

**Bangladesh's Freight and Logistics Industry: Role in Economic  
Development and Policy Impact**

## Executive Summary

The rapid change in global trends along with shifts in demand and supply have left producers looking for host countries that will act as a cheap production base, particularly as wages continue to rise in China. Bangladesh being of the fastest-growing economies in South Asia is highly dependent on international trade for its growth. Bangladesh being a country that has a strategic trade partnership with many countries is in strong need of a sophisticated and organized logistics sector. Besides, Bangladesh as a part of China's Belt and Road Initiative (BRI) is likely to experience immense trade growth in the upcoming years. Hence, a well-managed logistics system is a crying need for Bangladesh at this time.

Keeping pace with the steady growth of foreign trade, the logistics and freight industry in Bangladesh has also been slowly expanding. The estimated size of the logistics and freight industry in Bangladesh was roughly USD 1.5 billion in 2017 and currently stands at ~USD 1.89 billion taking the growth rate of international trade into account. The geographic positioning of Bangladesh allows the country to leverage its diverse modes of transportation and regional connectivity. But lack of management, initiative and several other bottlenecks such as the absence of an integrated system, lack of a governing body defining rules and regulations, setting strategies and controlling the entire logistics sector, absence of logistics educations, and lack of sufficient infrastructure, hinder the country from taking these opportunities. Additionally, even though the government has invested a huge amount of resources for infrastructural development in recent years, there is still a lot of progress to be made. Inefficiency in infrastructural usage and operations intensifies the underutilization of the available infrastructural capacity. Moreover, the growth of the logistics industry will face a greater setback amid the current worldwide slowdown of economic activity and international trade due to the outbreak of the coronavirus.

Although customs play an important role in a country's logistics and international trade flow, Bangladesh lags behind with inefficient customs processes that are plagued with red tape. Bangladesh's customs also compare as below par when compared to its main competitors India and Vietnam which make customs automation highly necessary. Bangladesh is currently in the process of implementing a Custom Modernization Strategic Action Plan (2019-2022) to bring its current system on par with that of developed nations. Apart from this, Bangladesh has a lot to learn and take from the establishment of India's Logistics Division. Bangladesh now faces the similar lacking that India had gone through before a separate Logistics Division was established. It is now pertinent that Bangladesh reviews India's actions for policy implementation, integrated infrastructure development, skill enhancement and technological improvements and follow appropriate strategies to reform the logistics sector. With the recommendations suggested in this report, it is possible to transform our logistics industry into one that can broaden the path to our economic development.

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## 1. Logistics and its impact on the economy

Bangladesh is currently one of the fastest-growing economies in South Asia and is expected to be the 26<sup>th</sup> largest economy by 2036. The country is also set to become a middle-income country by 2021 and a developing country by 2027. International trade has been one of the key growth drivers behind Bangladesh's successful growth story. However, increasing competitiveness in the global arena has been making trade more and more challenging. Global trends are rapidly changing and shifts in demand and supply have left producers looking for host countries that will act as a cheap production base, especially as wages continue to rise in China. At present many countries, including China, are increasingly eyeing Bangladesh as the next hotspot for investment. Like China, wages in Bangladesh have also been increasing with growing demand from laborers for a living wage, which in turn has been exerting significant cost pressure on local producers.<sup>1</sup> For this, one of the most effective ways in which Bangladesh can address these increasing costs is to upgrade its inefficient logistics system as a means to upgrade the country's global competitiveness.

Industrial diversification and growth are highly dependent on the availability of a strong logistics support. When compared to Vietnam, Bangladesh has a poor logistics system that lags behind Vietnam in many aspects. As of 2018, Bangladesh ranks 100 in the World Bank's Logistics Performance Index (LPI), which indicates that the country's logistics infrastructure still has a long way to go. While Bangladesh has recognized the importance of an efficient transportation system in a country, it is yet to appropriately and formally recognize the need for a robust logistics and freight system. The following section highlights the importance of the sector in the context of economic growth.

**Optimizing trade and cost efficiency:** Freight and logistics are a vital aspect of production and trade and is considered as one of the most important sectors in today's world. It has a critical part to play in changing the rules of the game by helping countries gain an upper hand in efficiency.<sup>2</sup> In current times, the enhancement of logistics is becoming increasingly crucial due to the potential it holds in helping the country boost trade and providing ample support in propelling economic growth.

Roads currently comprise a majority portion of the commercial transport and hence are the most used medium of transport.<sup>3</sup> However, road transport costs are much higher in comparison to many other developing or developed countries. The rates for vehicles such as trucks can range between US\$ 0.06 to US\$ 0.12 – with congestion being the main culprit behind doubling these costs. Without such omnipresent

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<sup>1</sup> [Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>2</sup> [The Impact of Logistics Industry on Economic Growth: An Application In OECD Countries.](#)

<sup>3</sup> [High Prospects in The Commercial Vehicle Market - Lightcastle Partners - LightCastle Partners. 2019.](#)

congestion in the logistics system, logistic costs for companies could have been much lower than they currently are while cutting down port delay times and inefficiencies across the board can potentially boost exports by 19%.<sup>4</sup> Consequently, industries are required to hold much higher levels of inventories to deal with the highly congested and unreliable system, adding a greater cost burden for companies.

Improving the logistics system in terms of shortened lead times will ensure faster delivery and hence will make for a more optimized business operation. It can also reduce the cost involved in imports and exports as well as those involved in local businesses. Developing countries like Bangladesh have been able to increasingly participate and achieve greater integration with international trade by improving their transport and freight system. The smooth flow of trade is materialized via a chain of transport that involves the execution of logistical activities such as the planning, implementation and managing the transportation of products from one place to another.<sup>5</sup> Enhancing the logistics capabilities of Bangladesh is also crucial in helping it sustain its position as top RMG exporter in the global area alongside diversifying the overall export basket of the country.

**Mobilizing and streamlining business processes:** Freight and logistic services are also important for mobilizing businesses and facilitating trade by helping transport goods via sea, road and air. The sector, that accounts for around 11% of global GDP<sup>6</sup>, has completely transformed how markets operate. Not only is it the backbone of the global economy but it also acts as a support system for an infinite number of industries. Today, supply chains have morphed into more complex structures and more geographically spread out with increasing globalization. This has made it necessary to develop a more advanced system facilitating the emerging global production network.

A well-built freight and logistics system is also necessary for creating a more efficient trade management system, streamlining the procurement of imports and the delivery of products to buyers in a more competent manner. The economic cost of distributing raw materials, semi-finished and finished goods can comprise 10% to 15% of GDP on average. For advanced economies, the cost is much lower at 6%-8% while in developing countries this can account for as much as 25% of GDP.<sup>7</sup>

**Interdependency of logistics and business growth:** The growth of the freight industry is highly dependent on the growth of businesses and vice versa. In recent years, local e-commerce, food delivery and other businesses in Bangladesh have flourished with the help of significant enhancement in the logistics system.

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<sup>4</sup> Same as <sup>1</sup>

<sup>5</sup> [Effect of Economic Growth on the Logistics Sector in India](#)

<sup>6</sup> [Coronavirus: A resilient logistics sector can save lives and livelihoods - World Bank Blogs](#)

<sup>7</sup> [The Relevance of Logistics - Geography of Transport Systems](#)

This has allowed businesses to not only operate in the city but also cater to the burgeoning customer base in other parts of the country. Many f-commerce businesses have also sprouted in major cities of Bangladesh.

Today, the E-Commerce Association of Bangladesh (E-CAB) has approximately 500 e-commerce companies and 2,000 f-commerce companies registered under it. It has been estimated that the e-commerce industry will grow from its current USD 70.87 million to USD 344 million by 2023. As the number of orders placed online as the busy working population expands in tandem with purchasing power, the prospects for the logistics industry remains significantly high. Almost 90% of all third-party e-commerce deliveries are carried out by few companies like Pathao, E-Courier and Paperfly.<sup>8</sup> Hence, new players are likely to enter the market, given the immense opportunities in this sector.

**Facilitating growing domestic demand:** Apart from e-commerce companies, physical stores also require the help of freight and logistics service providers. Such stores are increasingly launching their websites and prompting customers to order their products online. Increasing literacy, smartphone and internet penetration, will also continuously drive demand for products in both urban and rural areas of the country. Remote areas of the country will no longer be considered so with the ever-growing urbanization and ongoing development in infrastructure. Given that private consumption accounts for 68.7% of Bangladesh's GDP and has acted as a driving force for the economy, the expanding freight and logistics systems will continue to help meet the growing demand in the country and hence facilitate growth. The overall improvement of socio-economic factors in the country have resulted in rising income and changed consumption patterns has fueled demand in the country.

**Sourcing raw materials:** Strong connectivity alongside an efficient logistics and freight system paves the way for effective allocation of production inputs. But a poor logistics system and high transportation costs act as barriers for firms in sourcing raw materials from regions that best suit the firm and optimally allocate its factors of production across different sectors and regions.<sup>9</sup>

**Establishing regional connectivity:** The transportation system in a country is a key part of logistics and freight.<sup>10</sup> Moreover, the economic development in a country and its potential is strongly tied to the level of development in that country's infrastructure in transport – the higher the quality of transport and interconnectedness in a region, the better is its level of economic development. An inferior transportation system results in economic costs in the form of a relatively poorer life quality and access to resources and opportunities. However, when the system is sufficiently developed, it creates the base for generating

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<sup>8</sup> [In Quest of A Logistics Sector Unicorn In Bangladesh - Lightcastle Partners, 2018.](#)

<sup>9</sup> [Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>10</sup> [The Impact of Developments in The Logistics Sector On Economic Growth: The Case Of OECD Countries.](#)

opportunities both in the social and economic sphere. Geographically, it grants access to wider and remote markets, which not only allows firms to enhance productivity and venture into new opportunities as with more diversified sources of raw materials and a customer base that transcends beyond a country's borders become easily accessible.<sup>11</sup>

A strong logistics infrastructure plays an important role in regional interconnectedness. In the absence of logistics, different countries won't be able to transport cargos within Bangladesh. The country's strategic position draws the attention of several countries like India, China, Bhutan, Nepal etc. Cargo transfer from main India to the seven-sister division is much easier using Bangladesh as transit. Hence, a good logistics system will improve the duty collection by providing transit services.

With the completion of the ongoing infrastructural megaprojects in Bangladesh, the transportation system will become more developed as the country will become more interconnected, giving the freight and logistics sector more space to grow. Moreover, this will not only bolster and expedite urbanization and industrialization but also relieve the pressure on the city where people move to in search of work. The rural economy can also significantly benefit from stronger connectivity but helping it generate high-value agricultural production, which is important for Bangladesh considering the importance of agriculture in the economy and the livelihoods that it will empower.<sup>12</sup>

It has been estimated that the Padma Bridge project alone will contribute 1.2% to the GDP of Bangladesh. Other upcoming projects will have similar impacts in terms of increased capacities and interconnectivity among different regions of the country. Such projects will come hand in hand with significant improvements in the overall freight and logistics industry and pave the way for allowing businesses to grow even more through the entrance in newer markets.

**Attracting an appropriate level of FDI:** Apart from improving the investment climate in terms of ease of doing business, a better regulatory framework and incentives such as tax holidays, the development of logistics and infrastructure and enhancing regional interconnectivity are also crucial for attracting FDI in Bangladesh. Countries are more likely to invest in locations that have developed infrastructure. For instance, Japan invested in countries such as Thailand, Indonesia and Malaysia in greater numbers only after their infrastructure was developed.<sup>13</sup> Hence, Bangladesh too has the potential to become a top choice

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<sup>11</sup> [Transportation and Economic Development - The Geography of Transport Systems.](#)

<sup>12</sup> [Same as above](#)

<sup>13</sup> [Bangladesh: a fertile plain for Japanese investment - The Daily Star.](#)



among foreign investors once it is able to fortify its infrastructural landscape once the ongoing projects are completed.

It is also important that the government plays on the strengths of the country when it comes to attracting FDI. For this, sectors that hold high prospects considering the high availability of low-skilled and hence low wage labor force should be capitalized on. Bangladesh needs to keep an eye out for labor-intensive industries and sunset industries of developing or developed countries, particularly those from Japan, China and Korea, that are looking to develop their high-tech industries by relocating low tech areas such as light engineering or textile.

In addition, given how the pandemic has exposed the risks of concentrating a significant portion of factories in a single location and US' soured relationship with China, Bangladesh may stand to benefit from these circumstances provided it is able to play its cards right in luring in companies from the US, EU countries, Japan, South Korea here. Here too, India is already one step ahead. More than 1,000 prospective US companies who are looking to relocate from China were reportedly approached in April by the Indian government with incentive offers. A shift in US businesses may prove to be a trump card for Bangladesh, as a spike in investment may help generate employment and provide support in reviving the country's economic conditions.

**Employment generation and national income:** The logistics sector plays a crucial role in the economic development of a country. The current logistics system is significantly fragile and bringing a reform across the sector can potentially augment cost efficiency and productivity, improve the quality and volume of international trade and attract more foreign investment. If we are able to successfully upgrade the logistics system in our country, it will not only help boost income for the businesses in the sector as well as for those businesses that require logistics or freight as a crucial part of carrying out their business operations. The resultant economic growth will create significant scope for generating more employment opportunities.

## 2. Market Analysis

### 2.1. Market Value, Future Growth, and Participants of the Sector

**Market Value and its growth:** Keeping pace with the steady growth of foreign trade, the logistics and freight industry in Bangladesh has been slowly expanding over the years. According to the data from the central bank, Bangladesh has exported USD 41.32 billion and imported USD 56.06 billion worth of products in FY 2018-19 (Bangladesh Bank)<sup>14</sup>. According to Bangladesh Freight Forwarders Association (BAFFA), the estimated size of the business of logistic and freight industry in Bangladesh is roughly USD 1.5 billion as of 2017.<sup>15</sup> If we apply the growth rate of foreign trade straight to the growth rate of the industry, the estimated size would be approximately USD 1.89 billion as of 2019. The industry has grown amid challenges including inadequate infrastructure, congestion at roads and ports, lack of skilled manpower, limited use of technology and so on in the last 30 years. However, the growth of the industry will face a hiccup on the back of the worldwide shutdown of economic activity and international trade due to the outbreak of the virus named COVID-19. It has been widely estimated that the impact of the virus may last as long as two years with a slow recovery line. The logistic and freight forward industry is among the industries which will take the hardest hit, but the industry is expected to revive with the economy once the pandemic is brought under control.

**Local and foreign logistic firms' market share:** Although both local and foreign firms are operating in the industry, local firms dominate. At present, there are around 1,000 local firms and 20 foreign logistic and freight forwarding companies operating in Bangladesh.<sup>16</sup> One possible reason behind the disparity between these numbers may be the restrictive policies towards foreign firms' participation in the industry. If any international player wishes to enter the logistic market of Bangladesh, it has to create a joint venture with a local incumbent of the country.<sup>17</sup> However, this is not the case in many other countries where multinational firms lead the way to innovative logistic services through developing better logistic infrastructure and upgraded technologies. Therefore, what we are left with is a logistic service market that is not organized and competitive enough. There are thousands of small companies throughout the country with a very small fleet or single vehicle or facility unit, providing inland waterway or trucking services, which makes it difficult to track the industry properly.

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<sup>14</sup> [Economic Data - Bangladesh Bank](#)

<sup>15</sup> [Logistics, Freight Thrive On Rising Trade - The Daily Star](#)

<sup>16</sup> [Bangladesh Freight Forwarders Association \(BAFFA\)](#)

<sup>17</sup> [Moving Forward: Connectivity and Logistics To Sustain Bangladesh's Success - World Bank Report, 2020.](#)

## 2.2. Logistic Infrastructure and Freight Share of Different Modes of Transportation

The geographic positioning of Bangladesh has allowed the country to benefit from a transportation network consisting of roads, airways, waterways and railways. Although the exact freight share data of each mode of transportation are not available, the freight share of the waterways is the highest for export-import businesses among all modes, followed by road transport. Chittagong is central to both export-import and domestic freight whereas Dhaka is central to domestic inter-district freight. However, the inter-district freight per day from the freight incentive sectors of Bangladesh is about 470,000 tons which equal to 3.3 kilograms per capita. The manufacturing sector comprises the largest freight share of 30%, followed by the agricultural sector (25%), wholesale (12%), and retail (8%). The remaining sectors account for 1%.<sup>18</sup>

Bangladesh's road network largely includes district roads, regional and national highways, which adds up to more than 21,300 kilometers. The road network also has around 4,500 bridges. Alongside this, the country also possesses rural roads that extend over approximately 304,380 kilometers. Combining the highways and the rural roads, the road density of per 1,000 people stands at 1.9 kilometers, which is very poor compared to the other South Asian countries such India (3.5 km), Bhutan (9.7 km) and Sri Lanka (5.5 km).<sup>19</sup> Moreover, poor road quality, excessive congestion and security issues on roads are the other hindrances that are standing in the way of developing efficient logistic channels in the country.

The waterway network consists of 3 international seaports, 30 river ports across the country. The river ports have around 800 landing stations and they are directly linked to the seaports. The fleet of the inland waterways has around 11,000 vessels, of which 65% are intended to move cargoes.<sup>20</sup> Bangladesh seaports can handle 3.1 million twenty-foot equivalent units of containers each year.<sup>21</sup> The Chittagong port handles as much as 80% of the international trade of the country in terms of weight. Mongla port can handle 100,000 containers which are expected to rise to 400,000 containers after the completion of its modernization and expansion project undertaken by the Government.<sup>22</sup> In FY 2016-17, almost 80% of the cargo flows from imports were generated from the Chittagong seaport, 15% from Mongla port and the rest from Kolkata. Similarly, the Payra Seaport terminal, once complete, will be the third seaport of the country. The port will be utilized for handling general cargo, sand and aggregate as well as grains. The port is expected to operate approximately three million twenty-foot equivalent units (TEUs) of containers once it becomes functional by 2022<sup>23</sup>. Other infrastructural projects such as the Karnaphuli Tunnel will allow Bangladesh to become

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<sup>18</sup> [Moving Forward: Connectivity and Logistics To Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>19</sup> [Same as above](#)

<sup>20</sup> [Same as above](#)

<sup>21</sup> [Air cargo and Bangladesh's export trade - The Financial Express.](#)

<sup>22</sup> [International-Ports: Mongla expansion to boost Bangladesh container capacity 10 percent - Jc.com](#)

<sup>23</sup> [Tk 51.5B Project Taken for Payra Port - The Financial Express, 2019.](#)

more reachable to the South-east region of the country via the Asian Highway Network. The inland waterways carry approximately 76 million tons of cargo per year, of which 61% are imported goods. However, the lower proportion of navigable area (~40%) compared to the overall river network (24,000 kilometers), especially in the dry season limits the smooth flow of the cargo across the country.<sup>24</sup>

According to Boeing's forecast, air cargo counts as no more than 1% of the total international trade in terms of weight but it accounts for 35% of the total trade value. High-value sophisticated products (consumer electronics, machinery, computer equipment, pharmaceuticals) and perishable products (fruits, vegetables, meat) that often require speed and reliability in transportation are generally shipped using airways. In Bangladesh, almost 9% of the total exports to the European Union are shipped using air freight. But over the last few years, cargo shipment through air freight has increased by more than 100%.<sup>25</sup> Apparel exporters are increasingly using air cargo despite the bulk nature of the products that make it 11 to 20 times more expensive compared to the seaport shipment. The inefficiency of ports in handling cargoes, the pressure to meet deadlines caused by production delays, and sometimes climate factors are the reasons behind resorting to such an expensive model. The shipment time via air only takes up a few hours compared to 30-40 days in waterways. However, the payload capacity of airlines is limited by the weight carriage restrictions and the security and tracking measures are not extensive compared to the other regional countries including India and Sri Lanka.

Bangladesh railway has rail tracks that run over 2,877 kilometers which connect 44 districts of the country. It also connects with some points of Indian Railway. Additionally, the railway network has 450 stations among which a total of 55 stations take care of nearly all freight carriage by railway. Between May 2016 to April 2017, more than 100,000 freight wagons loaded with cargo travelled to the main stations. During the same time, approximately 3.1 million tons of bulk cargo and 72,000 twenty-foot equivalent units of containers were transferred through Bangladesh Railway.<sup>26</sup> However, the board gauges and meters in the rail network very often limits the capacity to ensure smooth flow of cargo and passengers across the country.

While the core logistic infrastructure of Bangladesh covers all modes of transport and all types of logistic services, there is a serious lack of integration among the modes, which is crucial for building a multimodal transport system. A multimodal system of transportation is necessary to reduce the logistic cost and increase competitiveness significantly. Although there was an initiative taken back in 2013, the National Integrated Multimodal Transport Policy is yet to move into the development phase. In addition, traffic congestion both

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<sup>24</sup> Same as <sup>18</sup>

<sup>25</sup> [Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>26</sup> Same as <sup>25</sup>

at the roads and ports increases the logistic cost. As per the findings of a study undertaken by the World Bank, the overall logistic cost for companies can be cut down by 7% to 35% had there been no traffic congestion at roads and ports.<sup>27</sup>

### **2.3. Capacity and Future Demand of Warehouse at Airports and Seaports**

The market for commercial warehousing facilities is not well-developed in Bangladesh. Although increasing foreign trade has spurred the demand for warehouse space near seaports and airports, the capacity has not been established adequately both in terms of quantity and quality. The existing market size of warehousing facility near the port area for storing exportable and imported goods is around 43.7 million square feet in terms of space capacity<sup>28</sup>. Among the several types of warehousing according to the product categories, export-import warehouses are mainly focused on storage of containers, stuffing and de-stuffing containers along with immediate storage of goods before exporting and before dispatching imported goods to the country. Most of the freight stations for containers are concentrated in Chittagong because there is a restriction on building freight stations at a certain distance from the port. Hence, Chittagong port has a capacity to store only 49,018 TEU containers but it is very often severely congested while acting as a terminal operator, storage and delivery yard at the same time. Moreover, due to restrictions on the additional capacity buildings, most of the warehouse facilities run at around 85% of their capacity.<sup>29</sup>

The demand for warehousing is expected to increase by around 27.74 million square feet by 2022 on the back of spiraling foreign trade as per the project study of the World Bank. Moreover, the demand is expected to hit 68.24 million square feet in the next four years, almost 30% of which will stem from the manufacturing sector and around 12% of the space will be used by the export-import sector. Additionally, by the end of 2043, Bangladesh is expected to handle approximately 1.22 billion tons of cargo or 13 million 20-foot equivalent units according to the study.<sup>30</sup> This demand growth will be driven by the consumption of goods and services. The recent consumption boom of the economy will likely generate a 27% growth for demand in warehousing.

The increasing focus of the government on increasing the port capacity of Bangladesh will stimulate growth in the overall logistic and freight service industries including warehousing. The newly constructed Payra Sea Port has already become operational and the government is further planning to add 22 more jetties at

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<sup>27</sup> [Moving Forward: Connectivity and Logistics To Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>28</sup> [Bangladesh needs more warehouse space: WB - The Financial Express, 2018.](#)

<sup>29</sup> Same as <sup>27</sup>

<sup>30</sup> Same as <sup>28</sup>

three seaports for better cargo handling. The capacity of the airports is also being increased to accommodate the increasing trade demand of the country, especially in the ready-made garments industry.

In addition, not only the availability of space but also better mechanisms such as a well-connected bonded warehouse system can be instrumental in stimulating the export competitiveness of our country. A bonded warehouse is where exporters are provided with an opportunity to import and store required raw materials without paying customs duties for a specific period under an arrangement with the government<sup>31</sup>. The higher tariffs that are imposed on imports to protect domestic industries make exports costly, as a large portion of the imports serves as raw materials for exports. As such, a bonded warehouse facility provides exporters with the scope to buy raw materials at international prices and become competitive in the global arena.

Bonded warehousing facility offered by Bangladesh's government to exporting firms has stringent rules governing the system under the supervision of the Customs wing of the National Board of Revenue (NBR). However, this duty-free facility import benefit is mostly enjoyed by apparel exporters in the RMG sector of Bangladesh since the early 80's when garment exports began to indicate signs of promise. The non-RMG sector has failed to reap the opportunity of the bonded warehouse facility. In FY 2018-19, the RMG sector accounted for almost 84% of Bangladesh's export basket while the remaining 16% exports could not manage to obtain the full privilege of the bonded warehouse<sup>32</sup>. As of 2018, the number of RMG bonded warehouse licenses were 4,000 compared to the mere 200 licenses that non-RMG sectors hold<sup>33</sup>. The message is more pronounced when we see that Bangladesh exported 1,605 items in 2018 and only 250 of those were RMG items. Bangladesh's large concentration and dependency on the RMG sector for exports is the main reason why it takes the lion's share of the bonded warehouse facility.

The warehousing business is crucial for continuing uninterrupted operation and faster growth of the business as well as maintaining the quality of exported and imported products. But the warehousing act of Bangladesh, which was formulated back in 1959, is completely outdated. The act covers only the regulations related to storage of agro-products while it lacks any guideline regarding other more important areas such as export-import, manufacturing and retail products. Considering the importance of the emerging warehouse business and the incompatibility of the current act to the necessary development of the business, a modern warehousing policy framework is a need of the time for structured warehousing in Bangladesh.

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<sup>31</sup> [Bonded Warehouse - Bangladesh Customs, National Board of Revenue.](#)

<sup>32</sup> [Export diversification hinges on access to bonded warehouse - The Daily Star, 2020.](#)

<sup>33</sup> [Bonded warehouse: an aid to export diversification - The Financial Express, 2020.](#)

## 2.4 Domestic and regional connectivity agreements and projects

Based on the projected economic growth, Bangladesh's government has undertaken many mega projects to facilitate growth in the upcoming years. Among the numerous projects that are currently in the pipeline or have been initiated, several projects will directly influence the logistics sector of Bangladesh.

### Domestic communications infrastructure mega projects in the pipeline:

Project Name	Mode of Transportation being impacted	Project Initiation Date	Expected Completion Date	Estimated Cost (\$)	Funding
Padma Multipurpose Bridge	Road	Jan, 2009	2021	3.65 bn	Bangladesh Govt.
Padma Rail Link	Railway	Jan, 2016	2024	4.63 bn	The Ministry of Railways
Dhaka Metro Rail	Railway	July, 2012	2021	2.82 bn	Japan International Cooperation Agency (JICA)
Karnaphuli Underwater Tunnel	Road	Dec, 2017	2022	2.49 bn	Bangladesh Bridge Authority
Chattogram-Cox's Bazar Railway Link	Railway	Mar, 2018	2022	2.13 bn	ADB, Bangladesh Govt.
Dhaka Elevated Expressway	Road	2011	2022	1.63 bn	Italian-Thai Development Public Company, China Shandong International Economic and Technical Corporation Group
Dhaka-Chattogram Express Railway	Railway	October, 2018	2022	1.4 bn	Bangladesh Govt.
Payra Deep Sea Port	Sea	January, 2019	2021	98.5 mn	Foreign Direct Investments (FDI), Government-to-Government (G2G) deals
Hazrat Shahjalal International Airport Expansion	Air	December, 2019	2022	42.1 mn	Civil Aviation Authority, Bangladesh (CAAB)

Projects such as the Padma Multipurpose Bridge, Karnaphuli Underwater Tunnel, Dhaka Elevated Expressway will play a major role in facilitating transportation via roads and highways, all of which are expected to be completed by 2022.

The Padma Bridge will enhance interconnectedness by creating easy access to capital city Dhaka and make logistics movement possible within a short period<sup>34</sup>. Once the Dhaka Elevated Expressway becomes operational, it will be able to accommodate a higher level of traffic capacity within and around the city by improving connectivity between the northern part of Dhaka City with the Central, South and South-Eastern part<sup>35</sup>. Relieving the existing overburdened roads, minimizing congestion, and expediting vehicle movements are key motives of this project. Furthermore, the construction of Karnaphuli Underwater Tunnel is expected to enhance industrial development by reducing congestion, increasing tourism and trade activities<sup>36</sup>. Logistics movement will be made much easier throughout the Chittagong area. `

The government has also focused on the railway system. In this regard, several projects have been taken up such as Padma Rail Link, Dhaka Metro Rail, Chattogram-Cox's Bazar Railway Link, Dhaka-Chattogram Express Railway, and some of the projects have seen much progress in construction. For speeding up the movement within and between the major cities such as Dhaka and Chittagong, projects like Dhaka Metro Rail and Dhaka-Chattogram Express Railway are being undertaken. While Dhaka Metro Rail will boost movement within the city<sup>37</sup>, the Dhaka-Chattogram Express Railway will reduce the time to move from Dhaka to Chittagong<sup>38</sup>, hence making passenger and freight movement easier, fast and timely via railways. Also, the Padma Rail Link will establish an important rail link with the South-west part of the country, facilitating the fast movement of goods and people in the area.

Hazrat Shahjalal International Airport, being the main airport of Bangladesh, manages most of the cargo and passenger transfer, however, it always remains over-accommodated. For this, an expansion plan with a third terminal is being undertaken. The expansion project will more than double the airport's annual passenger handling capacity from the current 8 million to approximately 20 million, and the cargo capacity will be expanded from 200,000 tons to 500,000 tons.<sup>39</sup>

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<sup>34</sup> [Padma Bridge -- New Lifeline of Development - The Daily Star, 2016.](#)

<sup>35</sup> [Construction of Dhaka Elevated Expressway - Public Private Partnership Authority](#)

<sup>36</sup> [Bangladesh to begin tunnel excavation work on \\$1.2bn Karnaphuli underwater expressway](#)

<sup>37</sup> [Dhaka's metro-rail: A milestone in communication sector - The Independent \(Bangladesh\), 2020](#)

<sup>38</sup> [Dhaka to Ctg in one hour! - The Daily Star, 2020.](#)

<sup>39</sup> [PM inaugurates construction of Dhaka airport's 3rd terminal - Dhaka Tribune, 2019.](#)



Chattogram handles 90% import and 85% export (out of which 98% containerized trade is handled by Chattogram Port alone).<sup>40</sup> To diversify the pressure, Payra Deep Sea Port construction has begun and is expected to facilitate the accommodation of larger vessels, increase trade and cargo movement, development of new industries like garments and shipbuilding, and regional connectivity with countries like Nepal, Bhutan etc.<sup>41</sup> The project will develop inter-modal transportation involving roads, railways and airways.

### **Bilateral and Multilateral Agreements on Regional Connectivity and Transport Infrastructure:**

Bangladesh's geographic position serves as an advantage for the country and entering into regional connectivity agreements prove beneficial for both Bangladesh and neighboring countries. In 2019, Bangladesh and India reached a bilateral agreement under which India will have the right to use Chittagong and Mongla seaports, without any custom fee and transit charges. The administrative charges along with road charges will now be the only cost for India. The agreement will particularly benefit the flow of cargoes to and from the landlocked north-eastern region of India known as the 'seven sisters' as they barely have any other feasible routes except the 'chicken neck' of Siliguri.

However, while Indian sailors are going to enjoy the benefit, there are no such reciprocal benefits for Bangladesh except for some assurance from India's side that they will review their policies.

The agreement is expected to open up greater economic opportunities for both countries, alongside their bilateral relationship, strengthening the logistics infrastructure and boosting business, cargo commerce and employment. As per the rough estimation by the affiliated body, it is expected that the time and distance will become one-third for Indian businessmen who use Bangladeshi ports and routes. On the other hand, the levies earned from the Indian ship movements will add to the income of the ports of Bangladesh. At the same time, its own inland water vessel is expected to improve with better infrastructures.

While this agreement has no doubt established a scope for the better bilateral economic relationship between the two countries, its real effectiveness might be limited by the nature of the inherent issues in our seaports. The heavily congested Chittagong port dispatches finished goods for our booming textile industry exports and takes in all the raw materials the country requires. Mongla port, which handles 10% to 15% of the imported goods, does not have such severe congestion but suffers from fragile infrastructure issues. Although there are long-term plans to increase the capacity of the ports by creating a bay terminal at Chittagong operational by 2023, expecting rapid short-term improvement at this time may be a false hope.

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<sup>40</sup> [Chittagong is the commercial capital of Bangladesh in theory only - Dhaka Tribune, 2018.](#)

<sup>41</sup> [PM for boosting connectivity with neighbors - UNB News, 2020.](#)

Recently, the Government of Bangladesh and India have further agreed on adding five more ports of call to the existing six in order to augment the bilateral trade between the two countries and boost the economic development in the new hinterlands around the ports. The new ports of call of Bangladesh are Rajshahi, Sultanganj, Daudkandi, Chilmari, and Bahadurabad while the port sides of India are Dhulania, Maia, Sonamura, Kolaghat, and Jogigopha.

The new initiative will further enhance the interconnectivity between the two countries. In addition, Bangladesh can secure greater market access to Bhutan and Nepal. The import of fly ash (~30 lakh metric ton annually) from India will be specifically facilitated by this as the cost and hassle of the businessmen are expected to lessen.

Apart from these, Bangladesh is a signatory of the Belt and Road (BRI) initiative, which is undertaken by China to improve connectivity among the three continents. One of the six economic corridors covered under the BRI concept will pass through our country. Although the glazing point of attraction, i.e. the Bangladesh-China-India-Myanmar (BCIM) corridor, falls among one of the two maritime corridors of the project to connect the four countries, the corridor is now facing some issues due to the growing rivalry between India and China in recent times. Moreover, China has also pledged USD 40 billion of financing to Bangladesh including a USD 26 billion infrastructure financing under BRI. Furthermore, Bangladesh-Bhutan-India-Nepal (BBIN) sub-regional connectivity and multi-modal transport infrastructure development initiative is also gaining momentum.

Once the projects are implemented, transportation infrastructure will strengthen manifolds and the unimpeded flow of goods and services, capital, people and technology will provide a strong stimulus for economic growth. However, megaprojects like these have entrenched geostrategic and geopolitical implications and a country like ours can become stuck in a debt trap. Hence, these projects require careful review before implementation.

### 3. Custom automation in the context of global trade

#### 3.1. Benefits of custom automation in the context of global trade

Apart from focusing on improving Bangladesh's logistics and infrastructure to enhance trade, one of the most efficient means by which international trade procedures can be enhanced is by adopting an automated customs system.<sup>42</sup> Evidence from the past has shown that more simplified processes at borders can positively affect trade flow.

Trade is a vital growth driver for Bangladesh's economy and the customs agency in Bangladesh is an important part of facilitating trade, by allowing goods to cross the border from one end to the other. However, many developing countries such as Bangladesh lag behind with inefficient customs processes that are plagued with red tape. Bangladesh's customs also compare as below par compared to its main competitors such as India and Vietnam. The time required to acquire customs clearance in Bangladesh is significantly longer due to the high level of unnecessary intricacies involved in terms of categorization, valuation and processing time. Before importers can take possession of the goods that they import, they are required to undergo multiple processes, run around a good number of departments and acquire an LC from a bank – this entire process can take as long as 20 working days. Hence, apart from logistic costs, issues that arise at borders, such as delays, trade documentation, and multiple inspections can prove burdensome for businesses, increasing transportation costs as much as by 2% to 24%. Moreover, delays in customs also hold implications for inventory uncertainty.<sup>43</sup>

In Bangladesh, export-import duty currently accounts for approximately 38.9% of the revenue earned by the National Board of Revenue (NBR). Given that the government has persistently failed to meet its revenue targets year after year, the expanding size of the ADP, and the sizable contribution of customs duty to government revenue makes it essential to upgrade the current customs administration to improve revenue collection. With the rapid growth of international trade, globalization and digitalization, a modern customs system principally needs to consider automation as a core part of its process and should be equipped with strong data protection controls. A technology-based solution will minimize transaction costs, documentation, and duration, boost the flow of trade and make the entire process seamless. This, in turn, will also ensure that more information is available, which will cut down unexpected delays. In addition, import costs have the potential to be brought down by as much as 30%. Hence firms can increase productivity and ensure timely delivery of goods to customers, consequently enhancing competitiveness even further. This allows smaller firms to participate in export-import activities as fixed costs are reduced,

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<sup>42</sup> [Use of Customs automation systems - UNCTAD, 2011.](#)

<sup>43</sup> [Contribution and Effectiveness of Trade Facilitation Measures - World Bank Group, 2018.](#)

considering that such costs comprise a larger portion of their total costs compared to bigger firms. When more firms can participate, the diversity of products that are exported and the destination to which they are exported to are also substantially enhanced.<sup>44</sup> Additionally, more foreign companies will be willing to outsource their businesses to Bangladesh when simplified customs clearance processes in place.

It is also important to note that an automated system will require that officials at the border be adequately trained to use the system, without which it cannot be successfully implemented. Border protection and the need for compliance necessitates such activities but when a weak framework and its poor execution-only burdens all that are involved, and the regulatory environment loses oversight. Hence, this creates scope for corruption and irregularities in the form of bribes and illegal imports/exports. An automated customs system can materially cut down face-to-face interactions between customs officials and traders. This reduces the scope for trade-related corruption and bribery. Tax evasion can also be cut down. Research shows that corruption at the border can discourage exports, which is a bane for Bangladesh's export sector as well as revenue collection for the government.<sup>45</sup>

### **3.2. Efforts by Bangladesh to upgrade its traditional customs system**

Bangladesh is currently in the process of implementing a Custom Modernization Strategic Action Plan (2019-2022) that has been developed with the support of IFC and the World Bank to bring its current system on par with that of developed nations. This project will make the process of customs clearance online with an ICT application with a focus on enhancing trade-friendly innovations. This will include an Authorized Economic Operator (AEO) Program, an established National Enquiry Point (NEP) for customs, Advance Ruling (AR) System and a Central Risk Management (RM) Directorate.

A National Single Window system will also be implemented by 2021 to minimize hassle for traders, ease the clearance process, and is expected to cut down the total time required by four times. With this system, 39 ministries, government agencies and organizations will be under the leadership of the NBR. This system will facilitate the acquisition of documentations such as trade registrations, export-import permits, LC opening, tax payment, etc. from a single platform, and a separate will be designated to take care of all these related services. This will also thwart tax evaders that commonly import falsely declared goods. Bangladesh will also be able to move up a few ranks in terms of ease of doing business from its current 168th rank once the software is implemented.

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<sup>44</sup> [Contribution and Effectiveness of Trade Facilitation Measures - World Bank Group, 2018.](#)

<sup>45</sup> Same as <sup>44</sup>

The total budget allocated for this project is USD 74.1 million, which will be met with the help of the World Bank. The software has been designed by The United Nations Centre for Trade Facilitation and Electronic Business.<sup>46</sup>

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<sup>46</sup> Customer Modernization, Strategic Action Plan, 2019-2022 - National Board of Revenue.

## 4. The infrastructure bottlenecks in the logistics sector of Bangladesh

Although the Bangladeshi government has invested a gargantuan amount of resources in infrastructural development in recent years, the current condition of the transport and logistics system in the country is still not up to the mark to support the country's economic growth. Inefficiencies in infrastructural usage and business operations do not allow full capacity utilization of the available infrastructural resources.

### 4.1. Underutilization of air cargo system due to inefficiencies

While freight movement through the airport has seen enormous growth in recent years, it is still underutilized in Bangladesh in comparison to other modes of transport due to a large number of reasons.

In Bangladesh, only Hazrat Shahjalal International Airport under supervision of Biman Bangladesh handles around 90% of the country's total air freight movement.<sup>47</sup> Biman Airlines being the sole ground handling agent lags behind in many aspects. Unskilled labor force, insufficient infrastructural resources, lack of space, lack of technological support, warehouse shortage, inadequate security establishment for freight checking such as x-ray machines, explosive detection system have made handling freight ineffective via airways.

These challenges have also resulted in a loss of big business opportunities. For instance, the European Union (EU) banned freight handling from Bangladesh till early 2018.<sup>48</sup> When the UK and EU barred air cargo export from Bangladesh for security reasons, BAFFA stepped in and was able to successfully help address the problem. Once the situation was resolved, BAFFA proposed to look after the airport security handling for a cost of US\$ 0.01/kg, which is far lower than what Biman was charging (US\$ 0.08 /kg for export and US\$ 0.10/Kg for import). However, Biman's union did not agree to this proposal to protect their vested interest although till date that total function is being handled by Air Freight Forwarders.

### 4.2. Capacity shortage and lack of proper container handling vehicles at seaports

Chattogram and Mongla are the two seaports that are the most important freight movement platform for Bangladesh. Chattogram alone, however, handles 90% of the seagoing cargo and 98% of the total containers.<sup>49</sup> The limited role played by the Mongla seaport is mainly due to the inadequate handling structure, connectivity to industrial hubs and inefficient management. Chattogram being the deepest seaport in Bangladesh still contains much shallower water under 9.1 meters compared to other South Asian

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<sup>47</sup> [Moving Forward: Connectivity and Logistics To Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>48</sup> [EU imposes restriction on air cargo from Dhaka - New Age Bangladesh, 2017.](#)

<sup>49</sup> [Bangladesh: Chittagong Port Trade Facilitation Project - Asian Development Bank, 2018.](#)

seaports. Hence, unavailability of a deep seaport becomes an important obstacle when it comes to handling international cargos.

Another concern for seaports is the capacity shortage. This hindrance makes the container handling process more complex, costlier, and traffic congestion aggravates. For example, empty containers generated by the trade imbalance need to be shifted to the off docks but those are shifted back to the port at the time of export. This inefficiency and lack of a suitable container handling system make freight handling even harder. The usage of an inefficient vessel mounted cranes due to its low availability, vehicle congestion inside the port, lack of separate gateways for entry-exit of vehicle movements, slow lifting of containers, few port cranes with an inefficient operation (i.e. working 8-12 cycle per hour instead of standard 22-28 cycles per hour) lead to an increase in pre-berthing waiting time up to 10 days in Chattogram seaport.<sup>50</sup>

#### **4.3. Disorganized road system and sluggish handling process at ports**

The roads in Bangladesh are unable to handle the country's traffic volume which leads to heavy congestion on the road. With an average speed of 30 km/hr on the intercity roads within Bangladesh, the logistics costs are much higher.<sup>51</sup> Insufficient bridges in important locations all over Bangladesh stands as a critical bottleneck of freight movement in roadways. Bangladesh is a country full of rivers where river crossings are required in almost all long-haul routes. Even important locations such as Mawa (connection point of southwest region to eastern region) have no bridges and require ferry services. But ferry services are vulnerable to weather conditions, excess load, high traffic movement and technical issues, thus, increasing the transportation time. In some places, vehicles have to wait for 6 to 7 hours to cross a river through a ferry.

Another impediment of inland road logistics support is the narrow design of the bridges. These cramped bridges also contribute further to traffic jams and increase the time required for freight movements. Other bottlenecks include the maladministration of the road transport management system due to the presence of unskilled human resources, and obsolete traffic monitoring systems.

In the case of land port, Bangladesh has 13 operations units all over the country mostly bordering with India. The cargo handling process at all land ports is highly challenging due to the poor infrastructural design for handling, screening and storing cargo. Sluggish customs clearance process, manual screening process, and lack of security measures taken for checking vehicles containing the cargos are some major bottlenecks. In addition, corruption in the land port increases the logistics cost. These issues become much

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<sup>50</sup> [Moving Forward: Connectivity and Logistics To Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>51</sup> Same as above.

even harder due to the lack of space available in warehouses for storing cargo before they receive custom clearance.

#### **4.4. Single-track railways and poor interconnectivity**

Railways play an important role in the logistics sector. However, in the case of Bangladesh, the contribution is meagre due to inept railway operations and improper railway infrastructure. Although Bangladesh has 450 stations, only 55 of them handle most of the freight carried by the railways. Dhaka-Chattogram corridor was the most prominent network that handled the heaviest traffic on that route.<sup>52</sup> Rail tracks and bridges, essential infrastructure for rail movement, across countries have not been upgraded properly according to the current requirements, hence, it limits the load-carrying capacity through the railway.

Most importantly, the presence of single-track railways across the country cause delays in movements. These single-tracked railways allow only a limited number of trains to run which causes severe delays (especially in the Dhaka-Chattogram corridor). Also, only the Dhaka-Chattogram route allows container movement and the Kamalapur Railway stations handle the containers in Dhaka as the hub. However, the storage capacity, operational efficiency, technological support and management falls below par which makes freight transfer through railway challenging. Also, there are documentation and custom problems. Besides this, the Kamalapur and Chattogram railway station is located in the main city and the passage to the stations are narrow from every aspect. As a result, freight movement faces high congestion as well as contributes to heavier traffic.

The interconnectivity of railways falls short due to the dense river networks and differences in gauges. The railway network has two divisions which are separated by Jamuna river in the east and west. Railway tracks in the west are both meter and broad gauge, but in the east are meter gauge. Also, bridges are missing over several rivers and limited load taking capacity of existing bridges creates interconnectivity problems to carry freight across the country.

#### **4.5. Shallow inland waterways and sluggish handling at ports**

Out of the 30 river ports in Bangladesh, only 12 of them handle most of the cargo.<sup>53</sup> Most of the riverports lack infrastructural support, skilled workers, efficient management, and strict monitoring from Bangladesh Inland Water Authority (BIWTA). However, one of the main bottlenecks of inland waterways of Bangladesh is its extensive river network which makes navigation challenging. Most of the larger rivers have less than 50 meters depth while most of the lower rivers (i.e. Dhaka-Chattogram Corridor) have a

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<sup>52</sup> [Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success - World Bank Report, 2020.](#)

<sup>53</sup> Same as above



depth between 10 to 25 meters.<sup>54</sup> The roads to Sadarghat, the main river port of Dhaka, are narrower and have heavy traffic, which makes freight movement through this route slower.

Documentation, handling, screening and storing at ports are also not well managed. Proper security measures are absent, which increases the likelihood of accidents. Products must be kept in the open place which makes them vulnerable to damage and theft. Another challenging issue is lack of coordination among the ports which also weighs down on the freight movement in inland waterways.

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<sup>54</sup> [Moving Forward: Connectivity and Logistics to Sustain Bangladesh's Success - World Bank Report, 2020.](#)

## 5. Analysis of India's newly formed Logistics Division

### 5.1. Background of the Logistics Industry

Up until July 2017, India did not have an official body for its logistics sector.<sup>55</sup> Before that, the logistics industry was highly fragmented and disorganized in nature as it was handled by multiple different ministries (i.e. railways, road transport and highways, shipping, civil aviation, commerce and industry, finance and home affairs). Being monitored by at least 7 ministries was a big setback for the sector and disrupted coordination. Hence, at that time the logistic costs accounted for roughly 13% to 14% of GDP.<sup>56</sup>

Exhibit 1: Logistics sector overview before the establishment of the Logistics Division of India  
(The Economic Times, 2018)

Shipping	Roads	Railways	Aviation	Warehousing
<ul style="list-style-type: none"> <li>• 12 major and 187 non-major ports</li> <li>• Handles foreign trade: 95% by volume, 70% by value</li> <li>• Inland waterways handle 0.15% cargo within India</li> </ul>	<ul style="list-style-type: none"> <li>• 3.83 million long road</li> <li>• Carries 65% of the freight across India</li> </ul>	<ul style="list-style-type: none"> <li>• Carries 1.1 billion tons of freight annually</li> <li>• Captures 26% of countries total freight</li> </ul>	<ul style="list-style-type: none"> <li>• Handles around 2% of logistics in terms of volume</li> <li>• Accounts for around 30% logistics in terms of value</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts for 5% of the overall logistics market of the country.</li> </ul>

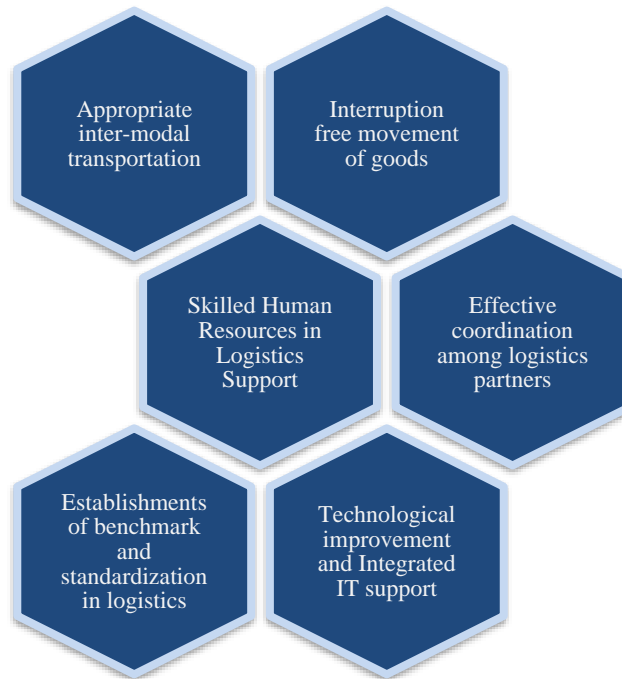
<sup>55</sup> We Are Creating A Digital Logistics Platform: Suresh Prabhu - The Economic Times, 2018.

<sup>56</sup> How A New Govt Division Plans to Reduce India's Logistics Cost to Less Than 10% Of GDP - The Economic Times, 2018.

## 5.2. Challenges in the logistic sector before the establishment of the Logistics Division

In the absence of a formal body for monitoring, guiding and handling the logistics sector, India had encountered a wide range of problems.

Exhibit 2: Lacking in logistics sector faced by India before the Logistics Division



***Interruption in free movement of goods:*** Since freight was being monitored by several ministries, the movement of freight was complex and created a conflict of interest.

***Unavailability of inter-modal transportation:*** The lack of a central body to monitor made the handling of cross-channel transport, intermodal transport ineffective.<sup>57</sup> Inadequate support, documentation, information and network made the execution of intermodal transportation complicated. Most of the freight was carried using the costly roadway-mode but other modes of transportation lacked integration to create effective inter-modal transportation within the country.

***Unskilled Human Resources in Logistics Support:*** In the absence of a formal and centralized logistics governing body in the country, the skill development initiatives in the logistics sector was not common. Logistics skill development was undertaken only at the interest of private firms but that was not enough for the country.

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<sup>57</sup> India: On the Cusp of a Logistics Revolution - ASSOCHAM, 2018.

**Ineffective coordination among logistics partners:** Different ministries had conducted their logistics operations according to their needs and priority but without any cooperation or coordination with other ministries. Also, the coordination among several logistics stakeholders was missing which did not allow necessary discussions to take place between them. Hence, an integrated policy was absent.

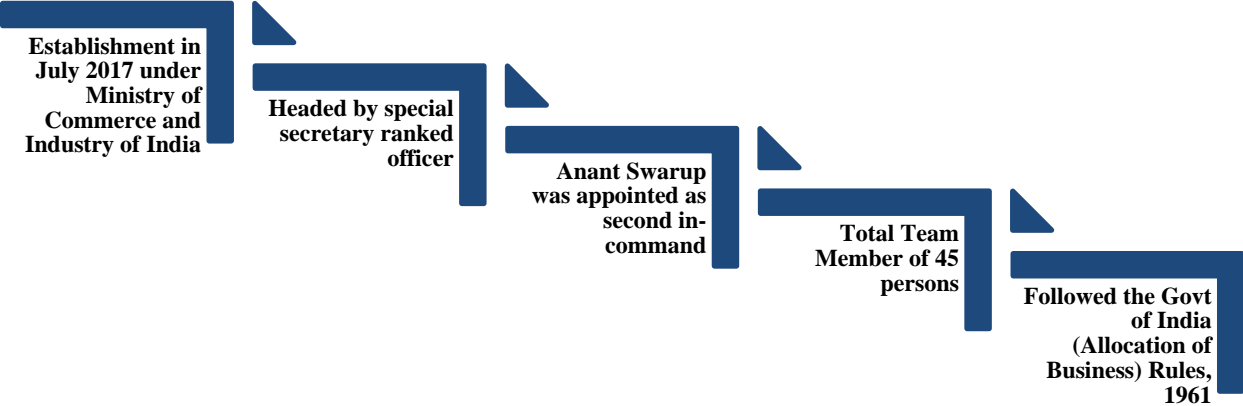
**Lack of benchmark and standardization in logistics:** The absence of benchmarking in logistics activities as well the unavailability of standardization in transportation activities such as loading, unloading, driving, stacking, destocking, and other processes implemented for forklifts, trucks, pallet trucks, cranes left these activities unorganized. Also, activities such as opening/closing packaging, repackaging, broadcast, information processing were ridden with complexity.

**Inadequate technological and IT support:** In India, there was no integrated IT system with a single window to obtain all the necessary information related to logistics. Due to the absence of such an integrated logistics division, the spread of technological know-how and IT usage were being held back.

### 5.3. The inception of Logistics Division of India

It has been estimated that India will become the 3rd largest economy in the world with its aim to become a USD 10-trillion economy by 2030. Such expectations can only be realized if India can ensure sustainable growth for its economy, which requires competitive advantage as well as a larger share of developed markets. Hence, the logistics division was established in 2017 with a view to increase speed and reduce the cost of freight movement in order to foster economic growth. Since the inception of this separate logistics division, the Indian logistics sector has experienced rapid growth because of the demand-side factors. A massive transformation has taken place in the traditional approach regarding logistics and recently this sector is considered as a supporting alternative for ensuring competitiveness.

Exhibit 3: Inception summary of the Logistics Division of India (Department of Commerce, Indian Govt.)



The logistics division has been operating under the Ministry of Commerce and Industry of India since its inception. When the division was first formed, the logistics team was composed of 45 members from different departments of the Ministry of Commerce and Industry.<sup>58</sup> The initial targets of the division were to bring down the logistics cost, develop an IT backbone, increase job opportunities and cut down cargo release time.

Exhibit 4: Targets adopted by Logistics Division at the inception<sup>59</sup>

<b>Logistics Cost Reduction</b>	<b>Bringing down logistic costs from 14%-15% of GDP to 10%.</b>
<b>IT Backbone Establishment</b>	<b>Providing a single window system to easily avail the logistics information and services as a one stop solution.</b>
<b>Increased Job Opportunity</b>	<b>Increasing the jobs in Indian Logistics sectors from 22 million to 40 million.</b>
<b>Cargo Release Time Reduction</b>	<b>Reducing the cargo release time (i.e. 3 days for sea and 2 days for air from 5 days)</b>

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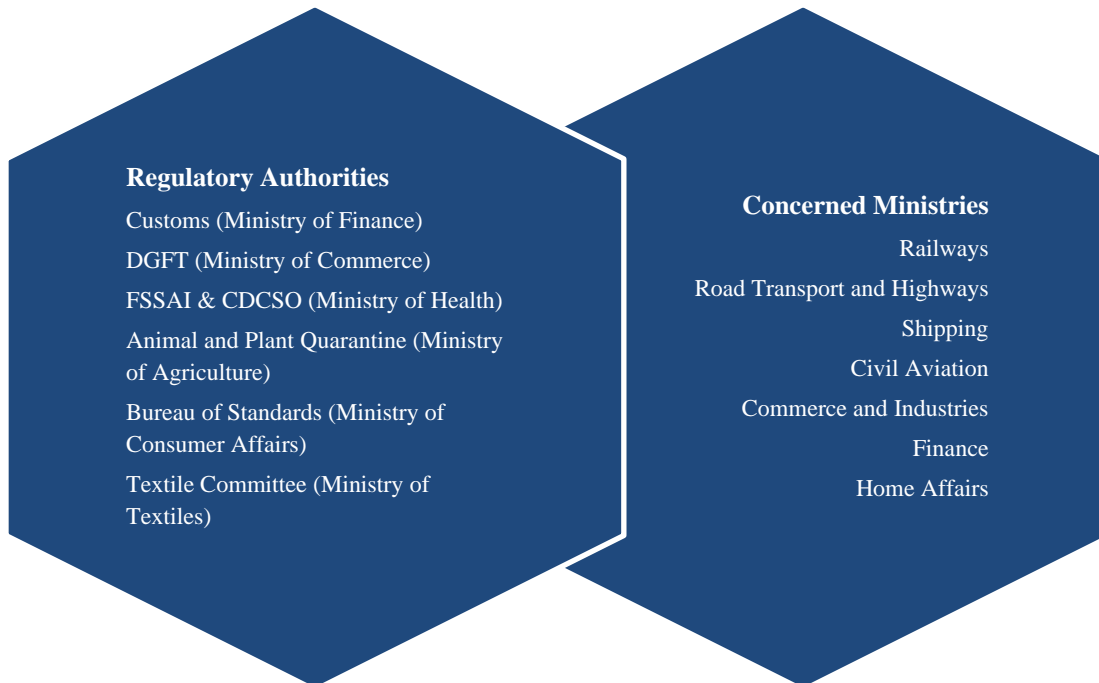
<sup>58</sup> How A New Govt Division Plans to Reduce India's Logistics Cost to Less Than 10% Of GDP - The Economic Times, 2018.

<sup>59</sup> Same as above

#### 5.4. Aftermath of India's Logistics Division Inauguration

The logistics division had planned on several targets to be completed after coming into full formation such as planning for the IT infrastructure, creating a national information portal and an online market for logistics. The planned logistics division was expected to have a positive outcome on improving the domestic movement of goods through cost reductions, ease of movement and speed generation as well as on contributing towards making Indian-labelled goods highly competitive across the international market.

Exhibit 5: Important Stakeholders of the Logistics Division of India<sup>60</sup>



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<sup>60</sup> How A New Govt Division Plans to Reduce India's Logistics Cost to Less Than 10% Of GDP - The Economic Times, 2018.

The initiatives taken by the Indian Government to improve logistics performance had four broad categorizations that included policy, integrated infrastructure development, skilling and technology.

Exhibit 6: Action taken by India for Logistics Improvement after the formation of the Logistics Division<sup>61</sup>

Policy Implementation	<ul style="list-style-type: none"> <li>▪ For providing a policy environment, Indian govt. made a draft named National Logistics Policy</li> <li>▪ To ensure sustainable growth of the economy and achieve competitive advantage in trade, India formed a logistics action plan at the national level to reduce logistics cost and uninterrupted cargo and freight transfer.</li> <li>▪ The Goods and Services Tax (GST) condition was eased by adopting a uniform tax policy</li> </ul>
Integrated Infrastructure Development	<ul style="list-style-type: none"> <li>▪ Recently, the container vessel movement operation and monitoring responsibility in Kolkata terminals were given under public-private partnership (PPP) for the first time from Inland Waterways Authority of India.</li> <li>▪ Freight trains with double-stack containers were built.</li> <li>▪ Project Bharatmala was initiated to construct 7.45 miles of roads and 35 Multi-Modal Logistics Parks (MMLPs).<sup>62</sup></li> <li>▪ Initiation of Sagarmala with 21 port connectivity projects.</li> </ul>
Skill Enhancement	<ul style="list-style-type: none"> <li>▪ Govt. set an aim to create 15 mn new employment opportunities in the logistics segment.</li> <li>▪ For skill development, “First Apprentice” event was launched by the Logistics Sector Skill Council in 2017.</li> </ul>
Technological Improvements	<ul style="list-style-type: none"> <li>▪ For cost reduction and easy regulation, Indian Govt. planned to implement National Logistics Online Market.</li> <li>▪ Inland Waterways Authority has initiated a project named Project Least Available Depth Information System (LADIS) for maximum utilization of water routes.</li> <li>▪ Indian Railways adopted advanced technologies like real-time train information system (RTIS), GPS tracking for ensuring better monitoring and safety of the train, cargo and passengers.</li> <li>▪ For an end to end cargo or freight transfer efficiency, location geofencing, automated rider schedule systems were built.</li> </ul>

<sup>61</sup> Logistics Ease Across Different States - Deloitte, 2019.

<sup>62</sup> Bharatmala Pariyojana, Phase 1 - National Highways Authority of India, 2018.

## 6. Foreign exchange regulatory act effect on export and global trade growth

Bangladesh has a strict foreign exchange control law. Even though the Bangladeshi Taka is openly convertible, the exchange of Taka outside trade is aggressively regulated. Settlement of transactions through remitting money outside Bangladesh is permitted only considering special and important situations and is required to be upheld by suitable documentation. Foreign Exchange Regulation Act 1947 ("FERA") is the only law right now that gives the legitimate premise to control certain transactions and dealings of foreign exchange. All trade related to foreign exchange ought to be executed following the guidelines provided by Bangladesh Bank and FERA.

According to the FERA, 1947 (Section 3 and 4), the authorization of dealers in foreign exchange and restrictions on dealing in foreign exchange is monitored which allows the authority to carefully control the illegal movement, strengthening the foreign exchange reserve position of Bangladesh.<sup>63</sup>

Under FERA Section 5 (Restrictions on payment), Bangladesh Bank controls the restriction on payment such that each Bangladeshi is allowed to spend USD 5,000 within SAARC countries and up to 7,000 USD in a fiscal year.<sup>64</sup> By doing this, unnecessary spending is controlled and the country maintains a good foreign exchange reserve. "Restrictions on import and export of certain currency and bullion", "Receipts of proceeds for exported goods and services", "Regulation of export and transfer of securities" and "Custody of securities" are sections that mainly focus on the improvement of export.

Although the foreign exchange regulatory act is strict in nature, it provides Bangladesh Bank with an indirect authority to intervene in the foreign exchange market through primary dealers. In order to keep the foreign exchange market stable, the central bank frequently buys and sells US dollars. The proper management of the exchange rate also has a significant influence on export, import and remittance and thereby, on the economic growth of the country. Devaluation of the exchange rate makes the domestic products cheaper to foreign countries and increases the demand for domestic goods in the international market. Moreover, it also makes imports costlier. Hence, the devaluation decision is taken considering the country's overall trade and current account balance.

However, this decision taken has made our currency stable to an unusual extent over the last few years. During the same period, most of the neighboring export-competitor countries have significantly devalued their currencies against the US dollar. The artificial stability of our currency has forcibly made it ~5% overvalued compared to the currencies of neighboring countries such as India, Vietnam, and Pakistan.

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<sup>63</sup> [The Foreign Exchange Regulation Act, 1947. - Laws of Bangladesh.](#)

<sup>64</sup> [Currency Regulations - Bangladesh Customs, 2020.](#)



Considering the import-intensive and remittance-driven nature of Bangladesh's economy, responsible authorities have remained protective and declined to devalue the currency sufficiently to become more cost-competitive. As an alternative, special incentives are given to some export-oriented sectors, but they have proved to be insufficient to perfectly replace the need for devaluation. Moreover, Bangladesh's rival country Vietnam recently devalued its currency even more despite being more import-intensive than Bangladesh. As a result, Vietnam's export has tremendously grown over the years leaving Bangladesh behind. As a consequence, Bangladesh has become relatively less attractive to foreign buyers and export-oriented industries are finding it difficult to match their cost to that of the price demanded by buyers.

Overall, the foreign exchange policies and practices of a country decide the fate of the international trade competitiveness of a country, which in turn affects the fortunes of the industries banking on the international trade and thereby the economic development of a country. Given that the freight forwarder and logistic industry is one of the main stakeholders of international trade of a country, ensuring sustainable growth in international trade will allow the logistics sector to simultaneously grow and flourish in tandem.

## 7. Logistics and Public Policy Integration

### 7.1. The gap between the public policy and user's awareness of the freight forwarding industry

A common risk in public policy and user awareness is the asymmetry between them which creates a gap.

**Involvement of multiple governmental departments in policy creation:** Most of the logistic policies are grounded on unrealistic expectations as various levels of the government are involved in the policy creation relevant to the logistic sector in the absence of a dedicated logistics division. As a result, it often leads to duplication of policies, creating confusion among users regarding the policies. Users are hence less benefited from these policies. For example, the Delivery Duty Unpaid (DDU) or Delivery Duty Paid (DDP) rules regarding e-commerce are not established in Bangladesh as the e-commerce sector is in its early stage. This creates duty payment-related problems while moving logistics within or in to and out of Bangladesh.

**Determining which policy is applicable where:** The logistics sector usually comprises a large number of independently operating but interdependent activities as it is composed of a large number of individual companies in defined markets or sectors that are regulated by a wide range of rules and policies. For example, a truck-hiring company can be subject to independent ownership and national regulations related to truck operations such as registration, maximum weight, vehicle emissions, speed limits.

Interdependency arises when actors (i.e. who control and manage logistical activities) such as manufacturers, shippers, are involved in businesses with one another, particularly when it comes to transporting goods through a complex supply chain from producer to retailer level using multimodal transportation. Consequently, the logistics sector faces different complexities in its web of transactions at the local, national and international level and the actors involved may be lacking in knowledge with regards to which policy is relevant in which situation.

**Complexity of layers within logistics services:** Logistics services can encompass multiple layers; sometimes as many as 4 logistical parties may be involved in a single delivery process. When offering door to door services, most of the customers do not have proper awareness about the complex processes that went into delivering the shipment to their doorsteps. This is likely to create a paradox as the operational, managerial efforts and usage of intermodal transportation for delivering the good or service does not carry any meaning for the customer, but the same holds a great level of importance for the intermodal service providers. The costs involved are largely determined by the changes in layers and integration level of intermodal transportation in different geographic locations. As a result, customers may be unwilling to appropriately compensate actors for their services.

### 7.2. Integrating logistics into public policy

The presence of minimum standards and codes of professional conduct for freight forwarders, multimodal transport operators and logistics service providers is important for monitoring and controlling the activities of the sector. But logistics activities tend to entail multiple layers such as beneficial cargo owners who usually are the shippers or consignees of cargo, carriers focusing on transporting the cargo, third-party logistics service providers who own and operate physical distribution assets. In the case of Bangladesh, the situation is almost similar. Hence, an increasing level of service and supply chain integration needs to take place to connect these layers.

However, incorporating logistics into public policies is challenging. For instance, tackling the cross-sectoral complexities that arise due to the presence of several factors and actors within the logistics sector of Bangladesh is an arduous process. In addition, cross-jurisdictional complexities due to the presence of several functional and geographical jurisdictions as well as linkages among those jurisdictions create even further complications.

Exhibit 7: Three pillars of logistics and policy interaction<sup>65</sup>



Logistics and public policies can interact over three main pillars. namely, ‘actors’, ‘operations’ (what are the logistical activities being performed?) and ‘outcomes’ (how the logistics performance meets the criteria of the industry?). The policymaking process should ensure that these three pillars are in proper harmony with each other by ensuring a proper level of connectivity, coordination and integration in the logistics sector.

This can be implemented by ensuring transport connectivity such as physical connection and interoperability of the transport infrastructure by intermodal transfer, commercial integration across service

<sup>65</sup> [Developing the Logistics Sector: The Role of Public Policy.](#)

providers. For example, commercial agreements can be made between the railway and port authority of Bangladesh. Additionally, customs and security integration can be carried out through aligning pre-screening, inspection, interconnecting security processes to avoid theft or damage and regulatory integration. In Bangladesh's context, this will require harmonization of various regulations related to the vehicle, transport conditions, insurance and packaging and so on. Planning and funding integration, work practice integration and information system integration are also considered as an important element for connectivity and integration. The below-mentioned initiatives can be taken to coordinate and integrate logistics with public policy in the context<sup>66</sup>.

Exhibit 8: Common implementation forms of logistics into the public policy<sup>67</sup>

<b>Common forms of coordination and integration of logistics with policy</b>	Facilitating trade through ensuring harmony among different rules and procedures, creating benchmarks and setting minimum standards for the logistic services
	Focusing on creating global interface and comply with the international or regional standards
	Providing a land base for logistics infrastructures and activities by setting up logistic zones and inland ports
	Developing human resources in logistics by expanding labor and logistical services skills.
	Supporting information systems for logistics emphasizing creation of single window portal for the availability of logistics information and services.
	Developing and integrating niche logistics activities with infrastructures (i.e. Certification to green logistics standards, Cold chain logistics, Reverse logistics focusing on recovery of recycled materials from the supply chain
	Setting guidelines for improving last-mile logistics in urban cities, especially in Dhaka and Chattogram city as higher congestion and low availability of parking areas can push up logistic costs.

<sup>66</sup> Developing the Logistics Sector: The Role of Public Policy.

<sup>67</sup> Same as above

## 8. Recommendations

### 8.1 Enhancing system-wide efficiency by engaging the private sector

In order to address the issues in the logistics system in Bangladesh, a detailed, coordinated and well-controlled strategy is required to improve the quality of every single component of the system. The technique should ensure coordination among every single public organization engaged with logistics activities. For this, coordination among public and private stakeholders is also essential.

In Bangladesh, the cargo handling responsibility in airports and seaports continue to remain under the supervision of the government. The existing inefficiencies among the authorities in charge at these ports have hampered development. Additionally, the storage capacity at ports has been increasingly falling short of the country's rising need to store the goods before shipping and dispatching.

As such, some of these cargo handling activities ought to be transferred to the private sector to augment the efficiency level and minimize costs. Also, the country should relax some restrictions on building containers and large storages outside the port. Under a bond with the freight forwarders, this relaxation will help develop more warehouses including delivery yards attracting significant investment from the private sector. Moreover, this will generate more employment opportunities for the nation. Involving the private sector in these areas will ensure that new technologies such as warehouse management systems can flourish in the antiquated sector.

### 8.2 Expediting infrastructure development

Bangladesh needs to ensure that its infrastructural development projects are accelerated and completed promptly while ensuring quality. Ascertaining the completion of these projects alone will significantly bolster the overall logistics system in Bangladesh. The pandemic will no doubt impede the overall progress of the mega projects in the country but other roadblocks such as disputes and delays in land acquisition, project design, cost overruns and other management issues have been present well before the virus outbreak came into the picture. Bangladesh's GDP is expected to receive a 3%-4% boost once these projects are completed.<sup>68</sup>

### 8.3 Ensuring availability of bonded warehouse facility to all eligible sectors

The revenue authority's lack of willingness to equally treat all export-oriented sectors is one of the main reasons why non-RMG sectors have been unable to capitalize on the bonded warehouse facility. The government's policies have been more in favor of the RMG sector while being overtly biased against the

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<sup>68</sup> 10 Mega Projects: Five pick up pace, finally - The Daily Star, 2020.

country's non-RMG sector. Hence, even though the facility is open to several non-RMG exporters, the selection process does not favor non-RMG exporters in most instances. Given that the existing NBR wing that deals with these operations are mostly manual, paper-based, and go by a complex set of rules, it is not in a good position to effectively meet the needs of the growing number of prospective exporters that are eligible for the bonded warehouse facilities.

Addressing the problems in the bonded warehouse system calls for overhauling the existing system. This would entail modernizing the existing system with a much smarter and automated one. This will allow the country's export basket to become more equitable, reducing dependency on the RMG sector, and boost overall income from exports from other sectors as well. In addition, duty or tax exemptions can easily be made available where appropriate by providing bonded warehousing facilities, particularly to non-RMG exporters. Also, providing bonded warehouse facilities to freight forwarders can help enhance their existing functional capacity, ease congestion at the Chittagong port, and break down the monopoly among the 19 private off docks.

Even after having the advantage of cost competitiveness from low-cost labor, Bangladesh has not been able to do that well in other sectors apart from RMG when it comes to exports. Intermediate goods are generally subject to tariffs and imports are not available at duty-free prices. Unless Bangladeshi exporters are able to acquire imports of inputs at world prices, they cannot be internationally competitive and reach a level playing field on the global arena.

#### **8.4 Establishing a dedicated logistics division**

The local logistics industry is yet to be identified and recognized as an important industry. Different ministries or authorities have been using the existing rules and regulation according to their needs. We are in dire need of establishing an independent Logistics division similar to the likes of that in India in order to properly recognize freight forwarding and logistics as a service industry and as an integral part of international trade and supply chain. This will ensure proper integration and process mapping as well as remove the need for running from post to pillar for acquiring necessary permissions. Once this is done, like India, Bangladesh too will be able to ensure uninterrupted movement of goods, efficient intermodal transportation, build skillful human capital, promote continuous and effective coordination among logistics partners, and introduce standardization in the overall logistics sector.

#### **8.5 Establishing a robust automated customs system to enhance international trade**

In order to upgrade the current customs system, a SMART model that is advocated by the World Customs Organization can be adopted. A SMART customs system, which stands for Secure, Measurable,

Automated, Risk Management-based and Technology-driven, can streamline mobility of people, goods and transport alongside efficiently enforcing compliance.<sup>69</sup>

An automated customs clearance system allows cargo to receive clearance at a faster rate. Vietnam has already had such a system in place since 2014, which has allowed the country to support firms in international trade with their tax rates and exchange rates automatically applied, payable tax automatically calculated and an automated notification sending system for incorrectly declared items. The system also categorizes the goods into three groups based on their degree of risk - a green, yellow and red channel. Goods in the green channel are cleared within 3 seconds as they do not carry any risks. The yellow channel carries moderate levels of risky products, hence requiring certain types of customs documentation such as foreign trade contracts, commercial invoices, quality inspection and so on. The red channel handles all high-risk goods, which involves additional documents and physical inspection before they receive clearance.<sup>70</sup>

One of the ways in which customs procedures can be simplified is an electronic single window system via which all documentation for the release of goods can be submitted alongside receiving notifications of decisions made about their goods. This process significantly reduces the need to submit the same or similar documents at multiple borders as well as removes any possible risks of contradictions, hence promoting trade flows. ASEAN countries, Indonesia, Malaysia, Philippines, Brunei, Singapore and Thailand already have this system in place to facilitate trade in their respective countries

Countries can also set up their own customs system that is tailored to their specific needs, such as the TradeNet system developed by Singapore. The TradeNet system is a single-window system that was launched in 1989 for trade declaration. This system allows companies to electronically exchange trade information by integrating documentation processing. Consequently, with the implementation of TradeNet, businesses in Singapore were able to process trade documents faster and also receive clearance at a much faster rate.<sup>71</sup> While such customized systems can prove to be costly, the benefits of such a system may outweigh the costs.

Adopting 100% customs automation will ensure that the clearance process is one that is free from corruption and will offer the added benefits in the form of reduced costs in international trade. Accordingly, the

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<sup>69</sup> [SMART Customs Control Can Raise Trade and Economic Competitiveness - The Financial Express, 2019.](#)

<sup>70</sup> [Automated Customs-Clearance System Brings Improvements - Việt Nam News, 2017.](#)

<sup>71</sup> [Singapore Customs.](#)

implementation of the Customs Modernization Strategic Action Plan (2019-2022) should be accelerated so that Bangladesh can start reaping its benefits.

### **8.6 Modernizing the regulatory environment while focusing on the quality of services**

The existing regulatory framework in the logistics sector requires a comprehensive review. The rules and regulations followed in the sector are outdated and need to be revised following examples of other countries that have successfully modernized their systems. In addition, improving the existing options for trade and transport, adoption of standardization, and strict implementation and monitoring of the usage of the revised logistics regulations can bring about substantial improvement in the logistics sector of Bangladesh. Also, Bangladesh needs to make the existing rules compatible with the e-commerce sector to incorporate DDU/DDP delivery. Policymakers should also focus on improving quality inspection, pricing based on quality, and rewarding innovation. By doing so, service providers, customers and all other relevant stakeholders will be able to reap the benefits of the upgraded system.

### **8.7 Developing of manpower skills within the logistics sector**

The education system in Bangladesh still follows the traditional ways of learning and teaching to a large extent which fails to harness the potential of the country's youth. As more and more students are coming out of universities without essential skills, unemployment rates among the educated youth are escalating as graduates do not possess the skillsets that are compatible with that of job requirements. Sustaining the country's current level of economic growth will be challenging if no reforms are undertaken.

Since India's education scenario has similar limitations, the Indian government has undertaken an initiative with a program named "Skills India" that was initiated in 2015. Today courses across 40 sectors are being offered under this program that is in alignment with the requirements of the respective industries with a focus on enhancing technical expertise and over 10 million youth join the program every year.<sup>72</sup> The main objective of the program is to equip the country's workforce with the necessary skill-set in order to enhance their employability and productivity and help the economy grow.<sup>73</sup> Under this program, fresh graduates undertake 2-year internships at public and private sector enterprises, where the government pays the sustenance allowance to the interns. The program has focused on the logistics sector as well. Upon completion of the project, it has been estimated that 2.2 million logistics professionals will be ready to work in the sector. Furthermore, India also has a dedicated non-profit education institute named Indian Institute for Logistics that has been in operation since 2007 and has educated more than 9,000 students till date.<sup>74</sup>

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<sup>72</sup> [There will be significant focus on reskilling and upskilling: India Skill Development Minister - People Matters.](#)

<sup>73</sup> [Ministry of Skill Development and Entrepreneurship, India.](#)

<sup>74</sup> [Indian Institute of Logistics.](#)



Bangladesh needs to launch a similar rigorous program in different sectors to upskill its youth and help fill the skills gap in the labor workforce, particularly in the logistics sector. The relevant authority of Bangladesh needs to step forward to build an efficient and skilled employee pool in the logistics sector by making logistics education and training accessible to the youth. Considering the growth prospects of the logistics sector and its importance to the economy, professional training needs to be offered to the existing human resource in the sector as well as those who are interested in developing a career in the field. Supply chain management, inventory management, logistics technology, trade negotiation and contract conditions are several aspects that require emphasis during the training process. Industry experts should also be involved in the process so as to make sure that training being provided is up-to-mark.

### **8.8 Capturing the opportunity of regional connectedness**

Bangladesh has the potential to become an important hub given its strategic location in the South Asia region. If the logistics services in the country can be appropriately upgraded, then the logistics gap in the region can be met by Bangladesh. Our logistics system will require proper integration with regional logistics so that there are similarities with regards to logistics regulation and efficiency with that of other countries. It is also a must to focus on realigning its logistics rules and regulations in harmony with the potential partner-countries and easing the cross-border movement in logistics. If we are able to capture this opportunity, it can serve as a strong stimulus for Bangladesh's economic growth.

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