

Prospects for the Gold and Jewelry Industry in Bangladesh and Financing Challenges

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Key Points: The Gold and Jewelry Industry (GJI)

1. The Gold and Jewelry Industry can become the second prospective thriving sector after the RMG sector in BD.
2. The Jewelry Industry is a missing revolution for BD which govt. policymakers failed to foresee the same way they missed RMG.
3. Fair financing for GJI is absent just because the govt. policies toward GJI are self-contradictory, defective, myopic, and unfair.
4. Appropriate VAT, customs, and tariffs along with supportive financing policy can awaken the sleeping lion of BD's gold industry.
5. The gold jewelry industry can usher in golden opportunities in high value addition and job creation in an unemployment-prone BD.

History of Gold and Jewelry

1. South Asian countries cherish a great tradition of jewelry artistry with gold, silver, diamond, and other precious metals.
2. The four epics of the world, which go back to five thousand years BC, testify to the huge presence of jewelry. Two epics of them belong to the Indian subcontinent and evidence the widespread use of gold ornaments across various income groups.
3. Jewelry and Gold have never lost their appeal since then and will continue to remain so in the future as history testifies.
4. Gold is an essential item in almost all weddings and festivals for both rich and poor by symbolizing both prestige and security.
5. The US abandoned the gold standard in the early 1970s, but it stores the highest amount of gold with its central bank.

Understanding What Gold Means

1. While India's governments understood the gravity of gold and the future of the market, BD's jewelry industry has remained like a Cinderella in the BD government's outlook.
2. Policymakers never saw the immense prospects of the gold industry in BD the same way they never saw the prospects of the garments industry in the 1970s.
3. It took BD almost half a century to make a gold policy which is still immature and impractical in promoting the business of jewelry.
4. Policymakers failed to understand that gold is not used simply for ornaments. Rather, it is more powerful than taka or the dollar.
5. Gold is an asset in the wealth portfolio. It is simultaneously an asset for saving, investment, and insurance.

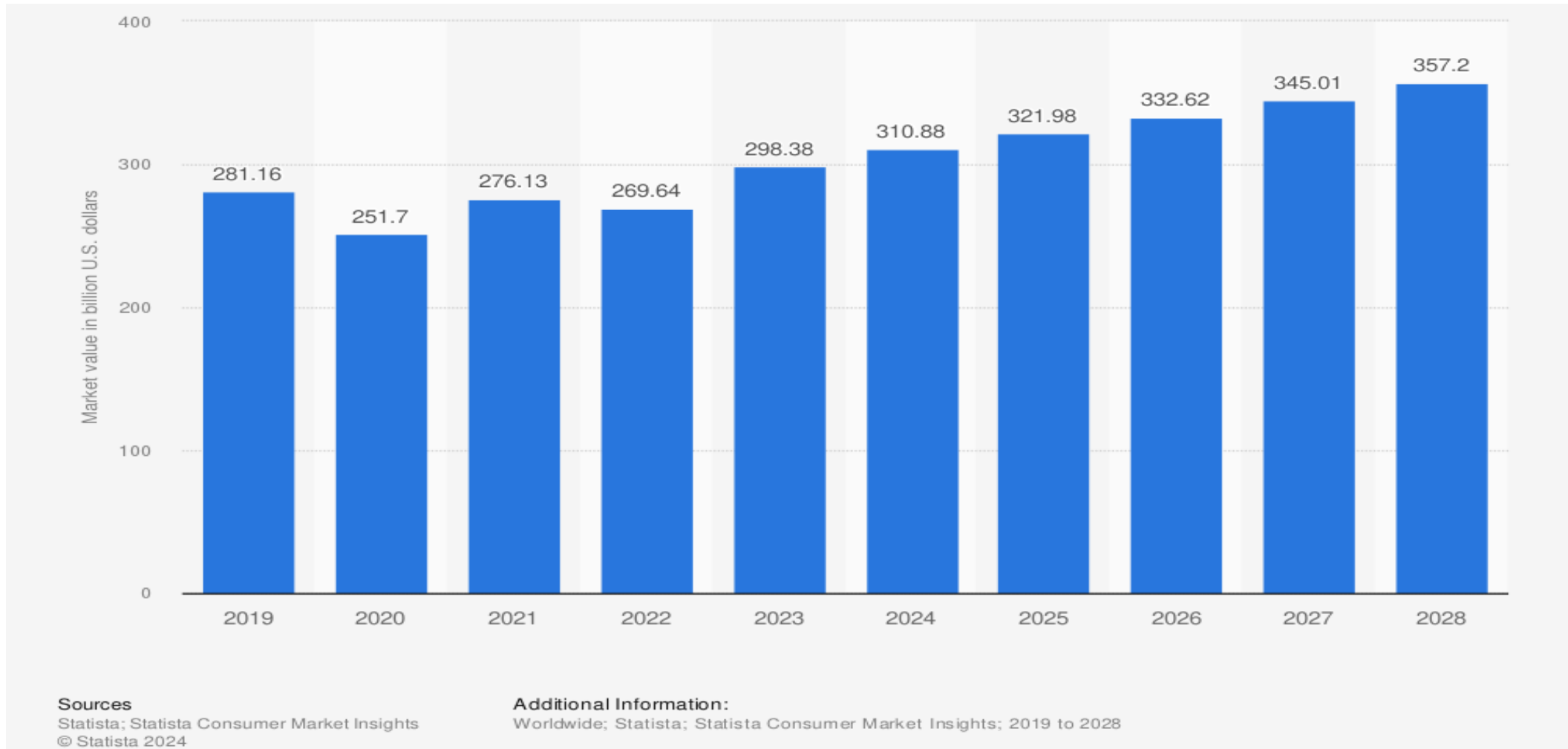
30-Year Gold Price Per Ounce = 28.35 Grams



Gold's Superiority Over Dollar or Taka

1. Gold's value must increase over time in the long run. Gold is the most reliable asset for insulating against recessions or any crises.
2. During the 4 Global Greats, gold always gained value. They are the 1) Great Depression 2) Great Inflation 3) Great Recession and 4) Great Pandemic
3. Gold is an insurance particularly for women – rich and poor – against unpredictable events in life. Gold's intrinsic value and inflation-proof shield made it a truly reliable asset.
4. Gold's value addition is perpetual – is always to stay. This is not necessarily true for other industries.
5. Holding gold for the last 20 years had given 8.43% growth. The jewelry industry is growing at 4.4% per year which is outpacing the global GDP growth rate of 2.9%.

Global Revenue of the Jewelry Industry in Bn\$



World Gold Facts

1. Top 6 gold reserve-holding countries: US, Germany, Italy, France, Russia, and China.
2. Gold was the 6th most traded commodity globally in 2020. Global gold demand was 4740 tons and its 46%, 2190 tons, is jewelry or ornaments – amounting to \$100 bn.
3. The global jewelry market size was valued at \$216.48 billion in 2022 and is projected to grow from \$224.38 billion in 2023 to \$308.36 billion by 2030, exhibiting 4.6% yearly growth – higher than world GDP growth.
4. The demand for gold and jewelry in Asia occupied only 45% some 3 decades ago. Now it is 60% whose main segments are originating from emerging giants like China and India.

Stylized Facts for BD

1. 40,000 units are engaged in gold and jewelry. 20 lac people live on this business directly and indirectly. Gold jewelry can add value from 20% to 40% - much higher than what RMG can do.
2. BD's new demand for gold is 18-36 tons whose 10% comes from old gold while the rest comes from smuggling and baggage rule misuse. Smuggled gold from BD is Tk 73 thousand annually, equivalent to \$6.6 billion.
3. In 2021, Indians purchased 611 tons of gold jewelry while Chinese people bought 673 tons. BD's gold sale, now being \$0.3 billion, is expected to reach \$2.1 billion in 2030 by growing at 12%. Growth in gold sale rises by 12.5% - doubly faster than GDP growth of 6%.
4. In 2021, China exported gold to ROW amounting to \$12 billion while India \$11 billion and Switzerland \$9.4 billion. BD's prospect is at least \$2 billion.

Bangladesh: Stylized Facts

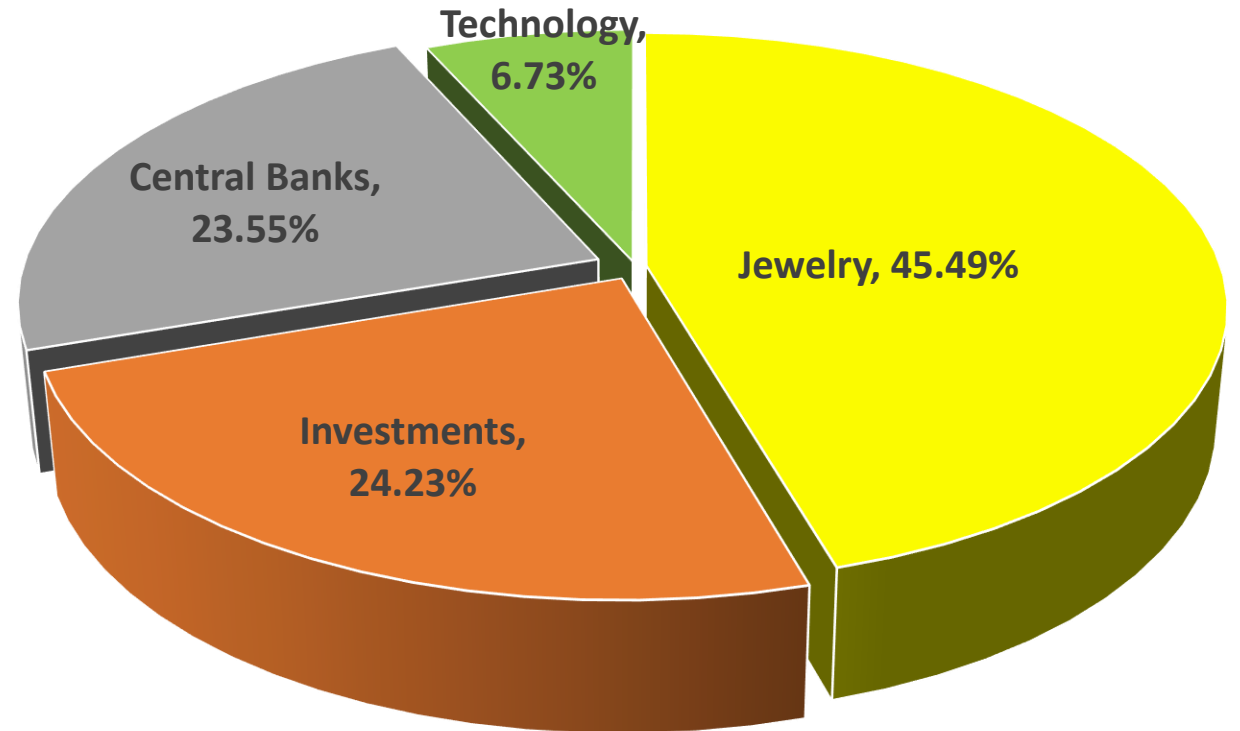
1. BD is the 149th gold exporter while India is the 2nd. India is 8-9 times bigger than BD in GDP while India is 74 times bigger than BD in gold exports. Jewelry market \$10 bn. EPB: BD exported \$0.58 million in FY23.
2. FY24 Budget: Govt. has halved the amount of gold an air passenger can carry, from 234gr to 117gr while also doubling the import duty – Tk 4,000 per Bhuri.
3. Thailand exempts VAT on unprocessed diamond. India, Qatar, and China use their gold stock to pay for import costs.
4. NIP 2022: Gold has no cash incentive for exports.

India: Stylized Facts

1. The Jewelry and Gems Industry accounts for 7.5% of its GDP. India earns \$52 billion from gold and diamond each year. Between 2013 and 2021, India's gold imports are 7% of its total imports, and the trend is upward: Rs. 1600 bn (2014) to Rs. 2500 bn (2021).
2. FDI in India's gems and jewelry sector in FY22 was \$59 bn – to reach \$100 bn by 2027. The India-UAE strategic alliance is a wakeup call for BD. India's gold jewelry exports grew from \$7.6bn in 2015 to \$12.4bn in 2019, suggesting a 13% growth rate – which is signaling an opportunity for BD as well.
3. India is the second largest consumer of gold jewelry. Weddings and festivals are the main drivers of the gold demand. Evolving demographics, rising per capita income, spreading urbanization, improved familiarity with global products are the driving factors behind India's gold demand.

Top Gold Producing Countries and Demand: 2022

1. China	375.0 tons (10% of World)
2. Russia	324.7
3. Australia	313.9
4. Canada	194.5
5. United States	172.7
6. Ghana	127.0
7. Peru	125.7
8. Indonesia	124.9
9. Mexico	124.0
10. Uzbekistan	110.8



Top 5 Gold Importing and Exporting Countries 2021

IMPORT

1. Switzerland	\$83.8B
2. India	\$58.4B
3. UK	\$53.9B
4. UAE	\$46.0B
5. China	\$34.2B

JEWELRY EXPORT

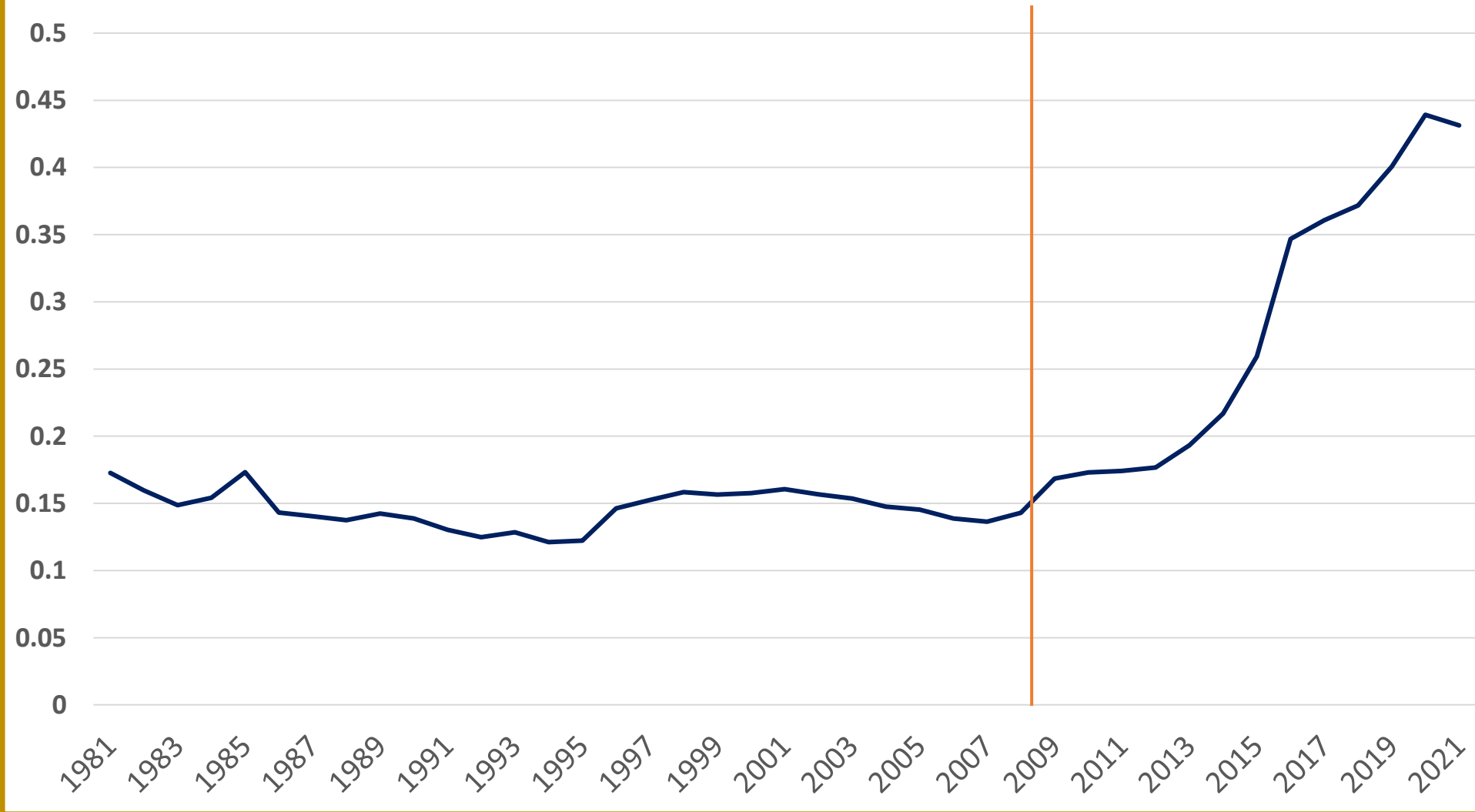
1. China	\$11.8 billion
2. India	\$10.7 billion
3. Switzerland	\$9.3 billion
4. Italy	\$9.1 billion
5. UAE	\$7.7 billion

- India isn't any of top 44 gold producing countries, but it is the second highest exporter of jewelry. The factors are workforce, culture, growing middle class, and supportive fiscal and financing policies.

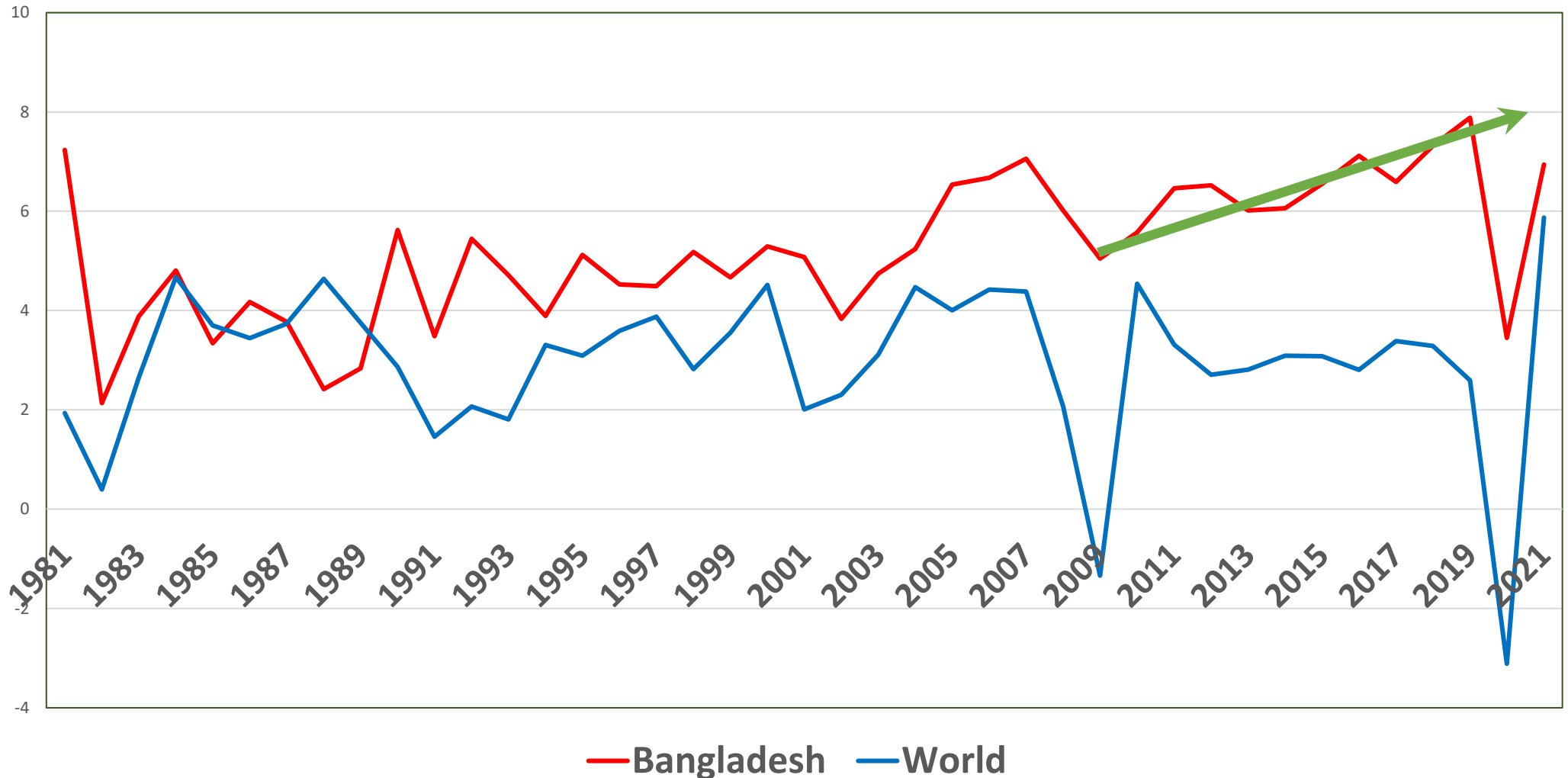
The Bangladesh Economy

- World Economic Outlook (Oct 2023) of IMF: BD's PCI \$2,650. India's \$2,850, Pakistan's around \$1800.
- GDP is \$455 billion with 6.0% GDP growth. Population growth is 1.3%, making PCI growth at around 4.7%.
- Poverty is around 18%, but income inequality rises.
- Inflation is 9.0%. Low Reserves.
- High unemployment rate.
- Low tax-GDP ratio (9%)
- The lack of diversification in the export sector.
- Institutional hindrances: bureaucracy and the judiciary

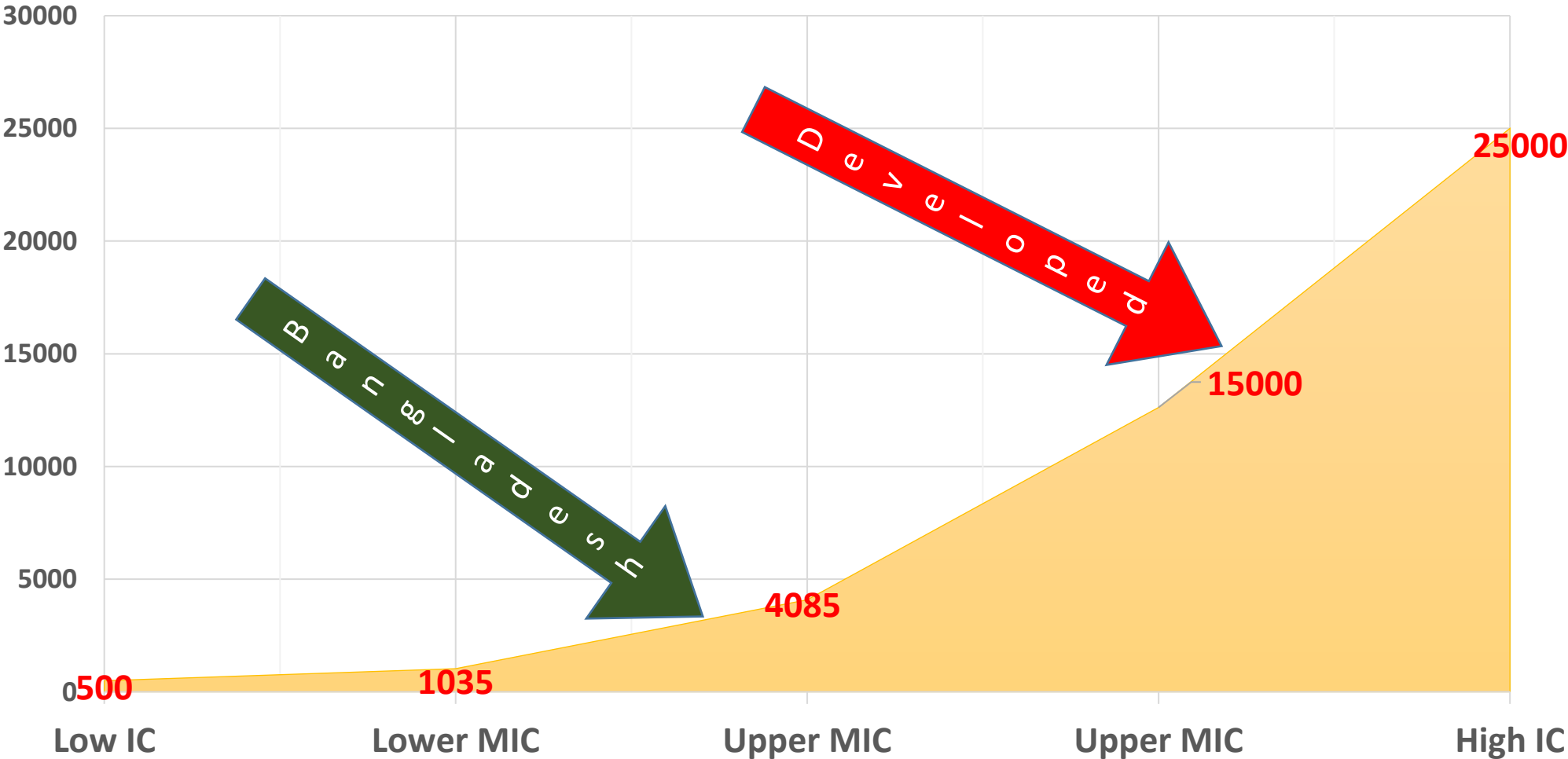
BD GDP as a Share of World GDP



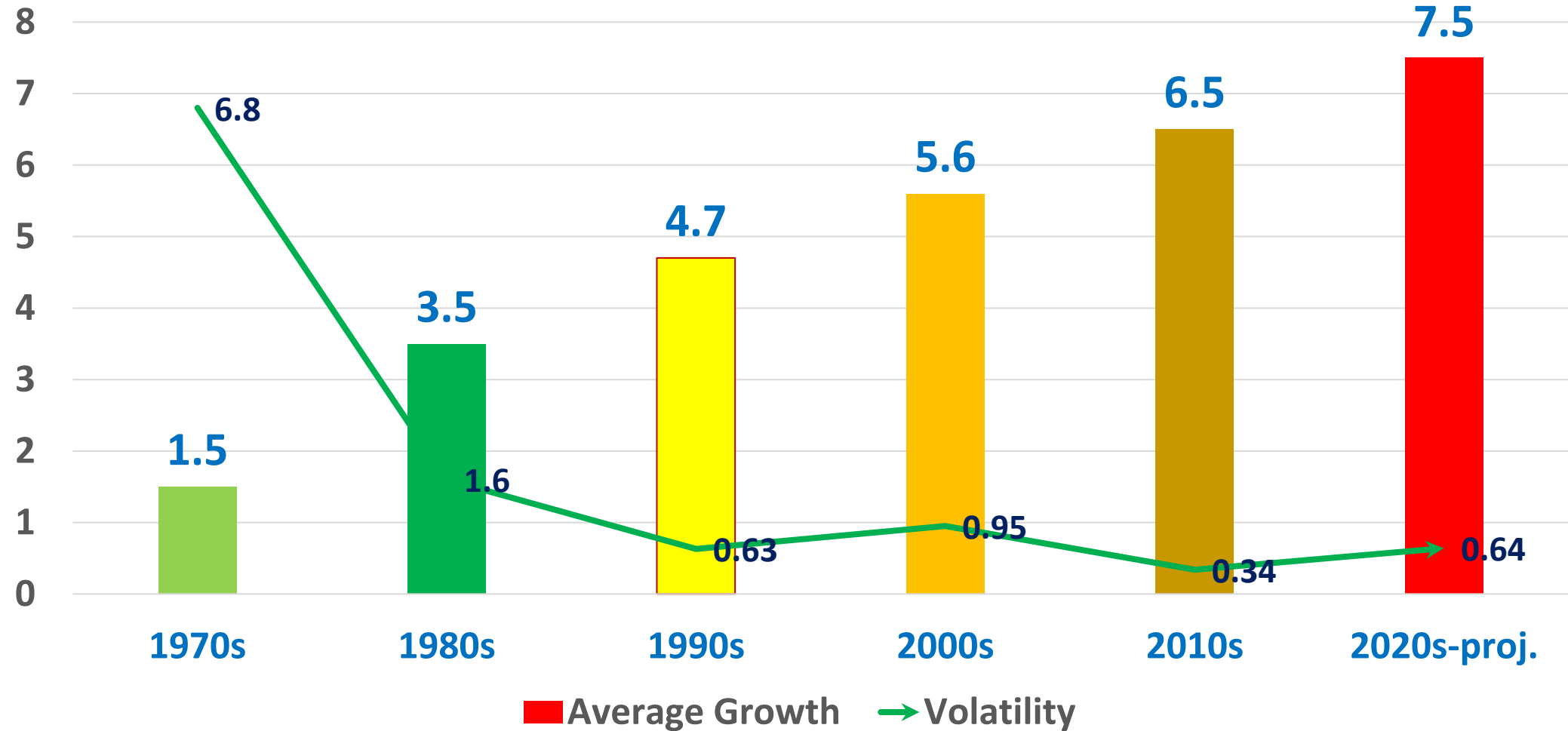
BD's Growth Trend Falling



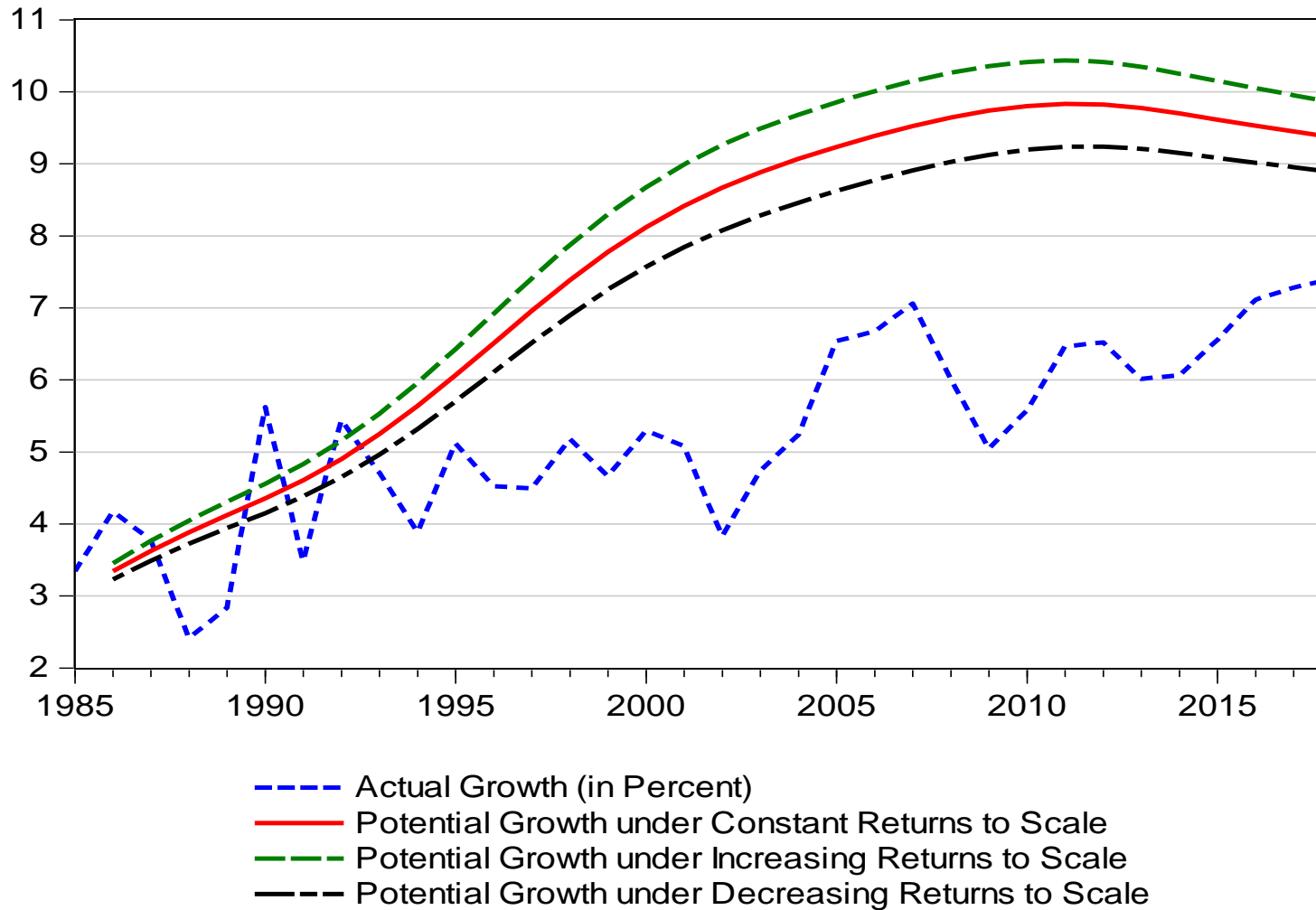
Exploring Opportunities to Attain the Nation's Goal



How to Continue BD's Growth Momentum?



Bangladesh: Actual vs. Potential Growth



Source: BBS (1986-2017), WDI (2017), CB (2017), Penn (2017)

The Hidden Treasure for BD

1. Gold related craftsmanship is BD's comparative advantage which, as economist David Ricardo suggested more than 200 years ago, BD can use to gain in trade.
2. The artistry of making gold jewelry is BD's cultural heritage – which the country can use for niche marketing in the world.
3. Gold and Jewelry are the hidden treasure for Bangladesh's prospects for increasing employment and earning foreign currencies by promoting exports.
4. High unemployment and the shortage of foreign reserves are the two acute problems the BD economy is facing now. Gold can unveil a golden opportunity to largely address these problems.

4 Models for Lessons

- 1. The India Case:** The second largest exporter with similar per capita income of BD. Similar background of cultural craftsmanship for gold jewelry. India's advancement in the Jewelry Industry is more of a shame than a lesson for BD.
- 2. The China Case:** China is doubly lucky: Gold mines and cultural heritage of jewelry. China's proximity and trade relations are the golden opportunities for flourishing gold refineries in BD.
- 3. The Switzerland Case:** Having or not having gold mines is NOT the precondition to succeed in gold and jewelry business. To excel in exports of gold jewelry, imports must be liberalized.
- 4. The UAE Case:** Achieve growth in the gold and jewelry business by guaranteeing high standard quality control.

India: Duopoly Leader Dominates the Price

1. The gold businesses in BD and India are a classic example of **Duopoly** where the leader dominates the price.
2. Economists define it as “**Follow-the-Leader-Pricing**” in an oligopolistic market. Phillip Kotler, the marketing guru, showed how marketing can thrive by following the leader’s pricing.
3. Indian gold importers, jewelry exporters, and retailers find bank loans in a more comfortable way because of their recognition. They are treated as entrepreneurs, not players of hide-and-seek.
4. As the dominant firm changes its prices according to the forces of supply and demand, the smaller firms must adjust their prices by following the leader’s price as well to retain their market share.

Why BD Cannot Charge Higher Prices

1. The American economist, Paul Sweezy (1939), contributed the theory of the **Kinked Demand Curve** which showed why interdependence between firms is essential in setting the price.
2. If one firm sets a higher price, customers will quit that company and flock to others which would offer lower prices. This is more so for gold businesses because of the universal standards of gold.
3. Price differentiation is possible by product differentiation. But gold is a uniform standard product by its purity and weight. Higher gold prices in BD can't survive when India offers competitive prices by benefiting from the government policy.

How BD Can Catch India in Gold Businesses

1. Phillip Kotler & Gary Armstrong (2014) suggested 3 pricing strategies: customer value-based pricing, cost-based pricing, & competition-based pricing. India's pricing is competitive and advantageous.
2. BD can catch India by lowering the final price of ornaments and the government's reasonable policy is the only way out in this regard.
3. Hence, accepting the leader-determined price and setting the business strategy accordingly is the optimal way to stay in business.
4. There is no way other than ensuring lower final prices for gold and jewelry in BD to survive and thrive. That is possible by easing bank loans and by lowering VAT, Customs, and Tariffs.
5. Other steps relate to favorable government policies to promote the industry and explore other global opportunities.

A Triangular Strategic Alliance and BGJI

- 1. A Triangular Strategic Alliance** with China, India, and UAE can benefit BD the most for expanding BD's gold refinery and jewelry business. BD is in good terms with all of them, and exploiting the opportunities would be wise to broaden the horizon of gold.
- 2. A Technical Alliance** with Switzerland, UK, France, & Germany for modern craftsmanship and training will benefit the country.
- 3. Bangladesh Gold and Jewelry Institute (BGJI)** is to be established.
4. Europe, India, and China will outsource the work orders to BD if BD can enhance modern skills and style by ensuring 100% purity in making jewelry with gold and other gems.
5. What BD needs is long-term planning and economic diplomacy.

Rationales for Lower Duties & Easy Credit

- 1. Follow-the-leader's-pricing:** BD's gold prices must be competitive. Higher gold prices by Tk. 8,000-12,000 are mainly attributable to restrictive imports, high duties, and finally expensive credit.
- 2. Elastic Demand:** Gold jewelry's demand is highly elastic, and hence lower final prices will generate more revenue and increase the market share by contributing to the employment sector.
- 3. Comparative Advantage in the Shadow:** A good fit in a labor-intensive economy. Craftsmen's wages in BD are lower than that in India, China, Switzerland, and the UAE.
- 4. Differentiated prices** in this age of information will simply hurt the country that charges higher prices for gold jewelry. Slightly well-off Bangladeshis will buy gold from India, Singapore, or the Middle-East countries.

Gold Exchange, Gold Bank, & Best Practices

1. Gold is like the dollar or other internationally accepted currencies. It must be treated like that, not like heroin or addiction drugs. The mindset at the customs must be changed.
2. Hardworking remittance earners bring gold or ornaments as a proxy of insurance for their families. What is wrong in that?
3. Gold can be exchanged anywhere in the country. The Govt. can open **Gold Exchanges and Gold Banks** and thus can manage its reserves by using gold's universal convertibility.
4. The govt. must follow the best practices of how European countries allow high imports and ensure high exports of gold after adding value.

Replicating RMG Strategies for Gold & Jewelry

1. The strategies that enabled the RMG sector to occupy 83% of exports can be replicated for enabling the gold sector to thrive.
2. **The first step: Cheap Labor Utilization** led to lower production cost for RMG – a tactic to occupy the low-end markets.
3. **The second step: Quality Improvements** to occupy the classy markets.
4. **The third step: Technological Improvements and Training** to lower cost and to enhance quality for remaining vibrant.
5. The sooner the govt. adopts this strategic map, the greater the prospects BD will be able to harvest to promote export, generate employment, and increase growth toward becoming a developed country by upscaling per capita GDP.

Challenges to Financing the Gold/Jewelry Industry

1. Gold refineries need long-term financing – which many banks won't be willing to do. It won't be wise too.
2. Since **jewelers are working in a clandestine environment**, they can't show enough collateral to earn big-ticket loans.
3. First the Gold Policy must be updated. Second, the customs duties, VAT, tariffs, and other taxation policies must be corrected.
4. If the gold and jewelry businesses qualify to be part of the govt.'s priority list of industrial promotion, gold businesses and jewelers will easily qualify to borrow from banks at easy rates.
5. Long-term businesses such as refineries and massive-scale jewelers will be able to manage financing from the capital market.

Financing Gold and Jewelry Businesses

1. Back-to-Back L/Cs
2. Overseas loans
3. Gold Export Processing Zones
4. Special Rate Loans for EPZ Members
5. Gold as a loan collateral is discouraged while it is much more efficient for banks to recover the loan in case of default.
6. It suggests that financing gold business suffers from impracticality and non-cooperation.
7. Easy loan provisions for gold artisans, goldsmiths, designers, and craftsmen.

The Bottom Line is the Supply Constraints

1. The main hindrance to developing the gold and jewelry industry in BD is the supply constraints. The supply part is too weak to support the demand part.
2. Liberal baggage rules and export-based import guarantee must be implemented to ensure an abundant supply of gold in the domestic market.
3. This is the precondition to the success in the gold and jewelry industry as the cases of India, China, and Switzerland testify.
4. The supply effect – the adequate supply – will eventually lower gold and jewelry prices, augmenting their demand at home and abroad.
5. Lower prices will prevent domestic buyers from collecting gold from overseas.

Gold Policy is Myopic and Wrongly Biased

1. A US-based NRB can support his sister's wedding by **spending \$10,000 in 4 ways: Cash dollars, Gold, Ornaments, or Remittance**. But their 4 different impacts suggest that BD's customs and baggage rules must be corrected.
2. A passenger pays around Tk 45,000 for bringing gold of around 100 grams while an importer must pay around Tk 70,000 for bringing the same amount of gold, suggesting that gold import policy is anti-export biased.
3. Many Bangladeshi artisans are working in India and Dubai while they face antagonism while working in BD.

Reform: VAT and Custom Rates

1. BD borders with India in three sides of the country, making it impossible to fully stop cross-border trafficking of gold and jewelry.
2. As a result, it would be practical to adopt apt VAT or Custom Duties, which will be competitively less than those of India.
3. Currently, these tax rates make Bangladeshi jewelry more expensive than India's, encouraging purchases from India and thus dampening the prospects of gold businesses in BD.
4. Bringing VAT down to 2% from 5% and slashing down tariff rates from 30-60% to 10% will give a competitive edge for BD over India, which will bring a transformative change in the gold industry.

Reform: Baggage and Other Rules

1. Each passenger is entitled to bring gold ornaments not exceeding 100 grams duty free. But bringing a gold bar of 100 grams is dutiable. It's unreasonable discrimination. A 100-gram gold bar, if brought inside for making ornaments, will remunerate working hours and add value to GDP.
2. US rules say either gold or jewelry of \$10,000, suggesting that they don't make any distinction between gold or jewelry.
3. Some stakeholders proposed awarding a portion of confiscated gold to the customs personnel involved in seizures. This will make gold inflow worse and fuel moral hazards in the public service.
4. The gold import ways must be liberalized in BD to make it a star performer in jewelry exports. It's a two-way traffic.

Conclusion

1. The gold and jewelry industry has high potential to generate employment, promote exports, and contribute to GDP growth.
2. India, China, UAE, and Switzerland are the 4 models for BD to follow and achieve success in the gold and jewelry business.
3. This industry deserves proper recognition, technical guidance, and fiscal support to flourish in BD as a second thriving sector after RMG.
4. Supportive bank loans and capital market financing are required to make this industry grow for export diversification, unemployment reduction, and output growth.
5. A unified effort from gold businessmen, economists, policymakers, and customers is warranted to awake the sleeping lion of the gold and jewelry industry in BD.