimate objective is to promote various categories of industries, e.g., existing local manufacturing industry to a global standard industry; existing CKD industry to a manufacturing industry and CBU/SKD dealers to go for assembling or then to progressive manufacturing. The proposed policy comprises of following pertinent aspects:

- 1. To include motorcycle industrial sector as thrust sector:** Motorcycle industry has universally emerged as an important driver of the economy in many countries. Bangladesh Motorcycle Industry is one of the fastest growing industries in Bangladesh. The industry is witnessing an impressive growth of couples of year. This sector possesses enormous export potential in near future. Considering the great potency of sector, this policy guideline proposes to include motorcycle industrial sector as Thrust sector in the Industrial Policy of the country.
- 2. Licensing Authority:** The Board of Investment (BOI) should be assigned as the industrial licensing authority for any category of motorcycle industry on the basis of a report by a High Powered Technical Committee (HPTC) set up by BOI in consultation with MOI. The Board of Investment (BOI) should monitor the performance of the industry regularly. BOI should be assigned to identify performance for any category of motorcycle industries periodically. Special care to be taken on the issuance of license and certification by authority.
- 3. Definition of different category of industries:** The definition of CBU, SKD, CKD and Manufacturing industry ought to be determined in line with current international practices preferably jointly by NBR / BOI / MOI and to be announced by July 2012. It is proposed that the new definition of different category of industries can be made effective from July, 2015. However, the High Powered Technical Committee (HPTC) to be set up for the Motorcycle Industry may adjust it to the needs and requirements of the country and implement it from July 2015.
- 4. Tariff Structure:**
 - a. Local manufacturing ought to be the highest preference for any country and so for Bangladesh as well. Tariff policy should be structured in such a way so that different enterprises of the sector progress to localization/ local manufacturing.
 - b. The existing tax structure should be continued for the local manufacturers.
 - c. Registration and Fitness cost to be reduced

5. **Supplementary Duty on import of CBU/SKD and CKD items:** The proposed policy guidelines opines that to herald the blooming of localization (local manufacturing), a congenial policy pertaining to Supplementary Duty (SD) on import of CBU/SKD and CKD items to be framed in light of duty structure that is being followed in the neighboring countries. The implementation of said duty structure to be made effective from July, 2015.
6. **Custom Duty (CD) on import of basic raw materials** The proposed policy guidelines suggest that the Custom Duty (CD) on import of basic raw materials for manufacturing industry may be reduced as much as possible with effective from July, 2015.
7. **Export Incentive:** To support and encourage exports of motorcycles from Bangladesh, Export Incentives would be provided to the exporters. Export Incentives would be facilitated in a form of 15% to 20% cash incentive on export amount and obviously exporters of motorcycles, including deemed exports, would not be required to pay any VAT on exported motorcycles. Here to refer that bicycle industry gets 15% incentive on export of locally produced bicycle.
8. **Automobile Testing Cell (ATC) in BSTI:** A proper authority should be developed for testing and certification. All types of quality tests and certifications would be done by Bangladesh Standards and Testing Institution (BSTI). Thus, with this view, for best possible outcome, the policy urges government to establish a well equipped and modern ‘Automobile Testing Cell (ATC)’ in BSTI. It would be better if coordination is maintained with BOI.
9. **Testing & Certification:** This policy guidelines proposes that:
 - a. All models of motor-cycles, especially engine capacity (CBU, CKD & locally manufactured) before their launching/introduction in the market must be tested and certified by ATC.
 - b. Each model of motorcycles, components and parts, and especially engine capacity should pass the quality certification for once (once in every three years). Thus no repetitive testing will be required for each model in each year.
10. **Under-invoicing and False Declaration:** To prohibit malpractices pertaining to under-invoicing and false declaration, proper measures to be taken. Appropriate valuation of all imported items to be done by the designated authorities to curb under-invoicing and false declaration malpractices.
11. **Monitoring by NBR:** NBR should monitor all categories of motorcycle industries/dealers and evaluate their status with respect to import of items as per license and export of products, if any.

- 12. Development of Backward and Forward Linkage Industries:** Development of Backward and Forward Linkage Industries is of utmost importance to develop the motorcycle industrial sector holistically. Required facilities to be developed for research and development, quality control, skill development, advance marketing technique development, export promotion, productivity increase, strategy development for new market penetration and investment promotion.
- 13. Vendor Development:** Globally it can be found that local components manufacturers (vendors) play a key role in automobile industry. Vendor industry development is a vital part for development of a robust industrial sector.
- a. The local components manufacturers (vendors) should be incentivized to encourage supply of components/ parts/items to the local manufacturing industries. Thus significant foreign currency will be saved in this process. Supply from local vendors to the manufacturing industries can be treated as Deemed Export/Import Substitution. Thus a facility of Deemed Export/Import Substitution (on the basis of import substitution achieved) can be given to the local vendors and VAT can be exempted on the supplied item. Thus in motorcycle industrial sector, it is proposed that various local vendors/components manufacturers should not be asked to pay any VAT for supplying components/spares/parts to local manufacturing industry or assemblers.
 - b. A manufacturing industry/ CKD industry can act as a vendor to other manufacturing industry/ CKD industry.
- 14. NBR SRO:** NBR notification in respect of precondition of requirement of certain machinery to qualify as manufacturer as contained in **SRO-213-AIN/2010/562-MUSHAK dated 10th June 2010** needs to be suitably amended and enforced with effect from July 2014.
- 15. High Powered Technical Committee (HPTC):** For continuous monitoring, evaluation and updated guidelines, a High Powered Technical Committee (HPTC) can be formed under the Ministry of Industries comprising of representatives from Board of Investment (BoI), Bangladesh University of Engineering and Technology (BUET), Ministry of Finance (MOF) / NBR, Ministry of Commerce (MOC), Bangladesh Road Transport Authority (BRTA), Motorcycle Manufacturers' & Exporters' Association of Bangladesh (MMEAB) and Bangladesh Automobile Manufacturers' and Assemblers' Association (BAMAA)
- 16.** The Technical Committee (HPTC) would be able to provide necessary information to GoB (MOI; BOI; MOF/NBR and other government agencies on a continuous basis so that GoB does not either get cheated or deprived of genuine revenue. The HPTC may be required to inspect each manufacturing unit in every six month and submit its report to BOI, BSTI and others as required.
- a. This policy guidelines suggests that the proposed High Powered Technical Committee (HPTC) may be formed with the following persons/members: i) Chairman – Additional Secretary, MOI, ii) Member – Nominee from BOI, iii) Member – Nominee from BUET, iv)

Member – Nominee from MOF/NBR, v) Member – Nominee from MOC, vi) Member – Representative of Bangladesh Road Transport Authority (BRTA) and vii) Member – Representative of Motorcycle Manufacturers’ & Exporters’ Association of Bangladesh (MMEAB) and viii) Member- Bangladesh Automobiles Assemblers and Manufacturers Association (BAAMA)

Chapter I: Overview of Motorcycle Industry

1.1. Bangladesh Motorcycle Industry

Motorcycle industry has universally emerged as an important driver in the economic in many countries. Bangladesh Motorcycle Industry is one of the fastest growing industries in Bangladesh. The industry is witnessing as an impressive growth of couples of year. In regards to last five years, average annual sales growth of Bangladesh motorcycle Industry is 28%, which was 22.73% in last year. Stakeholders of the industries are also expecting a 35% annual growth for the next five years. Since the inspection of the country, the domestic demand of the motorcycles is fulfilled importing from countries like Japan, India, Taiwan, China and Pakistan. Through the government took several steps for progressing towards manufacturing locally, any significant success was not found due to lack of proper encouragement, guideline and monitoring from the government, and reluctances of the potential entrepreneurs.

However, in 2008 local motorcycle manufacturing got a new momentum when Walton Hi-Tech Industries Ltd. started motorcycle manufacturing in the country. In 2011 Walton Hi-Tech Industries Limited, motorcycle production and market growth more than 300%. Since then, within last few years, another local enterprise, Runner Automobiles Ltd. has taken initiatives to manufacture within the country, and has become successful. Also many other importers / companies try to set up local manufacturing due to positive view of localization by the Government. Both the local manufacturers are continuously trying to produce international standard motorcycles, that can not only fulfill the total domestic demand, also can export to other neighboring countries like Myanmar, Nepal, Bhutan also to other ASEAN countries that import motorcycles from other countries.

1.2. Global Motorcycle Industry

Global distribution of the motorcycle industry is very easily distinguishable due to a strong correlation between people's socio economic condition and motorcycle. Generally, it is divided by the by – i) Developed Region and ii) Developing Region. The developed region is reflected mostly by Europe and North America, which is Southern and Eastern Asia, and the Asia Pacific for the developing region.

Both European and North American motorcycle industry shows almost similar characteristics in terms of production, quality, style and market. Their motorcycles are for fashionable styles, with high capacity, at high price, produced in limited quantity, mostly for domestic consumption with small portion for export. In Europe, the motorcycle industry has been formed for long time, with such prestigious manufacturers as BMW, Piaggio, Peugeot etc. European countries produced nearly 3 to 4 % of the world volume, and consumed 4 to 5 % of the total world volume. But, the North American region produce about 4 to 4.5 % of the world production volume and consumed around 5 to 5.5% of the world volume.

Unlike the developed region, motorcycle industry is considered as an Asian industry, 90% of production and market is in this region. Motorcycle is the most essential and effective means of

transport in daily life as well as for livelihood in this developing region. The Asian motorcycle industry is consistently dominated by Japanese players, mostly by the Honda Motors, for more than half a century due to their strong research and development, and after their development of some everlasting models. However, after 1990 some other Asian countries – China, India, Taiwan and Vietnam have developed their motorcycle industry very rapidly with support of the Japanese players. Recently, Bangladesh is emerging as a new inclusion to the Asian motorcycle industry.

1.3. Present Scenario of Bangladesh Motorcycle Industry

1.3.1. Industry Category

The Bangladesh Motorcycle Industrial sector has three categories of motorcycle industries – i) Completely Buildup Unit (CBU), ii) Completely Knocked Down (CKD), and iii) Manufacturing. Among this three, country's motorcycle market is dominated by the CKD industry, which is followed by progressive local manufacturing industry. Though, the local manufacturers do not produce 100% of the production within the country, majority of their components are produced within the country. Moreover, unlike other two industries, the manufacturing industry is providing a chance for local firms to enter into component market and building the production capacity of the local component suppliers to produce international standard auto components. They are also creating backward and forward linkage industries within the country.

1.3.1.a) Completely Buildup Unit (CBU)/ Semi Knocked Down (SKD)

In Bangladesh, motorcycle industry was started importing in Completely Buildup Unit (CBU) or Semi Knocked Down (SKD) format. After 40 years of liberation and progressive industrialization, till now importing in CBU / SKD format exist in the country. In this industry, motorcycles are imported in 100% ready-made format. No local value is added in this industry, thus the CBU / SKD industry is referred as motorcycle trading industry. In regards to number of the supplier or market player, this category has the highest number of players, about 50 CBU/ SKD motorcycle suppliers in the country.

1.3.1. b) Completely Knocked Down (CKD)

Presently, country's mostly contributing motorcycle industry is Completely Knocked Down (CKD) category. Globally, in this industry motorcycles parts are imported and assembled locally. None of the parts come in complete form; even final painting is done within the importing country. However, in Bangladesh, CKD motorcycle industry characteristics are similar to Semi Knocked Down (SKD) motorcycle industry as in SKD category motorcycles are imported in different part by part and after the import different parts are basically joined to make a complete motorcycle.

To strengthen country's industrial base and establish an auto manufacturing industry, Bangladesh government introduced CKD with a condition that suppliers will progress to local manufacturing 5-10% annually. But due to lack of positive interest of the suppliers and proper monitoring of the government authority, local manufacturing could not spur by the tradition motorcycle suppliers.

According to Bangladesh Tariff Commission, there are following major CKD importers in the country:

- Atlas Bangladesh Ltd.
- Uttara Motors Ltd.
- HS Enterprise Ltd.

- TVS Auto Bangladesh Ltd.
- Karnaphuly Industries Ltd.
- Singer Bangladesh Ltd. and
- Monoca Motors Ltd.

1.3.1. c) Local Manufacturing

Presently, there are only two manufacturers – i) Walton Hi- Tech Industries Limited, and ii) Runner Automobiles manufacture locally. They manufacture motorcycles with both locally produced and some imported component. Local manufacturing capacity is 5 lakhs, where Walton Automobiles' capacity is 3.5 lakhs and Runner Auto Mobile produces 1.5 lakh. By next five years their capacity will increase to 6-8 lakh. Both the companies have introduced two different manufacturing strategies.

Walton Hi- Tech Industries Limited is a concern of R.B. Group, which is a complete industrial manufacturing park with latest technology having self sufficiency and resources. On the other hand, Runner Automobile is introducing and following modern manufacturing concept based on the supplier or vendor development program. They are helping Bangladesh, not only to develop an automobile manufacturing industry, also to develop a strong industrial base.

1.3.2. Market Share of Different Suppliers in Bangladesh

There are about 50 motorcycle suppliers in CBU/SKD, CKD and Manufacturing categories. However, the Figure-1 shows major suppliers from all categories of motorcycle industry. Among them, motorcycle industry is leading by Uttara Motors Limited having a market share of 36%. The second position is captured by Atlas Bangladesh Limited, Its market share is 20%. The third position is captured by Walton Hi-Tech Industries Limited, which is 15% and another one Runner Automobiles Limited, which is 15%. TVS Auto Bangladesh Limited holds market share of 6%. TVS Auto Bangladesh Limited is followed by Road Master limited, which market share is 4%. Apart from all these major market players, rest of the market players in total maintaining 4% of total market.

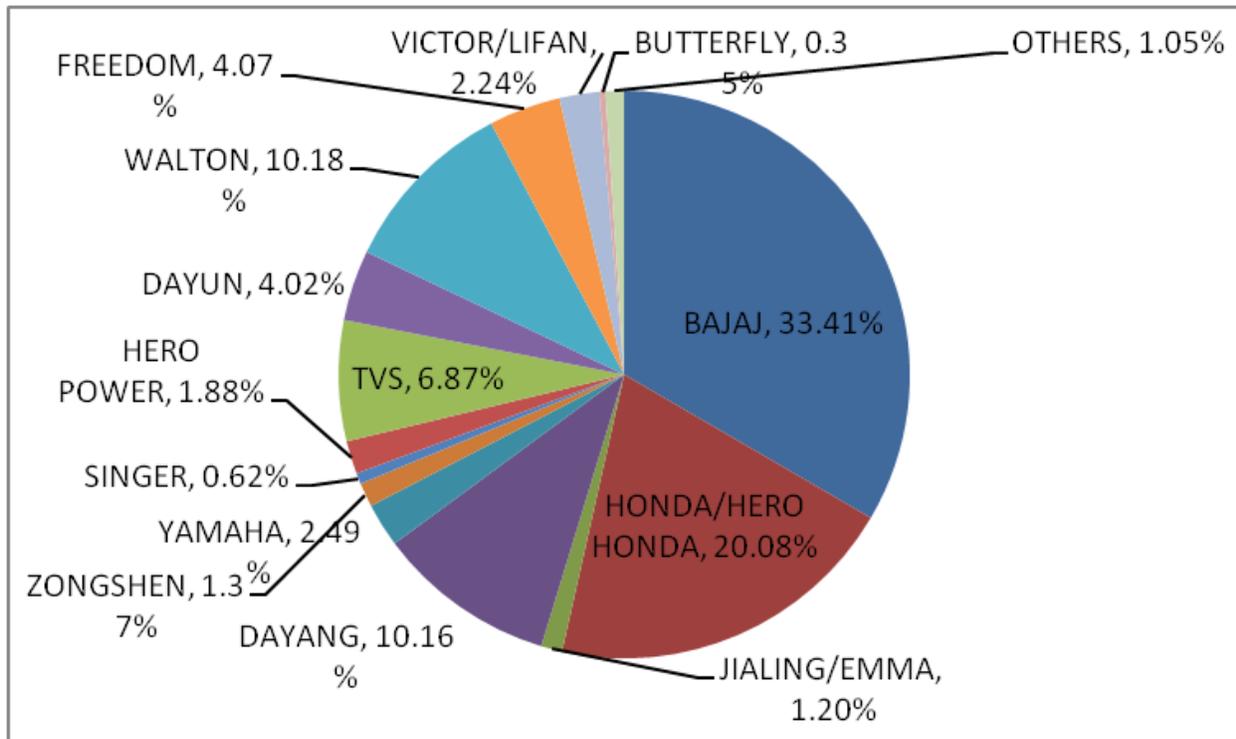


Figure 1: Brand Wise market Position in Bangladesh (2011)

1.3.3. Market Share of All Countries in Bangladesh

Bangladesh motorcycle industry is mainly dominated by different brands from India, China, Pakistan and Japan. Still now this industry's 80% market is dominated by foreign brands, before 2010 which was 100%. Among all of those countries, India covers almost 70% market and the portion also shows a gradual increase from last 10 years. India is followed by China, which covered more than 30% of motorcycle market in Bangladesh. However, from 2011, local motorcycle manufacturers contributing 30% to the country's motorcycle market.

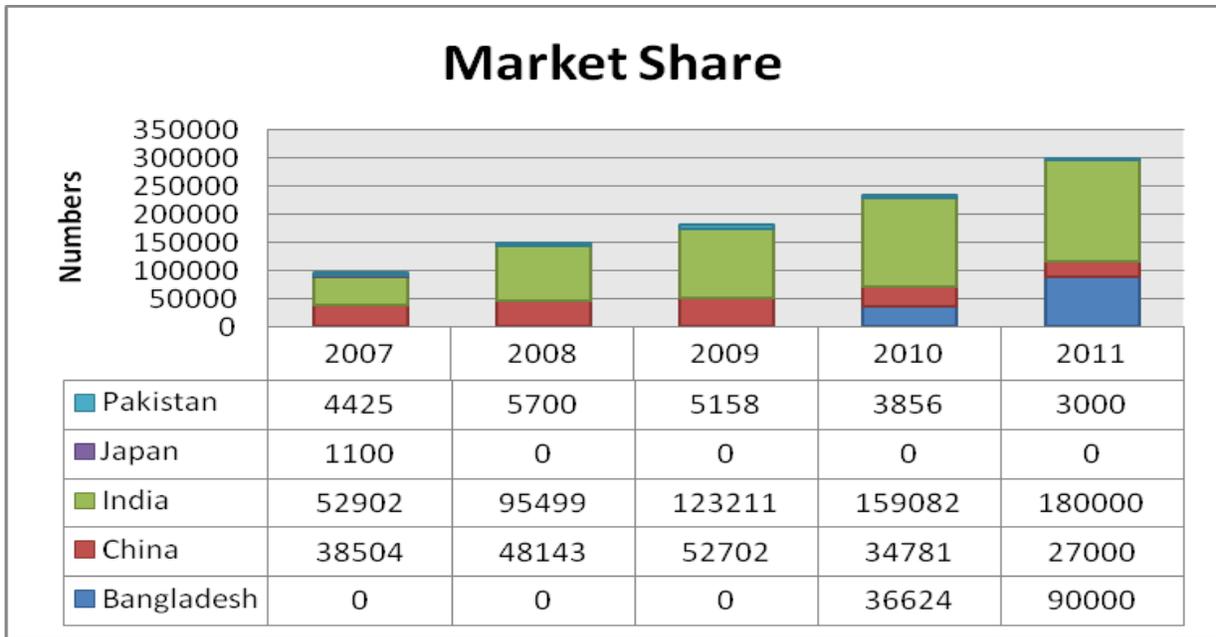


Figure 2: Market share of motorcycles of several foreign countries in Bangladesh (2007-2011)

The following figure shows market share of several countries only for 2011. It shows 60% of the country's motorcycle comes from India, 30% from Bangladeshi Manufacturers, 9% comes from China and only 1% from Pakistan.

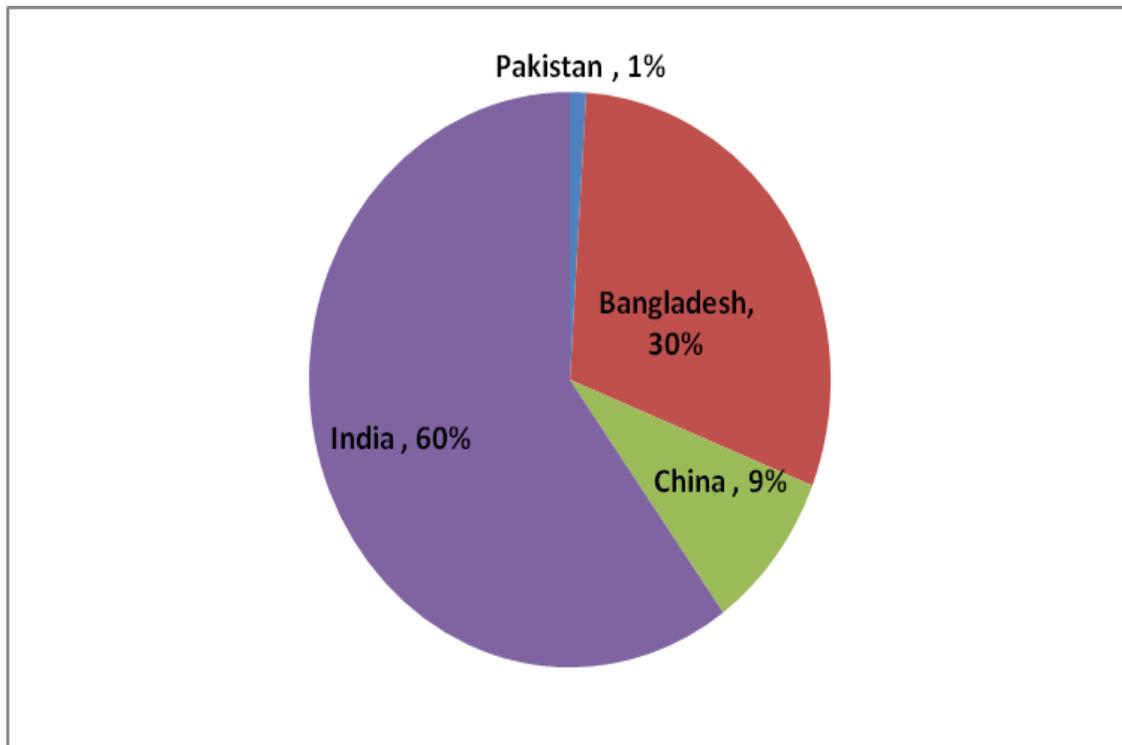


Figure 3: Market share of motorcycles of several foreign countries in Bangladesh (2011)

1.3.4. Beneficiary

In Bangladesh, motorcycle industry playing a very important role in country's transportation system. It has become one of the most useful elements of daily life for many people, especially majority of the motorcycle users are middle income group who live in remote areas. Among them, employee of government, non-government and private organizations, teacher, small and medium entrepreneurs, doctor, students, medical information officers, sales persons are main motorcycles users. Recently, it has become a mode of income generation in the southern districts, where motorcycle is used to carry people and almost 1 lakh people are living from this income.

In terms of import, production and distribution, more than 5 lakh people are employed with the industry. However, due to lack of local manufacturing opportunity, directly or indirectly nearly 5 thousand people are employed in the manufacturing industry. The manufacturing unit is also helping to save foreign remittance and providing socio-economic development of the country along with employment generation.

Besides the suppliers, some other organization like mechanic workshop, spare parts and component seller, banks, insurance, government authorities and other organizations are being supported by this industry as well.

1.3.5. Sales and Growth Trend

Present domestic sale is around 3 lakh motorcycles and with a trend 28% present annual growth. With this growth rate there will be sale of 6 lakh to 8 lakh motorcycles after five years in 2016. So, with a 10 year period the sales will reach 15 lakh motorcycles in 2021.

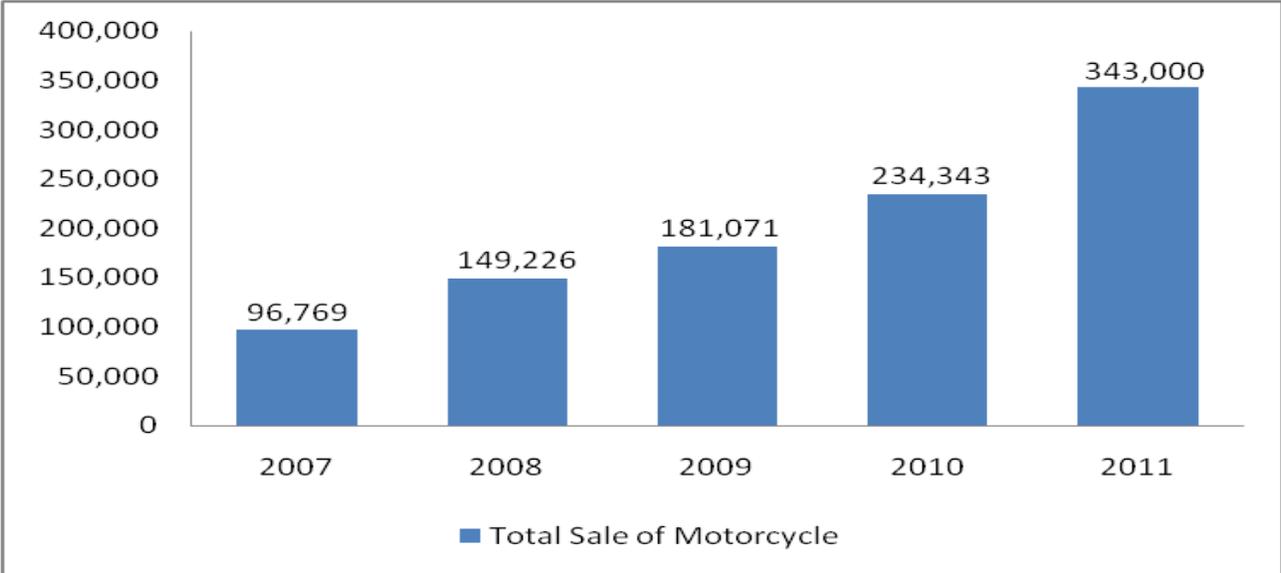


Figure 4: Total sales in Bangladesh (2007-2011)

1.3.6. Category-wise Sales

In Bangladesh, there are about 80 different models of motorcycles are available with cc ranging from 50 to 150. Over the last five years of period the most consistent demand was for 100cc motorcycles. Still now more than 60% market share is captured by this category. Sale for 100cc motorcycles is followed by above 125cc category, which shows a gradual increase from 2007 to 2010. That implies that in near future the sale for 125cc motorcycles will be off-sited by motorcycles those are above 125cc. However, both the 80cc and 50cc motorcycles are losing their market share day by day.

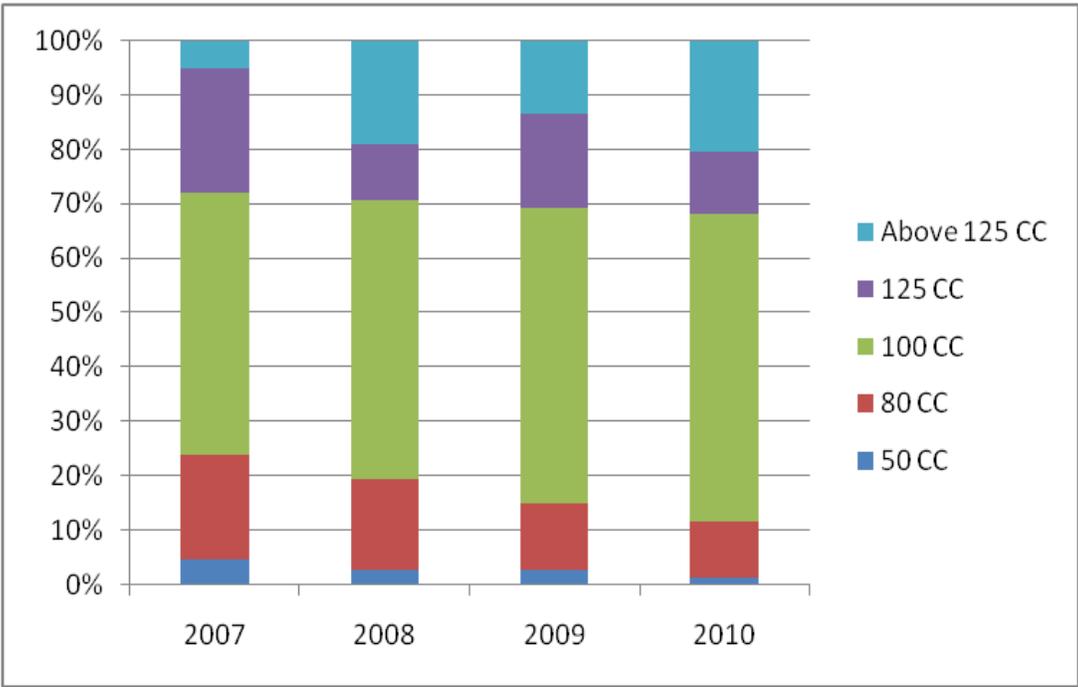


Figure 5: Market share and sales trend of different categories (2007-2010)

1.3.7. Value Chain

The value chain describes the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use. The under mentioned figure shows the existing value chain of local motorcycle manufacturing industry, starting from CR Coil and other Raw Material processing to Finished Products Delivery.

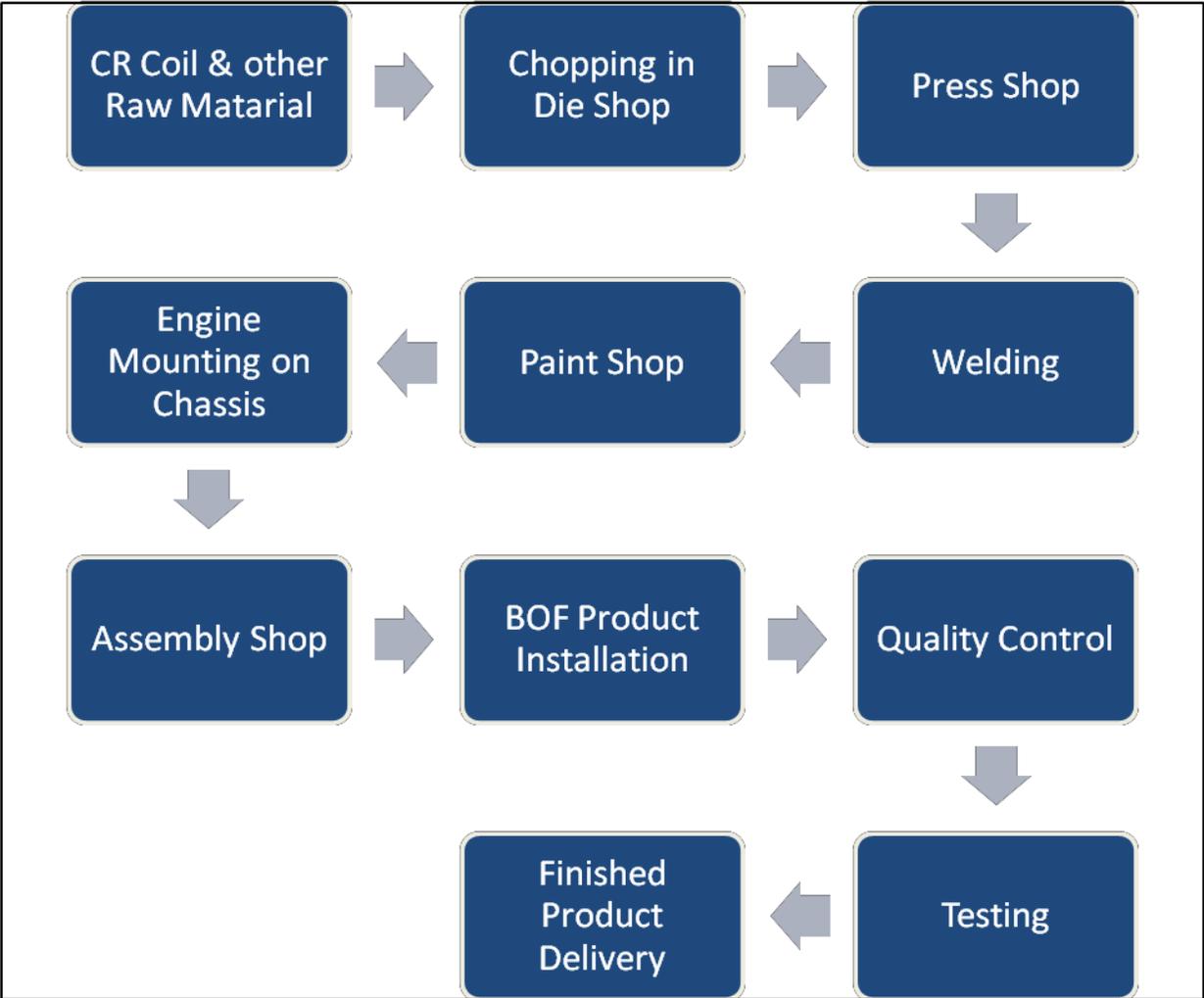


Figure 6: Gross value chain of a motorcycle industry

1.3.8. Raw Material

Presently, local manufacturers and local vendors manufacture components like chassis, fuel tank, rear fork, shock absorber, alloyed wheel, engine cover, seat, main stand, battery, tire, side covers etc. To manufacture these components, manufacturers need to import basic raw materials like CR/HR coil, main engine parts, lights, electric circuits, and metal and plastic alloy; those are very complex in nature and are not produced locally, are presently imported from China and Taiwan. As progressively the manufacturers are producing more and more components locally, they will require some other basic raw materials too.

Chapter II: Demand and Gap Analysis

2.1. Demand Forecasting

2.1.1. Domestic Demand

Bangladesh motorcycle market is expected to continue growing in near future. With the present average growth (25%) rate of last five years, it is expected to have the same for at least for next five years. Thus, there will be annual sales of 10 lakh to 12 lakh motorcycles after five years. With this continuation, after a 10 year period the sales will reach at about 26 lakh motorcycles by 2021.

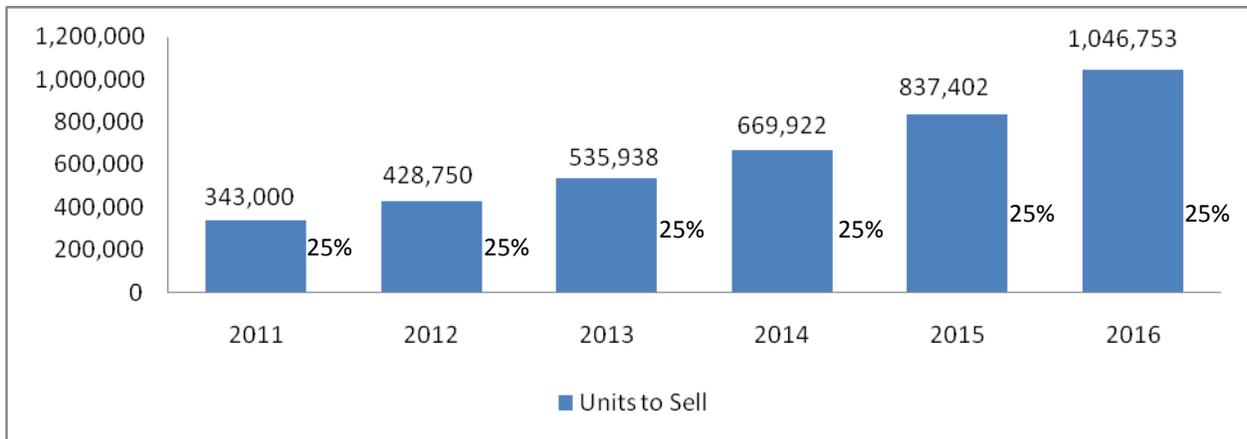


Figure 8: Forecast sales and growth (25%) of motorcycles (2011-2016)

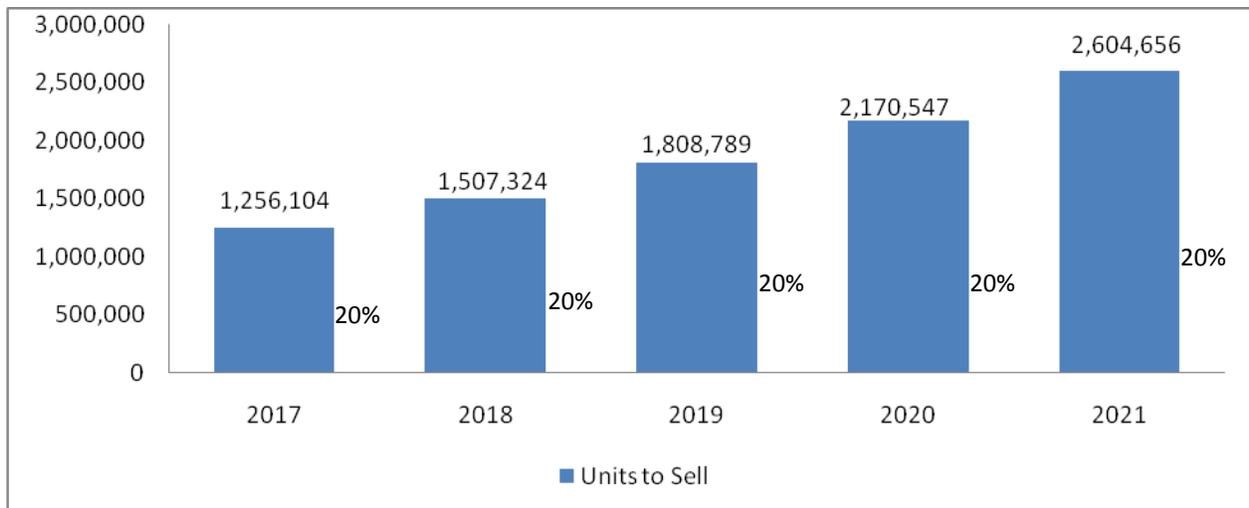


Figure 9: Forecasted sales and growth (20%) of motorcycles (2017-2021)

Apart from relying on a single growth rate, projection can also be done in following three alternative scenarios:

- *High Scenario (25-20% growth rate):* In this case, annual demand will be 10 lakh in 2016, and 26 lakh in 2021.
- *Medium Scenario (20-15% growth rate):* In this case, annual demand will be 6.5 lakh in 2016, and 15 lakh in 2021.
- *Low Scenario (15-10% growth rate):* In this case, annual demand will be 6 lakh in 2016, and 10 lakh in 2021.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Scenario (25-20% growth rate)	3,43,000 25%	4,28,750 25%	5,35,938 25%	6,69,922 25%	8,37,402 25%	10,46,753 20%	12,56,104 20%	15,07,324 20%	18,08,789 20%	21,70,547 20%	26,04,656
Medium Scenario (20-15% growth rate)	3,43,000 20%	4,11,600 20%	4,93,920 20%	5,92,704 20%	7,11,245 20%	8,53,494 15%	9,81,518 15%	11,28,745 15%	12,98,057 15%	14,92,766 15%	17,16,681
Low Scenario (15-10% growth rate)	3,43,000 15%	3,94,450 15%	4,53,617 15%	5,21,660 15%	5,99,909 15%	6,89,896 10%	7,58,885 10%	8,34,774 10%	9,18,251 10%	10,10,076 10%	11,11,084

Figure 10: Forecasting of sale during 2012-2021 at different growth rate

2.1.2. Global Demand and Export Potential

Bangladesh motorcycle manufacturing industry is emerging as a new item of country's export basket. The industry has huge export prospects to many countries of SAARC, ASEAN, Middle East and Africa. Presently Walton Automobiles exports about 10, 000 motorcycles to Malaysia, Sudan, Algeria, Cameroon and Dubai, and for 2012, it has already got export orders of 100,000 motorcycles to those countries. Cheaper production cost, is the main competitive advantage of Bangladeshi manufacturers, and leads to export motorcycles at about 15% cheaper than any neighboring motorcycle manufacturing countries.

Unlike other manufacturers, Bangladeshi manufacturers have a favorable geographical advantage for accessing into the Southeast Asian market at a cheaper cost. At the same time, the growing component manufacturers are also providing opportunities to supply their products cheaper than current price; thus, in near future the production cost of Bangladeshi motorcycles will be more competitive than other motorcycle manufacturing countries.

2.1.3. Local Skill Demand

Within next 10 years the industry will require about 10 thousands skilled workforce in the manufacturing and assembling process of the industry and about 10 lakhs people will indirectly be engaged with the supply and distribution process of the industry.

2.2. Gap Analysis

Analyzing the available information of local motorcycle manufacturing industry, it can be estimated that the local manufacturing capacity will increase as rapidly as the sales increase. Presently, there are only two local motorcycle manufacturers – Walton Hi-Tech Industries Limited and Runner Automobiles Limited; their total production capacity is more than 3 lakh motorcycles per year. Some other enterprises are planning and taking steps forward to become local manufacturer in near future. A rough & gross estimate of forecasting shows that their total capacity development will reach to about 19 lakh motorcycles by the year 2021.

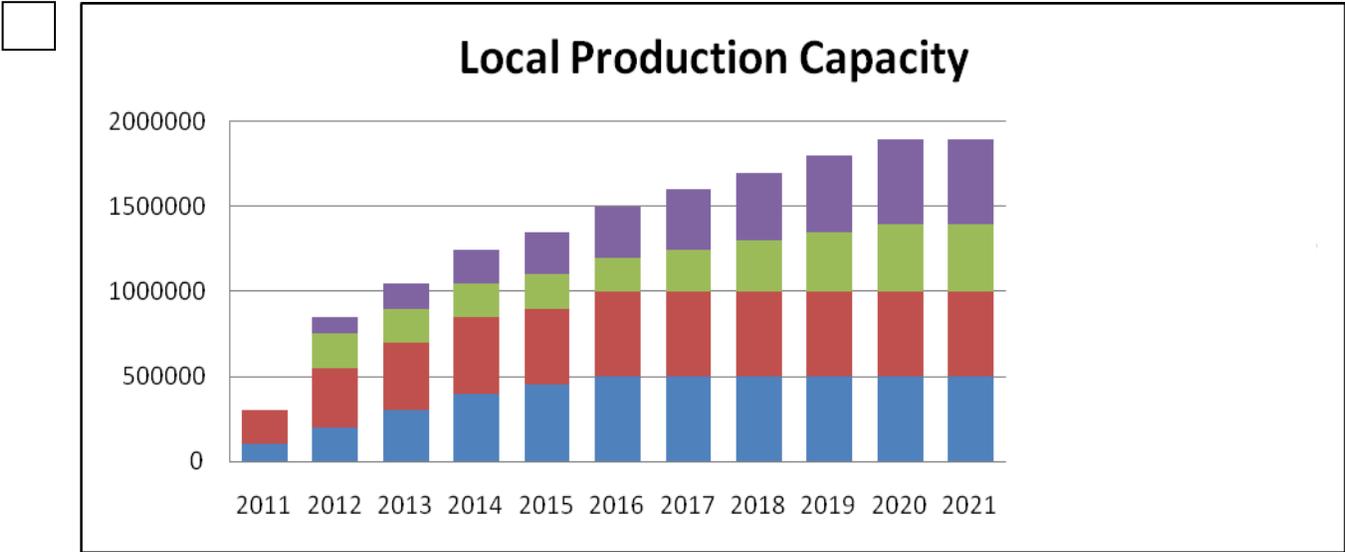


Figure 11: Production capacity forecasting of local manufacturers up to 2021

The following figure shows the maximum projected sales up to 2021. In this case, annual demand will be 8 lakhs in 2016, and 20 lakhs in 2021.

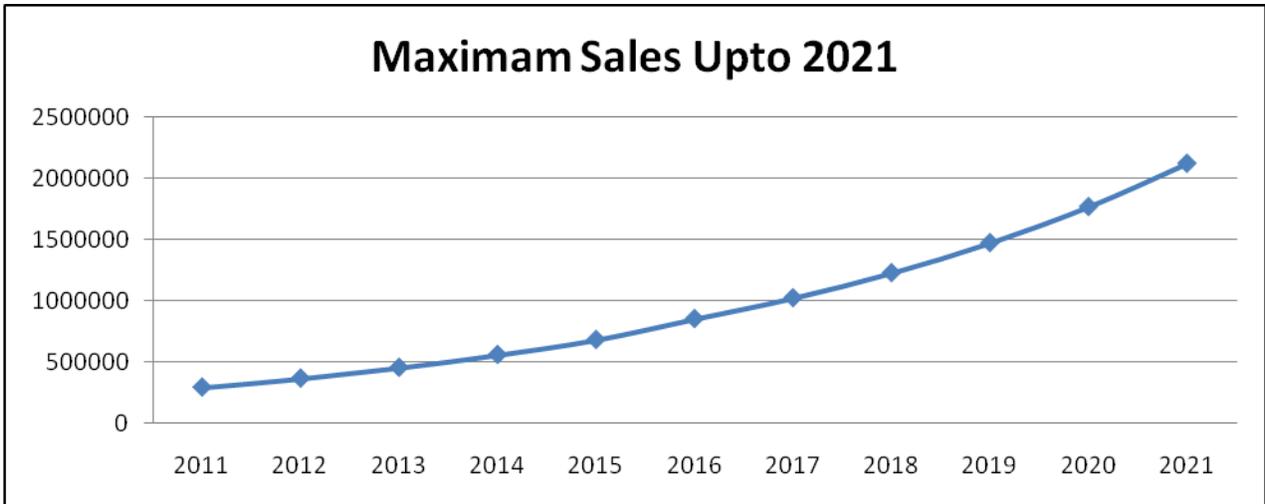


Figure 12: Maximum forecasted sales up to 2021

Figure 12 shows graphical representation of analysis of maximum sales and local forecast production capacity. The analysis shows that the present number and capacity development project of present local manufacturers, the country's local manufacturers can fulfill total domestic demand. Along with domestic demand, local manufacturers can export about 10 lakh motorcycles by the year 2021.

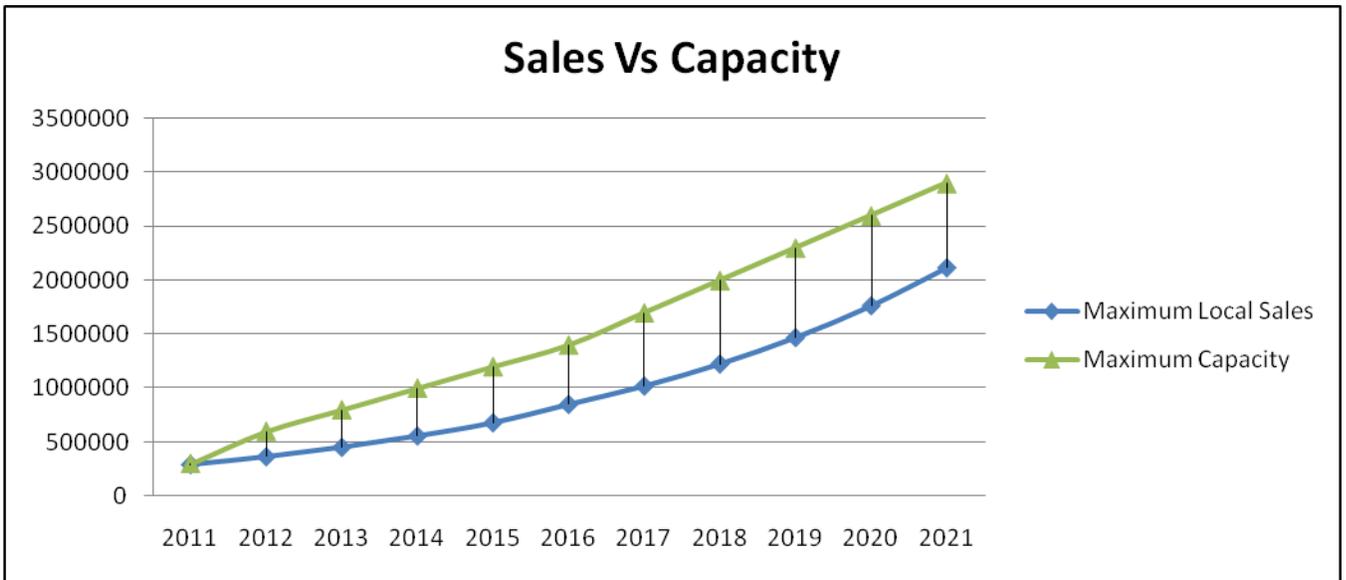


Figure 13: Maximum sales vs. maximum capacity up to 2021

Chapter III: Development Strategy

It is evident that government’s motorcycle industry development strategy of neighboring countries like India, Vietnam and Indonesia in the previous period has strongly contributed to the rapid formation of their motorcycle manufacturing industry. It is also evident that their development strategy had a strong priority of localization. Presently, in general, in those countries, the localization rate in motorcycle products is relatively high, at around 70-90%, even amounting to 100% in India and Taiwan. Figures x-y show key policy decisions on automobile industry in India that have made her world’s second largest motorcycle manufacturers.

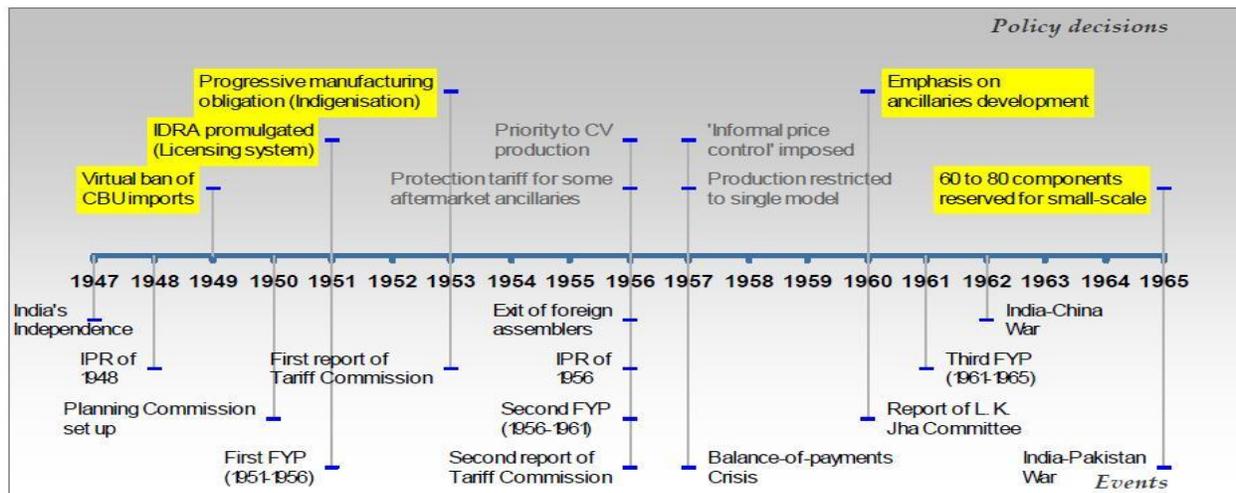


Figure 14: Timeline (1947-1965) of key policy decisions on automobiles in India

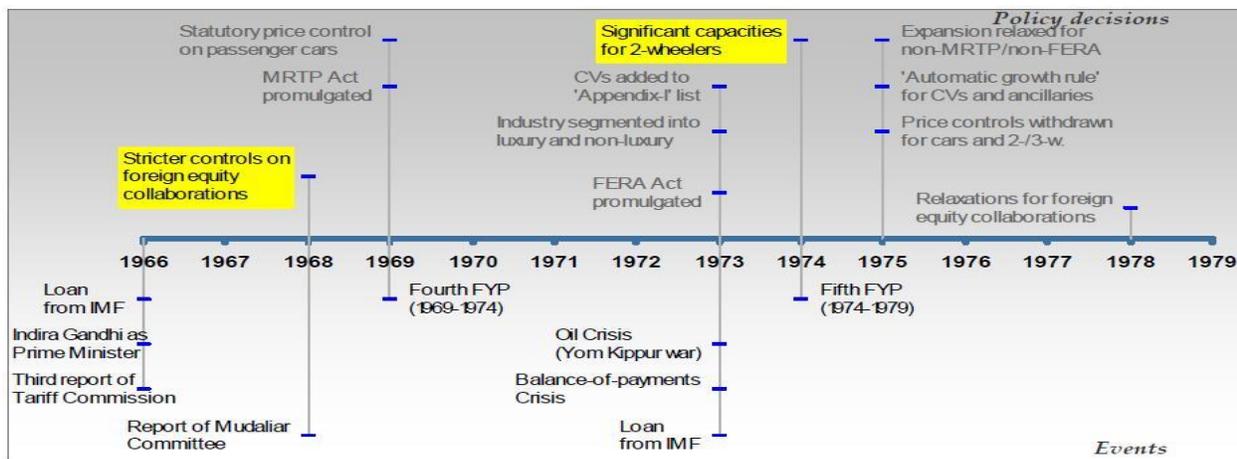


Figure 15: Timeline (1966-1979) of key policy decisions on automobiles in India

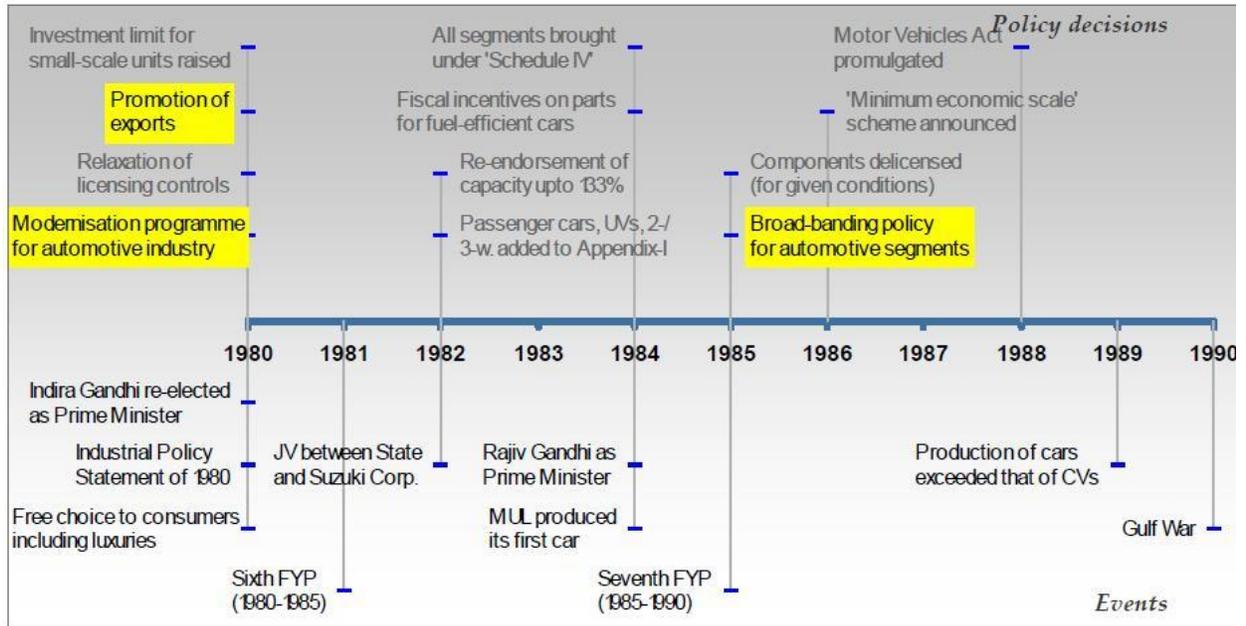


Figure 16: Timeline (1980-1990) of key policy decisions on automobiles in India

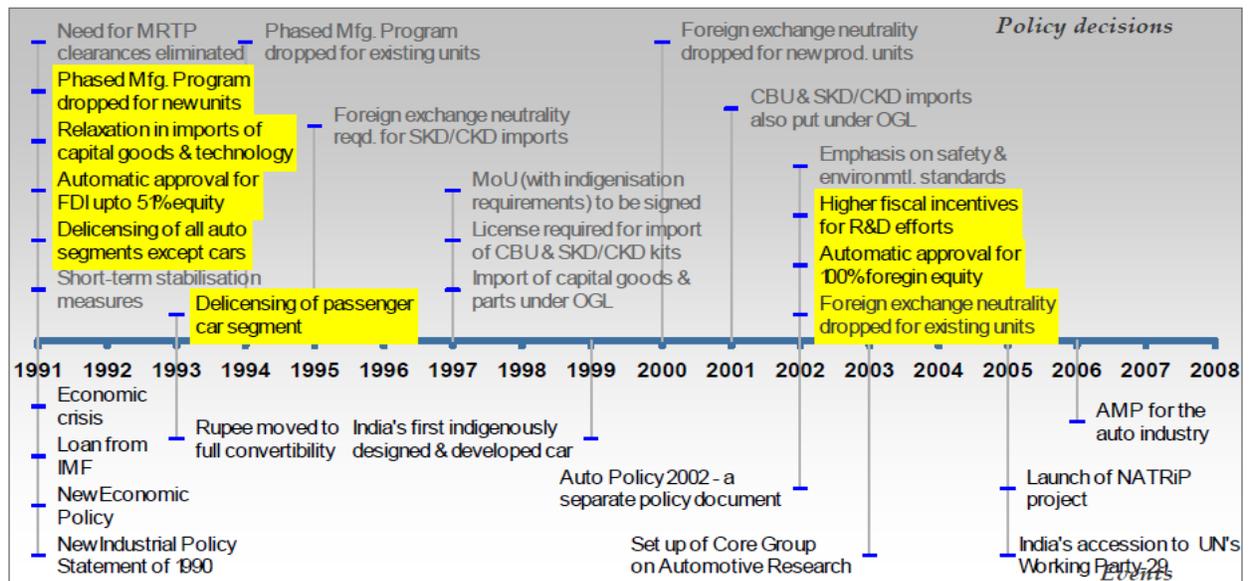


Figure 17: Timeline (1991-2008) of key policy decisions on automobiles in India

¹ Mahipat Ranawat and Rajnish Tiwari: "Influence of Government Policies on Industry Development: The Case of India's Automotive Industry", Hamburg University of Technology, Hamburg, Germany.

However, the motorcycle industry is being developed by the individual entrepreneurs, no planed and strategic roadmap from the government and any trade body has been found so far. In addition, several regulatory barriers like Tariff Structure, ineffective SAFTA and lack of other required supports from the government hinders the growth opportunities of Bangladeshi motorcycles. Therefore, to lead the country into the global standard motorcycle industry, the obstacles mentioned above, must be solved by the government. For which formulation a timely and phased regulatory regime or policy framework should be the key steps of the government.

Chapter IV: Policy Formulation

In Bangladesh, this is the right time for government to formulate a policy and start implementing the policy within a very short period of time without being isolated from country's industrialization and socio-economic development. The policy should consider the key issues mentioned below, prioritizing the betterment of a domestic motorcycle manufacturing industry in the country.

4.1. Vision

To establish a globally competitive motorcycle industry in Bangladesh.

4.2. Policy Objectives

This policy aims to promote integrated, phased, enduring and self-sustained growth of the motorcycle industry in Bangladesh. The objectives are to:

- a) Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country;
- b) Promote a globally competitive motorcycle industry and emerge as a local & global source for motorcycle components;
- c) Establish an international hub for manufacturing motorcycle a key center for manufacturing motorcycle parts in the world;
- d) Ensure a balanced transition to open trade at a minimal risk to the Bangladesh economy and local industry;
- e) Conduce incessant modernization of the industry and facilitate indigenous design, research and development;
- f) Steer Bangladeshi software industry into motorcycle manufacturing technology;
- g) Development of domestic safety and environmental standard with international standards.

4.3. Licensing and Certification

Licensing Authority: Special care to be taken on the issuance of license and certification by authority. The Board of Investment (BOI) should be assigned as the industrial licensing authority for any category of motorcycle industry on the basis of a report by a High Powered Technical Committee (HPTC) set up by BOI in consultation with MOI. The Board of Investment (BOI) should monitor the performance of the industry regularly. BOI should be assigned to identify performance for any category of motorcycle industries periodically.

Monitoring by NBR & BRTA: NBR should monitor all categories of motorcycle industries and evaluate their status in the sector. NBR should monitor import items as well as per the license of the respective enterprise. BRTA should inspect, monitor and issue license for each category.

4.4 Proposed Definition of Different Category of Industries:

In the proposed policy guidelines, definitions of CBU/SKD dealer, CKD industry and manufacturing industry have been proposed. It is proposed that the new definition of different category of industries can be made effective from July, 2015. In future if any change is needed in the definition of CBU/SKD, CKD and Manufacturing industry, it ought to be determined in line with current international practices preferably jointly by NBR / BOI / MOI. However, the Permanent Technical Committee (PTC) to be set up for the Motorcycle Industry may adjust it to the needs and requirements of the country and implement it from July 2015.

There are three categories of motorcycle industries – i) Completely Build-up Unit (CBU), ii) Completely Knocked Down (CKD), and iii) Local Manufacturing. And, the above mentioned three industries should be determined as below:

4.4.1. CBU/ SKD

Completely built unit is the terminology when a car/bike/automobile is imported/exported to/from some other country as a complete car fully assembled. These automobiles do not require an assembly before they can be sold out to the buyers in the target country's markets. Most of the imported cars and bikes in India come as a CBU.

This category refers to import motorcycle under CBU (completely Built Unit) condition or in SKD (Semi Knocked Down) condition. In CBU form, fully finished motorcycle is imported and thus no value addition occurs in the home country. In SKD form, the motorcycle is imported in several detached portions and simply the portions are assembled. Value addition is considered as nil while importing under CBU/SKD form.

4.4.2. CKD Industry

Completely knocked down car / bike /automobile is one which is imported or exported in parts and not as one assembled unit. Such units are first sent to an assembly plant in the target country where all these parts are assembled and one complete car / bike / vehicle is made using the imported components. These kinds of units generate employment in the target country as more machinery and manpower investment is needed to assemble the components to make the vehicle.

Under CKD (Completely Knocked Down) form, various major parts of motorcycle are imported separately and then assembled in home country. In this proposed policy, it will be considered as imported under CKD form if the parts of the motorcycle are imported in a condition as mentioned below and then are assembled to produce a finished motorcycle.

Import under CKD form and then after some value addition, assembling is done to produce a motorcycle. Thus it is being nomenclatured as CKD industry.

To be recognized as a CKD industry, the following criteria must be met.

Criteria

A) A CKD industry must do some processing work to add value to the imported items.

B) Engine to be procured in unassembled condition

C) Following items should be imported as separate items

- i. Main frame body (Chassis and Half Chassis)
- ii. Front & Rear Fork
- iii. Chain and Chain Cover
- iv. Handle
- v. Rim, Hub, Spoke, Nipple, Tyre and Tube
- vi. Fuel tank assembler
- vii. Speedometer assembler
- viii. Front & Rear Axle
- ix. Brake panel
- x. Front & rear shock absorber
- xi. Brake cable, accelerator cable
- xii. Wire harness, Ignition Coil, Rectifier Light, Battery, etc.
- xiii. All switches
- xiv. Side Cover
- xv. Seat
- xvi. Front & rear Fender
- xvii. Sprocket
- xviii. All Nut-bolts and other accessories which are needed for assembly.

D) The above items are encouraged to import with prime coat (wherever applicable) so that final paint can be applied at the CKD industry.

E) A CKD industry must have an assembling line of its own.

F) A CKD industry must have testing facility of its own.

G) At least total 20% value addition is mandatory to get recognition as a CKD industry.

4.4.3. Manufacturing Industry

To be a manufacturing industry, the following 5 criteria (criterion A, B, C, D, & E) as mentioned below to be satisfied by an enterprise.

Criterion A:

- a) **Assembling:** Engine assembling and engine testing to be done by the industry itself.
- b) **Manufacturing:** Following two items must be manufactured by the industry itself.
 - i. **Chassis & Half Chassis.**
 - ii. **Fuel Tank**

Criterion B: Required Manufacturing Facility

A manufacturing industry must have the following facilities:

- i) **Engine Assembling & Testing:** The industry must have engine assembling line and engine testing facility
- ii) **Assembling line to produce a complete motorcycle:** The industry must have assembling line to produce a complete motorcycle
- iii) **Welding facility:** The industry must have various types of welding facility such as TIG/MIG/argon/oxy-acetylene welding etc. as per requirement
- iv) **Punching /Press facility:** The industry must required Punching /Press facility such as mechanical press/power press/hydraulic press etc.
- v) **Complete & finished motorcycle testing facility:** The industry must have computerized testing facility
- vi) **Painting facility:** The industry must have paint shop having facility of liquid paint/powder coating paint/ED paint/VD paint
- vii) **ETP:** The industry must have ETP (Effluent Treatment Plant) of its own.

Gross list of machinery required to produce each individual item is appended below. A manufacturing industry must possess the required machinery as mentioned below for producing its chosen items.

<i>Item</i>	<i>Required Machinery</i>
Chassis & half Chassis	Bending Machine, Minimum 250Ton Mechanical Press/Power Press; MIG Welding Machine, TIG Welding Machine, Argon Welding Machine, Spot Welding Machine, Painting (Liquid Paint/Powder Coating Paint/ED Paint/VD Paint)
Fuel tank	Hydraulic Press: Minimum 300 Ton/Mechanical Press: Minimum 250 Ton/Power Press, Seam Welding Machine, Spot Welding Machine Liquid Painting
Silencer	Bending Machine, Rolling Machine, MIG Welding Machine, Painting
Fender/side cover	Injection Molding Machine, Liquid Painting For Metal Fender: Hydraulic Press, Liquid Paint
Tail Cover/ Headlight Cover	Injection Molding Machine, Liquid Painting
Seat	Poly Urethene Machine, Injection Molding Machine, For Metal Works: Power Press
Chain	Power Press, Heat Treatment Furnace, Surface Treatment, Machining
Main Wiring	Crimping Press, Striping Machine, Cutting Machine, Sealing Machine, Testing Machine
Sprocket	Power Press, Forging Machine, Milling Machine, Heat Treatment Furnace, Surface Treatment,
Chain Cover	Power Press/ Hydraulic Press, Liquid Paint, Powder Coating For Plastic Works: Injection Molding Machine, Liquid Painting
Signal Light	Injection Molding Machine, Anodized Vacuum Coating Paint (Optional)
Handle Bar	Tube Bending Machine, Die Casting Machine, Painting (Powder/Chromium/Liquid Paint)
Looking Glass	Tube Bending Machine, Injection Molding
Main Stand & Side Stand/Foostrest & Brake Paddle	Power Press, Welding, Bending Machine, Die Casting, Powder/Chromium/Liquid Paint
Shock Absorber	CNC Spring Making Machine, Die Casting, Hardness Testing Machine
Wheel	Gravity Casting Facility, Heat Treatment , Shot Blasting Machine, Liquid Painting
Tyre	Mixing Engineering, Tread Extrusion Engineering ,Topping Engineering, Bias Cutter Engineering, Air Bag Manufacturing Engineering , Bead Wire Manufacturing Engineering ,Inner Liner Extrusion Engineering ,Building Engineering ,Curing Engineering
Battery	casting M/C, Lead Melting Furnace, Hole Punch M/C, Short

	and Polarity testing, Intercell Welding, Heat Sealing M/C, Leak Testing and coding, Welding Torch, Life cycle testing Machine, Chamber Heat Sealing M/C & Testing Machine
<i>For Final Testing of metallic parts</i>	<i>Salt Spray Testing Machine, Universal Testing Machine, Hardness Testing Machine</i>

Criterion C:

Items to be manufactured by the industry itself or by the local vendors or jointly: Some major and vital parts/components of a motorcycle are appended in the under mentioned list of 22 items. To be a manufacturing industry, the second criteria is to manufacture any 6 (six) items from the following list either by the industry itself or by the local vendors or jointly.

- i) Sprocket /Silencer
- ii) Fender /Side cover
- iii) Chain / Headlight
- iv) Seat/Tail Light
- v) Main wiring/ Control Cable (brake, clutch, accelerator, Speedometer)
- vi) Chain cover/Signal light
- vii) Handle Bar/ Tyre
- viii) Battery / Wheel
- ix) Main stand & side stand/ Shock absorber
- x) Footrest & Brake paddle/ Looking Glass

Criterion D: Value Addition

At least total 40% value addition is mandatory to get recognition as a Manufacturing Industry.

Criterion E: Progressive manufacturing

At least 10% engine parts to be manufactured by the industry within next 3 years from the date of commencement of production of the industry

4.5 Proposed Tariff Policy

Considering the present status of the motorcycle industrial sector, it seems that at this stage of the motorcycle industry, manufacturing enterprises require 2 to 3 years time to develop a new motorcycle. The local assemblers also require 2/3 years time to start localization of the parts/components of their existing/future models and/or developing new models. So as a preparatory period, the govt may provide three years time to the local assemblers (CBU/SKD & CKD) and other potential enterprises to progress to localization/local manufacturing. So, in order to encourage local industry, suitable tariff/duty benefit would be allowed to local manufacturers with effect from July 2015 keeping in mind the practices followed in the neighboring countries. Till such time, the import duty/other taxes on CBU/SKD & CKD items should remain unchanged. Thus it has been proposed that the new proposed tariff structure can be made effective from July, 2015.

The existing tax structure should be continued for the local manufacturers.

Local manufacturing ought to be the highest preference for any country for which all countries withdraw all regulatory barriers on local manufacturing industry to encourage local manufacturing, and impose regulatory barriers to import industries. And, in regards to Regulatory Duty (RD), it is imposed to discourage import of the items, unless the items are considered as raw materials/parts of the manufacturing industry. So, there should not be any RD on parts and components imported by the local manufacturers. Thus, the government would impose zero RD on parts and components imported by the local manufacturers and RD shall be the same both for CKD and local manufacturers as proposed by the technical committee in future.

Supplementary Duty on import of CBU/SKD and CKD items: The proposed policy guidelines opines that to herald the blooming of localization (local manufacturing), a congenial policy pertaining to Supplementary Duty (SD) on import of CBU/SKD and CKD items to be framed in light of duty structure that is being followed in the neighboring countries. The implementation of said duty structure is to be made effective from July, 2015.

Custom Duty (CD) on import of basic raw materials: The proposed policy guidelines suggest that the Custom Duty (CD) on import of basic raw materials for manufacturing industry may be reduced as much as possible with effective from July, 2015.

Registration and Fitness Cost: Registration and Fitness cost to be reduced

Export Incentive: To support and encourage exports of motorcycles from Bangladesh, Export Incentives would be provided to the exporters. Export Incentives would be facilitated in a form of 15% to 20% cash incentive on export amount and obviously exporters of motorcycles, including deemed exports, would not be required to pay any VAT on exported motorcycles. Here to refer that bicycle industry gets 15% incentive on export of locally produced bicycle.

4.6. Testing and Quality Control

Bangladesh motorcycle manufacturers have already proved satisfactory result for their products quality. In addition, they have also got quality pass certificate from some international certification agencies. However, they should design and begin to implement a comprehensive standard system of quality, safety, environment, and equivalent to international practices.

Automobile Testing Cell (ATC) in BSTI: A proper authority should be developed for testing and certification. All types of quality tests and certifications would be done by Bangladesh Standards and Testing Institution (BSTI). Thus, with this view, for best possible outcome, the policy urges government to establish a well equipped and modern ‘Automobile Testing Cell (ATC)’ in BSTI. Strong coordination should be maintained with BOI.

Testing & Certification: The policy guidelines propose that:

- a) All models of motor-cycles, especially engine capacity (CBU, CKD & locally manufactured) before their launching/introduction in the market must be tested and certified by ATC.
- b) Each model of motorcycles, components and parts, and especially engine capacity should pass the quality certification for once (once in every three years). Thus no repetitive testing will be required for each model in each year.

The Table-2 shows existing quality tests required by different categories of motorcycle industries. It is seen that no testing is required by the CBU industry, depending on the quality assurance of the exported countries, which can be considered as a totally irrational mere excuse to allow easy access of the CBU motorcycles avoiding government incomes. On the other hand, among all three categories local manufacturing industry suffers most from complexities arise from the tests, which also requires large amount of money, time frame and other hassles.

Table 2: Existing tests and charges required by all three categories

Category	Test	Charges (Tk.)
CBU	None	None
CKD	Environment + Performance	Tk. 80,000 - 1,00,000
Local Manufacturing	Environment + Each Component + Performance	Tk. 5,00,00 - 8,00,000

Fees and charges involved with all tests should be rationally determined by the government, along with this all complexities and male practices should be curved by the government.

4.7 Licensing Authority

Board of Investment (BoI): The Board of Investment (BOI) should be assigned as the industrial licensing authority for any category of motorcycle industry on the basis of a report by a High Powered Technical Committee (HPTC) set up by BOI in consultation with MOI. The Board of Investment (BOI) should monitor the performance of the industry regularly. BOI will identify performance for any category of motorcycle industries periodically. Special care is to be taken on the issuance of license and certification by authority.

4.8 Role of NBR and BRTA

NBR:

Besides dealing pertaining to taxes & VAT, NBR should monitor all categories of motorcycle industries/dealers and evaluate their status with respect to import of items as per license and export of products, if any.

Amendment of SRO for Manufacturing Industry: NBR notification in respect of precondition of requirement of certain machinery to qualify as manufacturer as contained in **SRO-213-AIN/2010/562-MUSHAK dated 10th June 2010** needs to be suitably amended and enforced with effect from July 2014.

Amendment of SRO for CKD Industry: NBR notification in respect of precondition of requirement of certain machinery to qualify as manufacturer as contained in **SRO No. 9(4) KASH-1/93/(Part-1)/162/1-9 dated 9-4-1997** needs to be suitably amended and enforced with effect from July 2014.

BRTA:

BRTA should monitor all categories of motorcycle industries/dealers and evaluate their status.

4.9. Local Vendors Development

A manufacturing industry can procure components/parts from a Vender or Sub-contractor. A manufacturing industry can also create Vendors or Sub-contractors. Items sold by Vendors or Sub-contractors to a manufacturing industry will be treated as '**Deemed Export**' and VAT will be exempted on that item by the concern authority. Thus a vendor will not pay VAT on selling its product to a manufacturer. Thus the manufacturer will be able to procure the item at reduced cost.

There are about 10 local vendors have already been developed by the manufacturers for outsourcing of their parts and components. Within ten years there will be about 50 local vendors in the country.

- a) Due to a thin industrial baseline in Bangladesh, development of supporting industries of the motorcycle industry will play a leading role for the development of the industry. The development should focus on important technological processes, i.e. pressure processing (forging, pressing), casting, welding, thermal treatment, mold and die in order to foster

manufacturing industry.

- b) Domestic components manufacturers have huge opportunity to flourish in the auto market as there are a few companies and the local auto manufacturing is just in the beginning stage and should maintain some international quality certification agency such as ISO 9000, TS 16949, QS 9000, ISO 14001, OHSAS 18001, JIPM etc.
- c) As Bangladesh has a very strong SME development business environment and majority of the motorcycle component companies are small or medium enterprises, the components manufacturers can easily sustain in the industry and contribute to the domestic motorcycle manufacturing industry as well as to country's socio-economy. So the government should take steps to create linkages among different industries to support the industries.
- d) For the components manufacturers, acquiring a piece of land with all infrastructural facilities is very difficult. Thus, a special Automobile Components Manufacturing Park should be developed by the government.

Globally it can be found that local components manufacturers (vendors) play a key role in automobile industry. Vendor industry development is a vital part for development of a robust industrial sector.

- i) The local components manufacturers (vendors) should be incentivized to encourage supply of components/ parts/items to the local manufacturing industries. Thus significant foreign currency will be saved in this process. Supply from local vendors to the manufacturing industries can be treated as Deemed Export/Import Substitution. Thus a facility of Deemed Export/Import Substitution (on the basis of import substitution achieved) can be given to the local vendors and VAT can be exempted on the supplied item. Thus in motorcycle industrial sector, it is proposed that various local vendors/components manufacturers should not be asked to pay any VAT for supplying components/spares/parts to local manufacturing industry or assemblers.
- ii) A manufacturing industry/ CKD industry can act as a vendor to other manufacturing industry/ CKD industry.

4.10. Market Penetration

For last couples of years domestic market of motorcycles is increasing very rapidly and it is specter to grow more than this growth rate for minimum next five years. Firstly, the growing population and poor public transportation system demanding more transportation option for the mobility of the people in the country. Secondly, increasing GDP enable people to afford different means of transportation demand. Thirdly, the favorable infrastructure to ride motorcycles also shifts people to the motorcycle. In order to serve the increased market demand and creating more market following steps should be taken by the government.

- a) The quality and features of motorcycles should be people centric and should a dependable mode of transportation to the people.

- b) All motorcycles should be affordable to the people so that people can have the access to motorcycles, and people who are in need of motorcycles, financial assistance should be provided to them.
- c) All documentation, certification, registration and testing system should be easily accessible to the people, likewise other countries the government should use the dealers and suppliers of the motorcycles to collect all documentation, certification, registration and testing process instead of ordinary people.

4.11. Research and Development

Increased domestic demand as well as growing prospect of export in the foreign markets is encouraging the country's motorcycle manufacturers to upgrade their technological capabilities, either through in-house Research and Development (R&D), Design and Dies efforts or through other means of technology acquisition from established local and foreign organization.

- a) All manufacturers should establish their own R&D activities in many ways (independence, cooperation, buying design, etc.) depending on their capability with a target of high quality motorcycles.
- b) The government should provide Science and Technology Fund to support designing activities, sample producing, as well as training and technology transfer.
- c) Government should establish an Automobile Research Institutions to encourage the innovative and standard products within the country. This will be used by all the players in the industry to develop own models, reduce material costs and become more competitive.
- d) The Bangladesh Automobiles Assemblers and Manufacturers Association (BAAMA) and Motorcycle Manufacturers' & Exporters' Association (MMEAB) can play a very important role for in this context. So, BAAMA & MMEAB should develop its own R&D capacity to conduct industrial development research activities for the betterment of this industry as well as for market development, road safety, energy consumption and environment protection.

4.12. Skill Development

Within next 10 years the industry will require about 10 thousands skilled workforce in the manufacturing and assembling process of the industry and about 10 lakhs people will indirectly be engaged with the supply and distribution process of the industry.

- a) To solve the emerging problem of skill shortages and skill mismatches, training capacities and vocational skill development capacities should be developed.
- b) All Engineering and Technology academic institutions should quickly be enriched with Automobile Institute with active participation of private industry players.

- c) Industry also lacks skilled and efficient management professionals, which is one of the constraints for many firms to scale up their operations. This problem should also need to be addressed, by both industry and the government, and by organizing world-class management training programs.
- d) To encourage local components manufacturing, the local components manufacturers should be incentivized, which should be done providing Deemed Export facility to the components manufacturers, and thus the components manufacturers should need not to pay any VAT.

4.13. Under-Invoicing and False Declaration:

To prohibit malpractices pertaining to under-invoicing and false declaration, proper measures is required to be taken. Appropriate valuation of all imported items is to be done by the designated authorities to curb under-invoicing and false declaration malpractices.

4.14. Export Promotion

The industry has huge export prospects to many countries of SAARC, ASEAN, Middle East and Africa. Cheaper production cost, favorable geographical location for easy accessing into the Southeast Asian market and international standard quality are the main competitive advantage of Bangladeshi motorcycle manufacturers. However, several regulatory barriers like Tariff Structure, ineffective South Asian Free Trade Area (SAFTA) and lack of other required supports from the government hampers the export opportunities of Bangladeshi motorcycles.

If we look at our neighbor, India, it has 100% Custom Duty and 35-52% other Duty to import motorcycle in India, whereas, in Bangladesh 25% Custom Duty and 53-73% other Duty. In addition, to encourage exports, India provides about 20% cash incentive to exporters, China provides about 15%, but in Bangladesh, unfortunately, there is no such incentive is provided by the government.

- a) Therefore, to support and encourage exports of motorcycles Export Incentives should be provided to the exporters. Export Incentives should be facilitated in a form of – more than 20% cash incentive on export amount and exemption from VAT on the exported motorcycles.
- b) The government should take proper measures to enact the SAFTA, which eliminates trade barriers among the member countries. Particularly, the facilities have been provided to the refrigerator industry, the same should be provided to the motorcycle industry as well to steer export opportunities to the member countries.

4.15. Investment Generation

4.15.1. Required Investment

According to the analyses of current situation of the industry, as well as the demand forecasts up to 2021, it can easily conclude that motorcycle industry in Bangladesh is still in favorable conditions to develop for which a huge investment is required in the industry. Within a 5 year period more local motorcycle manufacturing organization is needed in the country to meet only the domestic demand.

- a) So, new invested projects should be conformity with a planned orientation and approved motorcycle industry development strategy, using advanced technology, ensuring intellectual property rights and meeting air disposals standards and the quality of products to serve the market demands.
- b) All new automobile parts and components manufacturers should be provided a Tax Holiday for next five years. It will encourage and enforce them to invest in this infant industry and will also help them to minimize their initial investment costs.

4.15.2. Mode of Investment

Globally motorcycle industry development trend shows that the industry starts with import of completely build unit from other countries, then assembling the imported parts of the motorcycle and finally manufacturing locally with import of only necessary components.

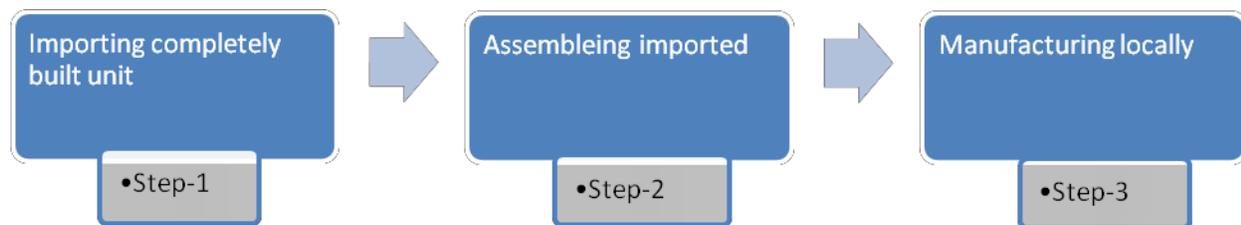


Figure 18: Development process of motorcycle industry

In regards to Bangladesh motorcycle industry, the industry has already moved to Step-3, means local manufacturing industry. However, it is evident that both Step-1 and Step-2 also exist in the country.

- a) As local manufacturing is more preferable to any country, the government should expand the investment in this category. Investment in both manufacturing and assembling industry can occur by – only local or foreign investment, or joint venture of local or foreign investment. Production cooperation and allocation among local and foreign enterprises will provide advantage of technology and equipment invested, to reduce the initial investment cost and to avoid overlapped investment.

- b) There are about 50 CBU motorcycle enterprises exist in the country. So at this stage of the industry the government should not issue any more new CBU motorcycle import license. Therefore, only CKD and Local Manufacturing licenses should be issued by the government.

4.16. Proposed Tariff Structure

Considering the required huge domestic investment in the motorcycle manufacturing industry and components manufacturing industry, the potential policy should have a domestic manufacturing promoted tariff structure with right use of duties, incentives and other provisions. For clear understanding of the analysis, the existing tariff structure for CBU, CKD, local manufacturers and spare parts trader is mentioned as bellow:

Table 3: Detail of existing tariff structure

HSCODE	Description	CD ²	RD ³	SD ⁴	VAT ⁵	AIT ⁶	ATV ⁷	TTI ⁸
8711.10.11	Capacity not>50cc, CBU, 4-stroke	25	5	45	15	5	3	127.96
8711.10.19	Cap. not>50cc, CBU, 2-stroke	25	5	250	15	5	3	444.03
8711.10.21	Cap. not>50cc, CKD, 4-stroke	25	0	30	15	5	3	97.13
8711.10.29	Cap. not>50cc, CKD, 2-stroke	25	5	250	15	5	3	444.03
8711.10.91	Cap. not>50cc, NES ⁹ , 4-stroke	25	5	45	15	5	3	127.96
8711.10.92	Engine, Cap. <=50cc, CKD, 4-stroke	25	0	30	15	5	3	97.13
8711.10.99	Cap. not>50cc, NES, 2-stroke	25	5	250	15	5	3	444.03
8711.20.11	PE, Cap: 50-250cc, CBU, 4-stroke	25	5	45	15	5	3	127.96
8711.20.19	PE, Cap: 50-250cc, CBU, 2-stroke	25	5	250	15	5	3	444.03
8711.20.21	PE, Cap: 50-250cc, CKD, 4-stroke	25	0	30	15	5	3	97.13
8711.20.29	PE, Cap: 50-250cc, CKD, 2-stroke	25	5	250	15	5	3	444.03
8711.20.91	PE, Cap: 50-250cc, NES, 4-stroke	25	5	45	15	5	3	127.96
8711.20.92	Engine, Cap: 50-250cc, CKD, 4-stroke	25	0	30	15	5	3	97.13
8711.20.99	PE, Cap: 50-250cc, NES, 2-stroke	25	5	250	15	5	3	444.03
8711.30.00	In reciprocating internal combustion, Cap: 250-500cc	25	5	0	15	5	3	58.58
8711.40.00	In reciprocating PE, Cap: 500-800cc	25	5	0	15	5	3	58.58
8711.50.00	In reciprocating PE, Cap: >800cc	25	5	0	15	5	3	58.58
8714.90.00	Parts and accessories of Motorcycle	25	5	0	15	5	3	58.58

² CD – Custom Duty

³ RD – Regulatory Duty

⁴ SD – Supplementary Duty

⁵ VAT – Value Added Tax

⁶ AIT – Advance Income Tax

⁷ ATV – Advance Trade VAT

⁸ TTI – Total Tax Incident

⁹ NES – Not Elsewhere Specified

A glance of existing tariff structure for different categories summarized in the table below:

Table 4: Summarized existing tariff structure for motorcycle industry

Category	CD	RD	SD	VAT	AIT	ATV
CBU	25	5	45	15	5	3
CKD	25	0	30	15	5	3
Manufacturing	25	5	0	15	5	0
Spare Parts Trading	25	5	0	15	5	3

Globally, both the motorcycle and components manufacturing industry have much higher employment-generation potential and export-intensity; but unfortunately, Bangladeshi motorcycle manufacturing industry is still without any protection from the CBU and CKD industry. Effective rate of protection in a form of SD and RD on CBU and CKD is not totally appreciating for prioritizing the local manufacturing. Thus, in all other countries, duties on CBU and CKD industry are 3-5 times higher than any duties on local manufacturers. This implies that effective rate of protection on CBU and CKD is totally ineffective one. Therefore, to remove the policy bias inherent in such a situation, a standard tariff structure for the motorcycle industry should be brought immediately.

The standard tariff structure will help spurring the Bangladesh motorcycle industry. However, import duties, particularly on CBU and CKD motorcycles, should be undertaken in a phased manner and only after ensuring that domestic manufacturers get an encouragement to meet the domestic demand as well as to export. At the same time, due attention is required on easy access and availability of raw materials and non-localized components at cheaper price.

Considering the above facts, other neighboring motorcycle manufacturing countries and our manufacturing potential a standard tariff structure should be proposed as the structure mentioned below:

- a) For the local manufactures (and spare parts importer) current existing import duties (mentioned in Tables) should be continued for the next 3 years (period).
- b) Local manufacturing is the highest preference for any country; for which all countries withdraw all regulatory barriers on local manufacturing industry to encourage local manufacturing and imposed regulatory barriers to import industries. And, in regards to Regulatory Duty (RD), it is imposed to discourage import of the items, unless the items are considered as raw part of the manufacturing industry. Unfortunately, there is an RD of 5% on parts and components imported by the local manufacturers. So, there should not be any RD on parts and components imported by the local manufacturers. Thus, the government should zero RD on parts and components imported by the local manufacturers. On the other hand it may be changed the present HS Code against Parts and components and identify it separately by sub HS Code.

- c) To balance the government revenue and discourage import, the 5% RD, which would be withdrawn from the manufacturing industry, should be imposed on the CBU and CKD industry from July, 2015.
- d) At this stage of the motorcycle industry, to develop a new motorcycle manufacturing enterprise 2 to 3 years time is required. Thus, the government should provide 3 years time to existing CBU and CKD enterprises and potential enterprises to progress to local manufacturing.

4.17. High Powered Technical Committee (HPTC)

1. For continuous monitoring, evaluation and updated guidelines, a High Powered Technical Committee (HPTC) can be formed under the Ministry of Industries comprising of representatives from Board of Investment (BoI), Bangladesh University of Engineering and Technology (BUET), Ministry of Finance (MOF) / NBR, Ministry of Commerce (MOC), Bangladesh Road Transport Authority (BRTA), and Bangladesh Automobile Manufacturers' and Assemblers' Association (BAMAA) and Motorcycle Manufacturers' & Exporters' Association (MMEAB)
2. The Technical Committee (HPTC) would be able to provide necessary information to GoB (MOI; BOI; MOF/NBR and other government agencies on a continuous basis so that GoB does not either get cheated or deprived of genuine revenue. The HPTC may be required to inspect each manufacturing unit in every six month and submit its report to BOI, BSTI and others as required.
 - a. This policy guidelines suggests that the proposed High Powered Technical Committee (HPTC) may be formed with the following persons/members: i) Chairman – Additional Secretary, MOI, ii) Member – Nominee from BOI, iii) Member – Nominee from BUET, iv) Member – Nominee from MOF/NBR, v) Member – Nominee from MOC, vi) Member – Representative of Bangladesh Road Transport Authority (BRTA) and vii) Member – Representative of Motorcycle Manufacturers' & Exporters' Association of Bangladesh (MMEAB) and Bangladesh Automobiles Assemblers and Manufacturers Association (BAAMA)