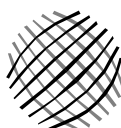


# Revitalising Bangladesh's Export Trade: Policy Issues for Growth Acceleration and Diversification

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**Keynote paper prepared for  
Stakeholder Consultation on Export Diversification: Challenges and Policy  
Priorities**

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# Table of Contents

<b>List of Figures</b>	<b>iii</b>
<b>List of Tables</b>	<b>iv</b>
<b>Executive Summary</b>	<b>vi</b>
<b>Chapter 1: Introduction</b>	<b>1</b>
<b>Chapter 2: Bangladesh's Export Dynamics and Challenges</b>	<b>3</b>
<b>Chapter 3: Challenges and Policy Priorities</b>	<b>16</b>
3.1    Boosting export-orientation in the economy with renewed efforts to trade openness	17
3.2    Promoting export diversification while sustaining the RMG sector dynamism	19
3.3    Making export incentives result-oriented	21
3.4    Proactively exploring new markets and supporting export relationships	26
3.5    Tackling infrastructural bottlenecks and weak trade facilitation	30
3.6    Improving quality and product sophistication	33
3.7    Addressing shortage of skilled workers	37
3.8    Dealing with real exchange rate appreciation	39
3.9    Improving access to trade finance	40
3.10    Attracting FDI inflows	42
3.11    Promoting Exports of services	44
3.12    Consolidating improvements and maintaining good work place safety standards	47
<b>Chapter 4: Conclusion</b>	<b>48</b>
<b>References</b>	<b>52</b>

# List of Figures

Figure 1 Bangladesh: export earning and growth	4
Figure 2 Bangladesh and LDCs – growth of share in world exports (%)	4
Figure 3 RMG and non-RMG exports	4
Figure 4 Changing shares of RMG and non-RMG exports in total exports (%)	4
Figure 5 Country size and exports of developing countries	6
Figure 6 Growth of world trade in volume (real) terms (%)	7
Figure 7 World exports (in US\$ trillions) and growth	7
Figure 8 Bangladesh's export connection is four times the developing country average, and is also higher than the average of LDCs	9
Figure 9 Export share of top products	9
Figure 10 Contribution of new products to export growth: 2005-2015 (%)	11
Figure 11 Relative significance of export baskets and countries' shares in their product lines	12
Figure 12 Global value chains participation: share of parts and components in manufacturing export (%)	13
Figure 13 Importance of top 10 and 20 markets (%)	14
Figure 14 Export market penetration rate (%)	15
Figure 15 Bangladesh's export-GDP ratio (%) has been on the decline since 2011	17
Figure 16 Comparator countries' export-GDP ratios	17
Figure 17 Bangladesh's export-orientation is lower than predicted	18
Figure 18 Adjusted export-openness	18
Figure 19 Global apparel market size projection by region, 2015-2025 (\$ billions)	20
Figure 20 Diversification scenarios with different growth rates of RMG and non-RMG sectors	21
Figure 21 Bangladesh and comparators in various competitiveness indices, 2016-17	26

Figure 22 Bangladesh's exports to global economies: Actual versus predicted	27
Figure 23 Comparison of survival rates of exporters (2003-2015)	28
Figure 24 Product survival and death: 2005-15	29
Figure 25 Product survival and birth: 2005-15	29
Figure 26 Energy use and exports: Bangladesh and global economies	31
Figure 27 Logistic Performance Index	32
Figure 28 Cross-country relationship between exports and LPI score	32
Figure 29 Export quality by SITC-1 digit sectors	34
Figure 30 ( a ) Quality ladder for clothing (SITC Division 84: Division: 84 - Articles of apparel and clothing accessories	35
Figure 30 ( b ) Quality ladder for fish (SITC 034: fish, fresh, chilled or frozen)	35
Figure 30 ( c ) Quality ladder for footwear (SITC Division 85: Footwear)	36
Figure 30 ( d ) Quality ladder for plastic goods (SITC 893)	36
Figure 31 Future Training Needed by Leading sectors	37
Figure 32 Nominal and Real Exchange Rates	39
Figure 33 Firms identifying access to finance as a major constraint (%)	41
Figure 34 FDI inflow as % of GDP (avg 2000-16)	43
Figure 35 FDI Stock as % of GDP	44
Figure 36 Service exports and growth	45
Figure 37 Bangladesh and LDCs- growth of share in world services export (%)	45
Figure 38 Share of service exports in total exports (%)	45

## List of Tables

Table 1 Contribution to export growth 2005-15 (%)	10
Table 2 Cash assistance to various sectors (% of value of export shipment)	24
Table 3 Value and share of services export by subsectors (Value in million USD)	46



# Executive Summary

## A summary of key points and recommendations

Bangladesh quite rightly set a target of achieving \$50 billion RMG exports and an overall \$60 billion exports by 2021. Recent trends seem to suggest daunting prospects for achieving these targets. A big policy-push is the need of the hour to revitalise exports.

1. Bangladesh's exports grew by just 1.7 per cent in the last fiscal year (2016-17) amid increased pressure on external competitiveness due to several factors, a persistent slowdown in world trade flows, and heightened policy uncertainty related to globalisation backlash causing political upheavals in Europe and the United States.<sup>1</sup>
2. Policy attention is needed given the objectives of achieving \$50 billion RMG exports and an overall \$60 billion exports by 2021, as set out in the Export Policy 2015-18. Along with this, export diversification remains a longstanding challenge.
3. Contrary to the national objective, Bangladesh's export-orientation (i.e. export-GDP ratio) in recent times has fallen quite significantly (from 20 per cent in 2011 to 16 per cent in 2017). The Sixth Five-Year Plan (2011-2015) projected the share of exports in GDP to rise by 7.7 percentage points to reach 23.9 per cent. This was not materialised. Revitalising exports would require urgently assessing the trade policy regime complemented by enhanced export support and promotional measures.

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<sup>1</sup> The export growth rate in the first six months of 2017-18 (July-Dec) has been 7 percent. That is, despite a weak growth in the previous year, exports did not show a strong bounce back.

4. The need for export expansion should not be compromised by the need for export diversification. Rather, a strategy of export diversification is to be complemented by a policy of maximising overall exports. Although within the group of LDCs, Bangladesh is considered as an export success story, our current export volume of \$35 billion is just small in comparison with most countries of comparable size. The 91 million-strong Vietnam boasts an export volume of \$170 billion; Indonesia exports \$220 billion with a population of 258 million; The Philippines has a population of 101 million and exports \$70 billion. Therefore, the target of achieving \$60 billion exports by 2021 must be pursued vigorously. From this perspective, promoting export diversification and maintaining RMG sector dynamism must go hand in hand.
5. There is a need for reviewing the export incentive schemes (including cash assistance and bonded warehouse facilities). It is extremely important for expanding and deepening such incentives, which will be consistent with the national objectives of export-led growth and job creation and should not to be unduly constrained by revenue concerns.
6. A strategy of export expansion and diversification will have to mitigate the adverse consequences faced by exporters from Bangladesh's weaker performance in various areas such as institutions, infrastructures, technological readiness, financial market development, etc. In the World Bank Doing Business Surveys, and in the World Economic Forum's Global Competitiveness Index 2017-18 Bangladesh is outperformed by many comparators in most of the indicators. Concrete improvements in these areas will take several years. But, in the meantime, exporters need to be supported by direct policy incentives.
7. The current policy is geared towards stimulating export response from the relatively less-established emerging sectors. However, the overall ambition of the export policy, which is to raise export earnings to \$60 billion by 2021, should not be overlooked. As such, all possible avenues for revitalising exports must be considered. This should include the option of keeping the existing cash assistance for the new sector while raising the level for others as well. For example, the 20 per cent cash assistance for

active pharmaceutical ingredients (API) can help encourage future expansion of the sector, but in the short- to medium-term any large export response is unlikely. On the other hand, as pharmaceutical products have already established a respectable export base and production capacity, comparable incentives granted to the sector will more likely to have resulted in significantly higher export earnings, helping export diversification efforts.

8. It will also be prudent to raise the cash assistance support for leather and leather goods. The target for the sector is to achieve \$5 billion exports by 2021 as against \$1.2 billion earned last year (2016-17).
9. In some instances, non-RMG sectors are not eligible for receiving similar incentives granted to RMG exporters. These range from the provisions of the maximum EDF loans, lower corporate tax rates to extra cash incentives to bonded warehouse facilities to duty-free import of fire-fighting equipment, etc. It is important to review these cases in granting non-discriminatory support to all export sectors.
10. Extending bonded warehouse facilities to all exporters will constitute a helpful initiative. Possible leakages to domestic market sales are sometimes cited as reasons for restricted bonded warehouse facilities. However, governance failures should be addressed by appropriate administrative and legal provisions rather than imposing across-the-board restrictions that can hurt the competitiveness of dynamic firms within a broad sector.
11. Bangladesh is going to graduate out of the LDC group by 2024, after which some of the existing policy flexibilities and trade preferences will either be lost or significantly reduced. A much bigger proactive policy push and support are now needed to make the most out of it. Lack of supply response means many of the available trade preference schemes have remained underutilised.
12. After graduating from LDCs, export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the



World Trade Organisation. Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly before Bangladesh loses its LDC preferences and privileges. A pragmatic target will be to aim for a 10% per annum export growth rate so that by the time of losing LDC privileges, Bangladesh's exports could reach a respectable base of around \$80 billion. Appropriate and adequate policy incentive schemes need to be devised for that matter.

13. A proactive initiative of making use of any available policy space and preferences thus cannot be overemphasised. Failure to do so now may prove to be a missed opportunity soon.
14. It is also important to consider policies undertaken by other countries to promote their exports. In the aftermath of an unprecedented slowdown in global trade, resulting in a \$3.1 trillion fall in absolute world exports between 2014 and 2016, many developing countries were pursuing highly proactive export support measures. For example, in 2016-17, India increased incentive rate by 2 per cent across-the-board for labour-intensive micro, small and medium enterprise (MSME) export sectors. This increase in annual incentive by 34 per cent amounting Rs. 8,450 crore (i.e. \$1.3 billion). These are exerting severe competitiveness pressure for Bangladesh.
15. The appreciation of the real exchange rate has serious implications for exports. The exchange rate management is an involved task as its effectiveness in maintaining external competitiveness will depend on many other factors including accompanying monetary and fiscal policies. Bangladesh has been successful in maintaining exchange rate stability, but more policy attention is also needed in tackling real exchange rate appreciations.
16. Infrastructural bottlenecks, including troublesome inland road transportation and weak trade logistics (including port infrastructure and management), pose major constraints. It needs to be seriously reviewed if the current state of infrastructural facilities can realistically support a \$60 billion export target over the next few years.

17. The need for skill training of workers is now very important for the export sector. As such, the effective implementation of the national skills development strategy as outlined in the 7<sup>th</sup> Five Year Plan cannot be overstated. Meeting specific skill demands of the export sector should be accorded a special priority.
18. Efforts should continue to attract foreign direct investments (FDI) that can greatly help Bangladesh break into new and emerging export sectors.

Bangladesh is to devise its next round of Export Policy this year. It is, therefore, an opportune moment to reflect on the relevant issues and frame an ambitious and timely Policy backed by effective export-supporting instruments.

# Chapter 1: Introduction

Bangladesh has made great strides forward in its economic development. Coming a long way from an extremely fragile socio-economic base at independence, the country has witnessed a four-fold increase in its per capita income, more than two-thirds decline in the proportion of the population living below the poverty line, and a remarkable reduction in the dependence on foreign aid.

Compared to many countries at a similar stage of development, Bangladesh has achieved faster progress in social and human development indicators. Sustained economic growth over the past three decades means the country is now included amongst the lower-middle income economies as classified by the World Bank. According to the most recent PricewaterhouseCoopers projections, by 2030 it will be amongst the top 28 economies - in terms of GDP measured in purchasing power parity (PPP) dollars.

The above impressive record has been hugely facilitated by growth of exports, particularly of readymade garments (RMG). The success of the apparel industry however also highlights the critical challenge of broadening export base – a task that has so far proven to be a formidable one.<sup>2</sup> There are several products that hold great promise for export expansion with production activities requiring the skill-mix comparable to RMG firms. But, their export response has so far been lower than expected.

In recent times, the export sector has come under some severe strain. The growth in export receipts in the last fiscal year was just 1.7 percent. Persistent slowdown in global trade and increased pressure on external competitiveness due to several factors have contributed to this dismal performance. It comes as Bangladesh aims for \$50 billion RMG exports with an

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<sup>2</sup> In this respect, footwear is a notable success. Other sectors that are likely to have high potential are agro-products, light engineering (including auto-parts and bicycles), leather, pharmaceutical, software and ICT, home textiles, ocean-going vessels, plastic and furniture, ceramics and toiletry products.

overall export target of \$60 by 2021. Export-led growth and export diversification are also being considered as a matter of priority in various national development strategies.

Therefore, one issue of critical importance is if policy support and practical measures to deal with various structural constraints can be improved to stimulate export competitiveness. As Bangladesh is likely to graduate out of the group of Least Developed Countries (LDCs) over the next decade, a proactive initiative of making use of any available policy space and preferences cannot be overemphasised.<sup>3</sup> It is also important to assess existing policy support mechanisms to make them more effective.

Another important issue is the integration of the private sector into the relevant policy discourse. To achieve ambitious export targets, a sustained engagement is critical to assess their needs, better understand the effectiveness of any policy support provided, and consider options for making improvements in areas essential for improved competitiveness. A private sector-oriented policy discourse is also important as rapid changes are taking place in global trade landscape. Understanding the underlying implications and generating timely policy responses to unfolding developments can only be meaningful if the private sector is able to benefit from them.

In this backdrop, this paper captures certain challenges facing the export sector and highlights some priority policy issues for consideration. Given the nature of the subject-matter, the issues raised here, without being exhaustive, aim to facilitate in-depth discussions for generating useful policy inputs.

This paper is organised as follows. This introduction is followed by Section II which provides a brief assessment of the current export challenges facing Bangladesh, particularly those associated with export diversification. Section III provides a set of issues for priority policy consideration and section IV concludes.

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<sup>3</sup> The policy space is particularly important in attracting foreign direct investment (FDI), providing fiscal support, developing any innovative export incentives including those for non-RMG sectors.

## Chapter 2: Bangladesh's Export Dynamics and Challenges

Within the group of least developed countries (LDCs), Bangladesh is considered as a glaring success story of an export-led growth and development process. From a small base of less than \$800 million, merchandise exports grew by just \$0.5 billion in the 1980s. In the following decades exports expanded rapidly: by \$3.4 billion in the 1990s followed by another \$10 billion in the 2000s; and then a staggering \$18 billion between 2010 and 2016, when the total exports reached just about \$35 billion (Figure 1). Between 1990 and 2016 while world merchandise exports grew at a compound annual average rate of 5.8 percent, Bangladesh managed to grow twice as fast. Since 1990, Bangladesh has seen a four-fold rise in its share in world exports in comparison with 1.75 times achieved by LDCs (Figure 2).<sup>4</sup>

In the process, readymade garments (RMG) emerged as the flagship export product for Bangladesh. It singlehandedly shaped a remarkable structural transformation. While so many countries, particularly those in Sub-Saharan Africa and Latin America, failed to move export production away from agricultural commodities and other mineral resources to manufacturing, Bangladesh exhibited dramatic shifts in its export composition in which the share of erstwhile traditional exports (such as raw jute and jute goods, tea, leather, frozen fish) fell from more than three quarters to just about 10 percent. At the same time, the relative significance of RMG in the country's overall exports has risen from virtually nothing to more than 80 percent (Figure 3). The expansion of the sector has generated massive employment opportunities with most of them going to women. Through exports (and thus

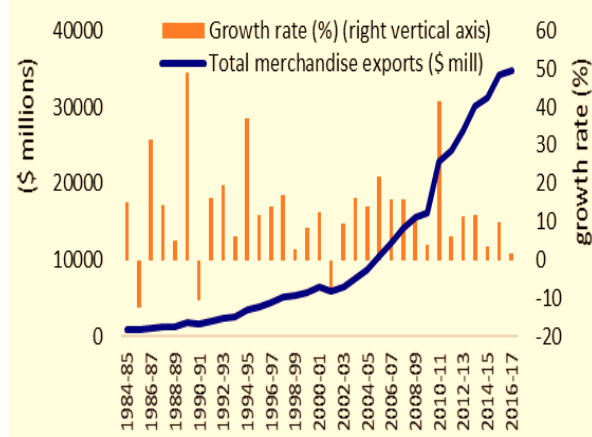
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<sup>4</sup> Several other developing countries also demonstrated robust export performance during the same time (since 1990). China increased its export share by 33 times and Vietnam 16 times. Other East Asian countries and India also witnessed rapid export growth. Apart from Vietnam, all these countries along with most other global economies were however adversely impacted by the 2008 global financial crisis-led prolonged economic recessions in the West and global trade slowdown.

contribution to the overall output), employment, women's economic involvement and many other indirect linkages, the sector's development implications cannot be overemphasised.

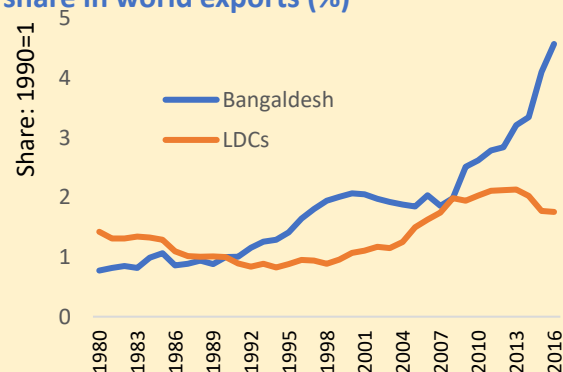
**Figure 1**

**Bangladesh: export earning and growth**



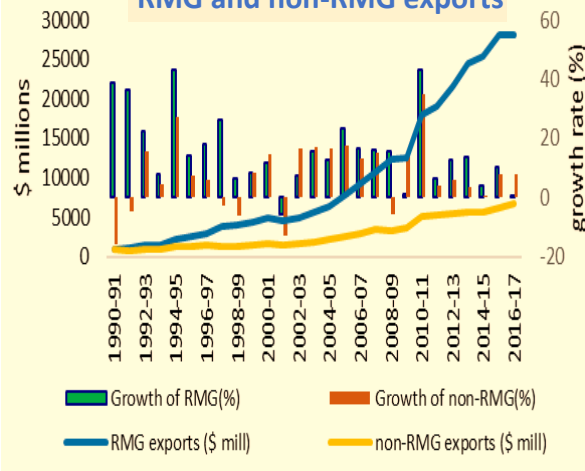
**Figure 2**

**Bangladesh and LDCs - growth of share in world exports (%)**



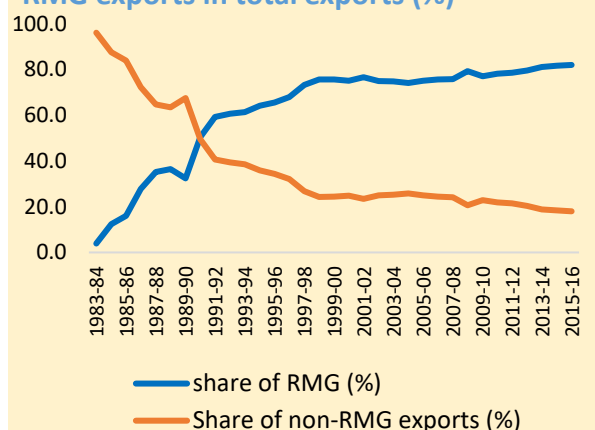
**Figure 3**

**RMG and non-RMG exports**



**Figure 4**

**Changing shares of RMG and non-RMG exports in total exports (%)**



Notes: Data used in Figure 1 are from the Export Promotion Bureau of Bangladesh. Growth in export shares in Figure 2 has been computed using UNCTAD data. The growth shares are normalised with 1980=1 and as such the line charts show growth rates in relative significance in world export trade. The share of LDCs in world exports in 2016 was 0.92 while the comparable figure for Bangladesh was 0.21 (up from 0.05 percent in 1990). Data for Figure 3 and 4 are from the Export Promotion Bureau (EPB) of Bangladesh.

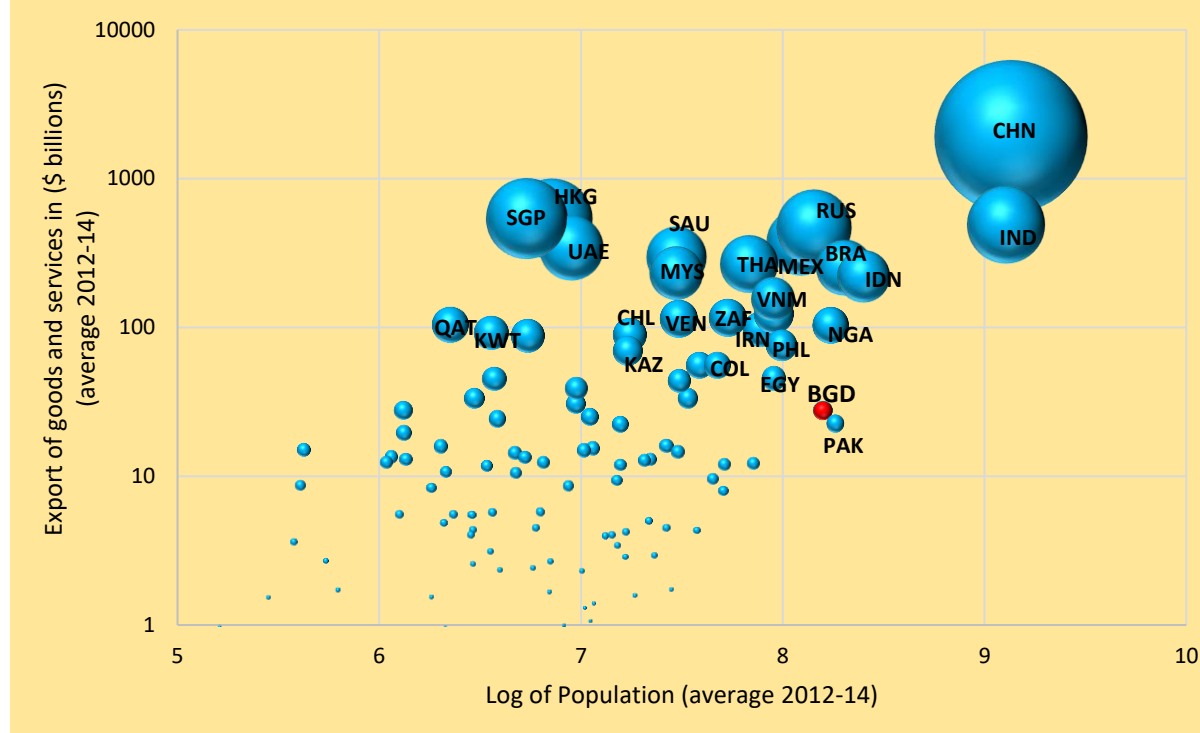
A shift in global trade regime greatly helped Bangladesh break into global apparel markets. The Multi-Fibre Arrangements (MFA), administering quantitative restrictions to control imports of textile and clothing items from developing countries, facilitated relocation of part of the production of apparels in Bangladesh from quota-constrained East Asian countries.

Relaxation in the rules of origin along with duty-free and quota-free market access, particularly under the EU's in the Generalised System of Preferences (GSP) for LDCs, was then instrumental in Bangladesh's having an improved competitive advantage needed to sustain exports. Supportive trade policy environment provided by the government also contributed to the growth of the industry. After the abolition of MFA quotas, Bangladesh consolidated its export competitiveness further, eventually becoming the second largest (after China) global apparel exporter.

When compared with countries outside LDCs, Bangladesh's export success is no reason for complacency. Most East Asian countries exhibited much stronger export performance. Given the size of Bangladesh (160 million population), the current export volume of \$35 billion is small in comparison with most countries of comparable size (Figure 5). The 91 million-strong Vietnam post an export volume of \$170 billion; Indonesia exports \$220 billion with a population of 258 million; The Philippines has a population of 101 million and exports \$90 billion. Then again, much smaller countries in East Asia such as Malaysia and Singapore are extremely successful exporting nations.<sup>5</sup>

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<sup>5</sup> Malaysia with a population of 29 million, export more than 240 billion, while Singapore has a population of 5 million with export receipts of \$557 billion. Export figures mentioned for countries are for 2015.

**Figure 5**
**Country size and exports of developing countries**


Note: Bubble sizes correspond to export sizes. Country notations used as: BGD-Bangladesh, BRA-Brazil, COL-Colombia, CHL-Chile, CHN-China, HKG-Hong Kong, IDN-Indonesia, IND-India, IRN-Iran, MEX-Mexico, KWT-Kuwait, QAT-Qatar, MEX-Mexico, MYS-Malaysia, PAK-Pakistan, PHL-Philippines, SGP-Singapore, VNM-Vietnam, THA-Thailand, VEN-Venezuela, ZAF-South Africa.

Source: BEI project team analysis

Bangladesh needs to enhance its export growth momentum. But, challenges keep confronting the export sector. An unfavourable compliance record, particularly with regards to labour rights and working environment, has always dogged the export success story. This reached a peak with the very unfortunate incident of a collapse of a factory building (Rana Plaza) in 2013, leading to a watershed moment in apparels exporting. With invigorated measures in place to improve working conditions – aided by international buyers, NGOs and the government – the export sector has demonstrated an incredible resilience.

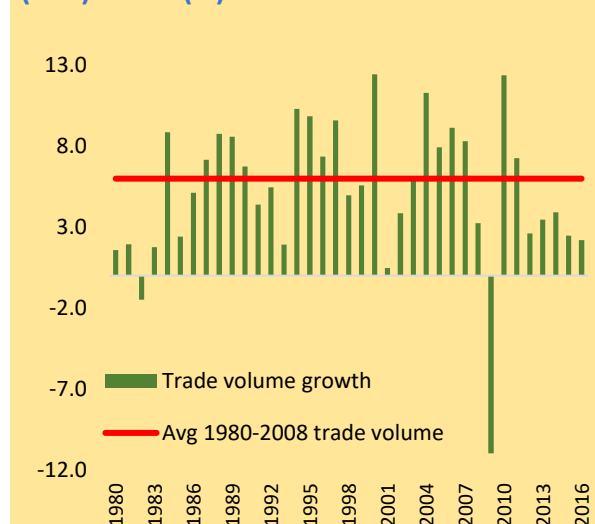
Another critical challenge facing the country's exports now is an unprecedentedly prolonged slowdown in international trade. IMF estimates show world trade in real terms (i.e. in volume) for the past five years on average expanded by less than 3 percent per annum as against of about 6 percent recorded for 1980–2008 (Figure 6). If the projections for the next five years turn out to be correct, 2012–21 will be the slowest decade of global trade expansion since the World War II. Measured in



value terms - using US dollars - world merchandise exports declined by a staggering \$2.5 trillion in 2015 (from the previous year), and then again fell by more than \$500 billion in 2016 (Figure 7).

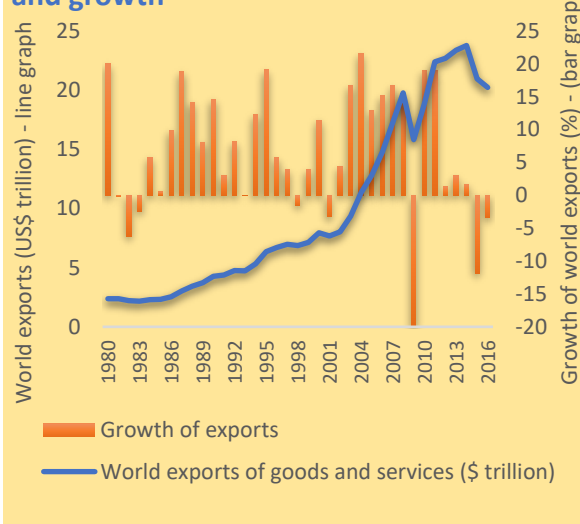
**Figure 6**

## Growth of world trade in volume (real) terms (%)



**Figure 7**

## World exports (in US\$ trillions) and growth



As many as 183 countries had experienced reduced export earnings in 2015 (compared to the previous year) while for 112 countries export earnings similarly declined in 2016. Given such a gloomy global landscape, Bangladesh actually did much better by securing a modest export growth in both the years. However, despite the resilience shown, Bangladesh's merchandise exports in the last fiscal year grew by just 1.7 percent. In fact, excluding the year 2010-11, when exports bounced back strongly after the initial collapse of trade flows following the 2008 financial crisis, Bangladesh's exports since 2010 registered an average annual growth of only 6.8 percent.<sup>6</sup>

Along with the great global trade slowdown, growing prevalence of protectionist measures and discontent about globalisation are also causing heightened policy uncertainty in the world economy. Protectionist measures have proliferated and persisted since the onset of the 2008 global financial crisis.<sup>7</sup> Additionally, the benefits of globalisation have been questioned, giving

<sup>6</sup> Bangladesh's exports grew by 41 percent in the fiscal year of 2010-11.

<sup>7</sup> According to study by Evenett and Fritz (2015) the total amount of forgone LDC exports caused by trade distortions implemented between 2009 and 2013 is US\$264 billion, which is equivalent to 31 percent of the total value of LDCs' exports during the same period.

rise to political upheavals in Europe and the United States. The globalisation backlash and associated policy reversals seem to have brought a new spotlight on the role of trade in development.<sup>8</sup>

With the impressive performance of readymade garments, export concentration has emerged as a major and longstanding challenge for the country. The overwhelming dependence on one particular sector has resulted in Bangladesh having one of the least diversified export baskets amongst the global economies. On an index of export diversification, which compares individual countries' export structure with the world average, ranging from a value of 0 (for highly diversified, reflecting the world average) to 1 (highly concentrated and thus far away from the world average), Bangladesh scores 0.87.<sup>9</sup> This makes Bangladesh's export basket four times more concentrated than the developing country average (Figure 8).<sup>10</sup> Even compared to the average for the group of LDCs (0.68), Bangladesh possesses a much higher value.<sup>11</sup> Outside LDCs, Bangladesh performs much worse against such comparator countries as China, India, Indonesia, Malaysia, Sri Lanka, Thailand and Vietnam.

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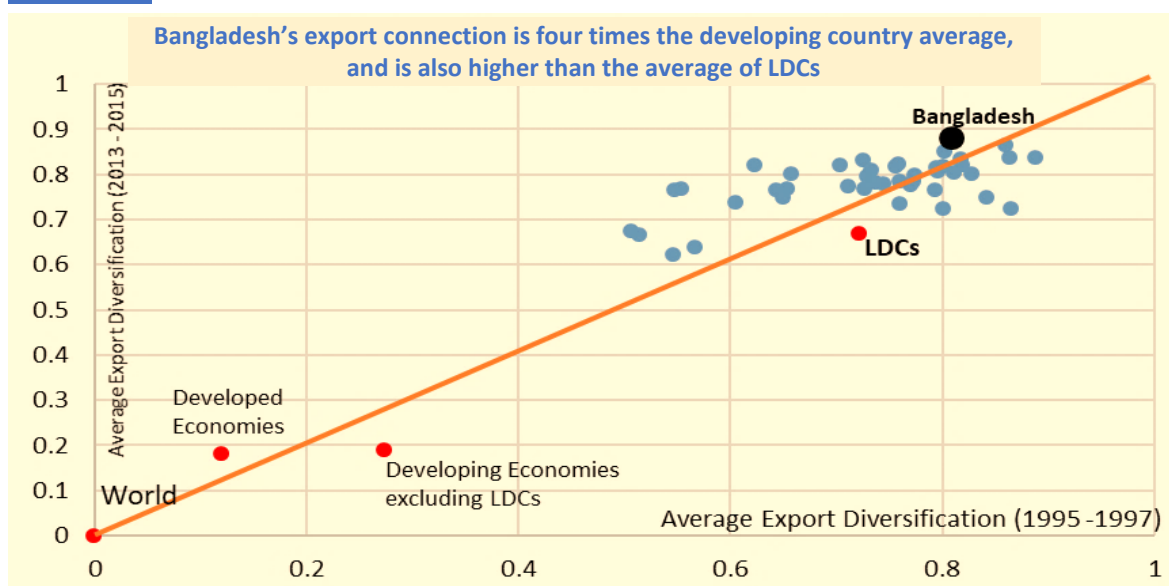
<sup>8</sup> World Bank (2017) however seems to suggest that globalisation backlash can actually help Bangladesh with enhanced exporting opportunities. This is because most of the US policy reversals are actually targeted towards Bangladesh competitors such as China, Mexico and Vietnam. Currently Bangladesh does not receive any major trade preferences from the USA. Bangladesh is also not sufficiently open and integrated into global economic and financial systems to be exposed to potentially large adverse consequences (Razzaque, 2017).

<sup>9</sup> This is based on the Herfindahl index of diversification computed at the HS 6-digit level export data.

<sup>10</sup> Moreover, since Bangladesh is located on the left of the 45-degree line, it would imply export-concentration to have risen further in the more recent period of 2013-15.

<sup>11</sup> Many would argue Bangladesh's problem not to be compared with other low-income countries or LDCs that have remained overwhelmingly dependent on a very narrow base of primary commodities with extremely limited capacity in manufacturing. Bangladesh has achieved quite a significant industrial production base and its economy has seen the key transformation from a predominantly primary goods exporter to a manufacturing exporter.

**Figure 8**



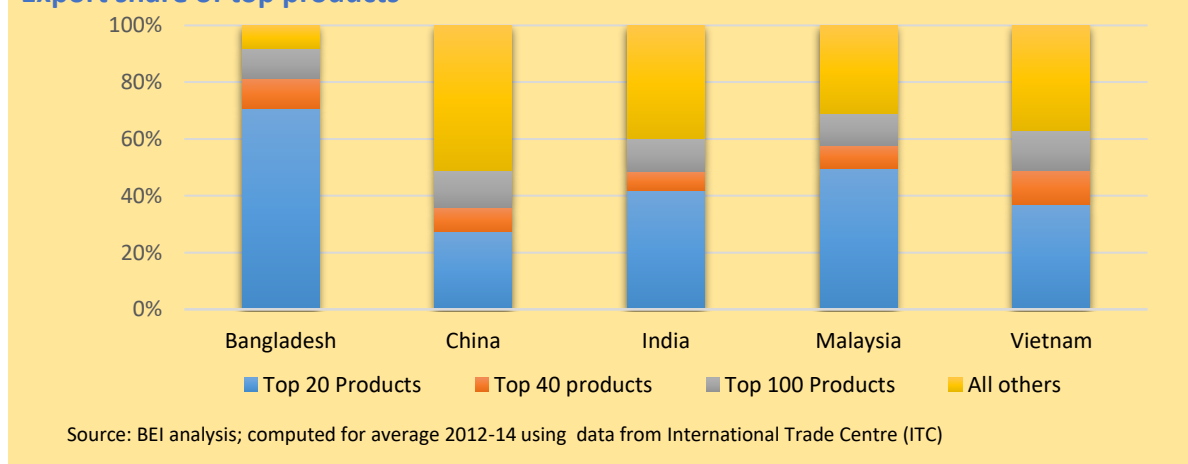
Note: A value of 0 indicates highly diversified export basket, reflecting the world average. A value of 1 represents highly concentrated export basket and thus far away from the world average.

Source: From the data used in Razzaque and Selvakumar (2017)

At the HS-6-digit level, the top 20 products together account for as much as 70 percent of Bangladesh's total exports while for such countries as China, India, Malaysia and Vietnam the comparable figures range from 20 to 50 percent. The combined share of top 100 products is more than 90 percent of Bangladesh's exports as against of just around 60 percent for India and Vietnam, and less than 50 percent for China. Since the top 100 products for Bangladesh are dominated by RMG, there is a very high degree of export-concentration even within the clothing export sector.

**Figure 9**

**Export share of top products**



Export growth can take place by selling more of the existing products (intensive margins) and/or selling new products (extensive margins) – the latter can be used as a measure of diversification.<sup>12</sup> It is also possible to consider the forgone contribution of extinct products (or death margin).

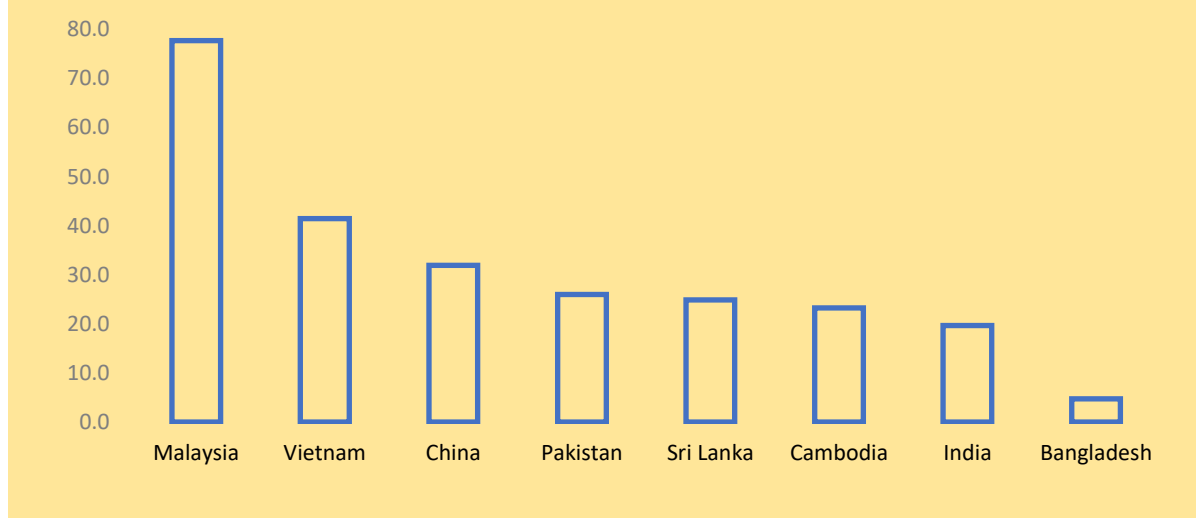
A decomposition exercise into the sources of export growth for 2005-15 shows 99 percent of Bangladesh's export growth is attributable to the intensive margin alone (i.e. from selling the existing products). New products (or export diversification component) accounted for less than 5 percent with the contribution of extinct products (i.e. death margin) being -3.8 percent. It is quite striking to find that for the all other comparators included in Table 1, the new product margin (i.e. the diversification component) had been much higher: almost 78 percent for Malaysia, about 42 and 32 percent for Vietnam and China, respectively. Malaysia also has much larger product death margins implying that many of its existing products in 2005 could not manage to survive.<sup>13</sup>

**Table 1 Contribution to export growth 2005-15 (%)**

	Intensive margin	New product margin	Product death margin
Bangladesh	0.991	0.047	-0.038
China	0.760	0.319	-0.079
India	0.848	0.197	-0.045
Cambodia	0.797	0.233	-0.030
Sri Lanka	0.884	0.249	-0.132
Malaysia	0.824	0.777	-0.601
Pakistan	0.880	0.260	-0.140
Vietnam	0.614	0.415	-0.029
Source: BEI project team estimates.			

<sup>12</sup> There are various dimensions of intensive margins. One can think selling existing products to new markets as extensive margins and thus a measure of export diversification.

<sup>13</sup> The product death margin may not be seen as weakness of the export structure if the overall exports are growing. In dynamic economies, there can be many new products as well as items that will become extinct.

**Figure 10**
**Contribution of new products to export growth: 2005-2015 (%)**


Source: BEI project team estimates

Two important aspects of a country's export dynamics are: to expand the range of goods (and services as well) for global markets, and to get into those products that are becoming more important in world trade. That is, how big a player a country is in what it exports, which can also be interpreted as the intensive margin, and how important what it exports is to the world (considered extensive margin) (Reis and Farole, 2012). This requires weighing the new export products by their share in world trade (Hummels and Klenow, 2005).<sup>14</sup>

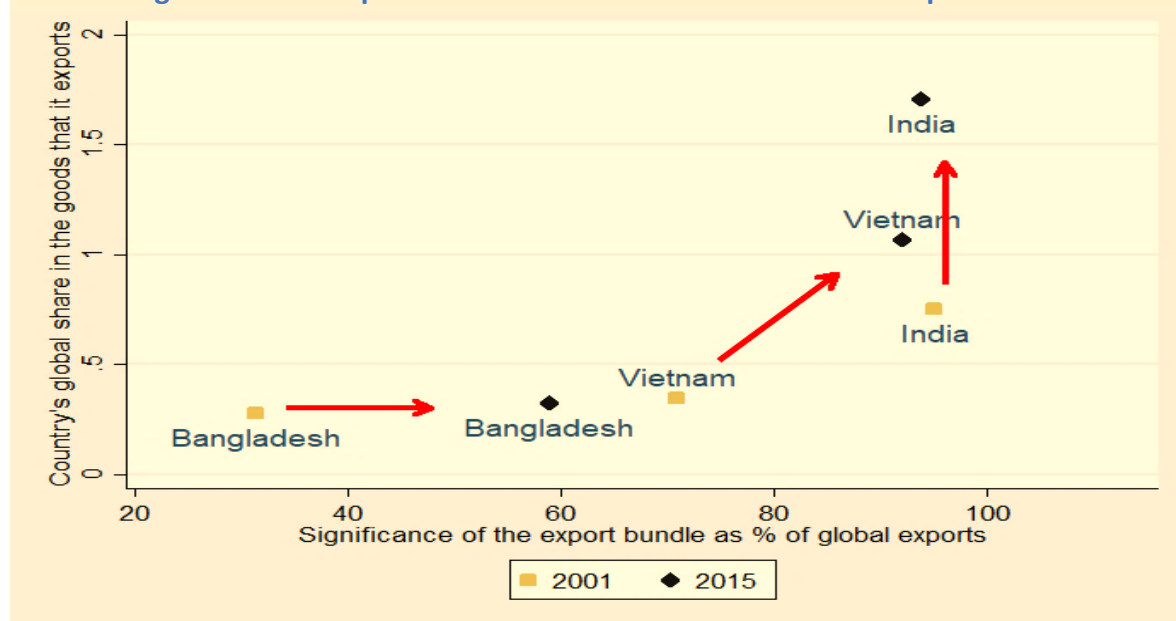
As Figure 11 shows, starting with a very narrow base in 2001, Bangladesh has managed to expand its export bundle by 2015. The product lines in which Bangladesh has any export presence, however big or small it may be, together currently accounts for almost 60 percent of global merchandise export. But in these products, Bangladesh has not been able to increase market share significantly (as measured by vertical distance between the two locations associated with Bangladesh). On the other hand, for example, Vietnam already had much wider export presence to start with in 2001, which further expanded to cover product lines

<sup>14</sup> According to this modification, starting to export a million-dollar worth of pharmaceutical products is more important than starting to export a million-dollar worth of pencils, since the global market for pharmaceutical products is much bigger.

that accounted for close to 90 percent of world exports. Unlike Bangladesh, Vietnam and India also registered significant rise in market shares in the products that they were exporting in 2015. India already had a large export base in 2001, and by 2015 it mainly moved vertically by raising export receipts from the existing products albeit with a slight fall in product lines.

**Figure 11**

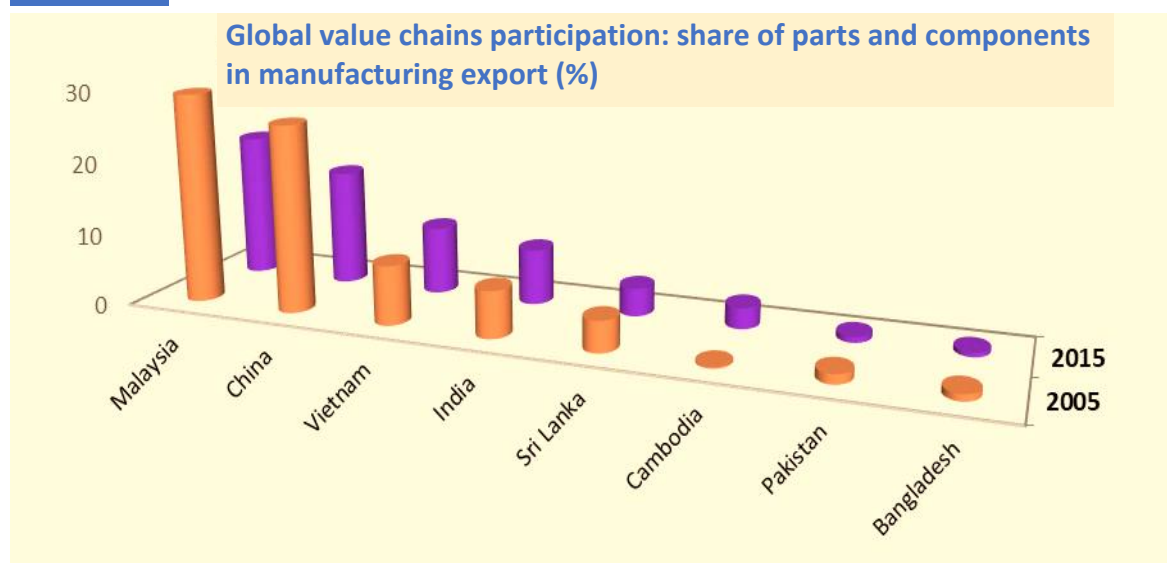
**Relative significance of export baskets and countries' shares in their product lines**



Note and source: This is based on Hummels and Klenow (2005) modification of extensive and intensive margins. BEI project team estimates using data from International Trade Centre

Another feature of Bangladesh's export dynamics that is related to export diversification is limited participation in global value chains (GVCs). Plugging into GVCs help countries expand their product lines significantly with almost all global economies that rapidly expanded their trade volumes since the 1990s, apart from those relying mainly on primary commodities and natural resource base products, taking advantage of the trade associated with cross-border supply chains. The geographic fragmentation of production processes is generally considered to be opportunities as it requires specialisation in only certain tasks, which are more manageable for many developing countries given their limited capacity.

**Figure 12**



Source: BEI project team estimates based on parts and components as defined in Athukorala (2010) and using data from International Trade Centre

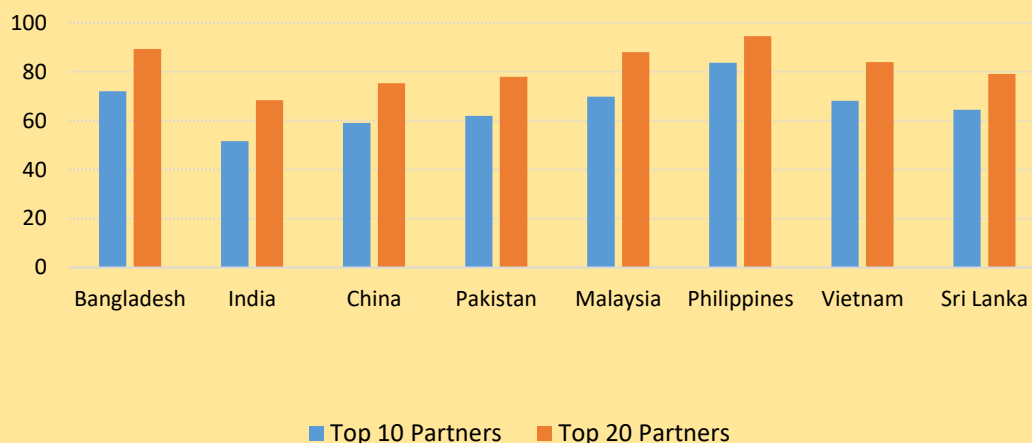
While Bangladesh has been part of the GVCs associated with clothing exports, the experience has not been replicated in other sectors. There are issues of being excluded from GVCs and being stuck in supply chain segments with low value-added that have been widely discussed in the literature (Razzaque, 2014). However, perhaps the most dynamic component of GVCs is reflected in the trade between countries in parts and components. Unlike Malaysia, China and Vietnam, Bangladesh's participation in this kind of trade remains very limited.

Along with product concentration Bangladesh also suffers from lack of export market diversification. More than four-fifths of exports are destined for North American and European Union markets (Sattar, 2015). Since 2000, however, the share of top 15 markets in the country's total exports has declined from close to 90 percent to just above 82 percent. A cross-country comparison with some of South Asian and East Asian countries reveals a mixed picture of dependence on top 10 and top 20 markets. Malaysia and the Philippines seem to have similar export concentration ratios, but India and Sri Lanka display much less concentration. Bangladesh's top 10 export destinations account for 72 percent of its total exports, while the corresponding figures for India and Sri Lanka are 52 and 64 percent, respectively. As against of the 90 percent of Bangladesh's exports being attributable to top

20 partners combined, the comparable figures for India is just 68 percent; for China 75 percent; and for Sri Lanka 79 percent.

**Figure 13**

**Importance of top 10 and 20 markets (%)**

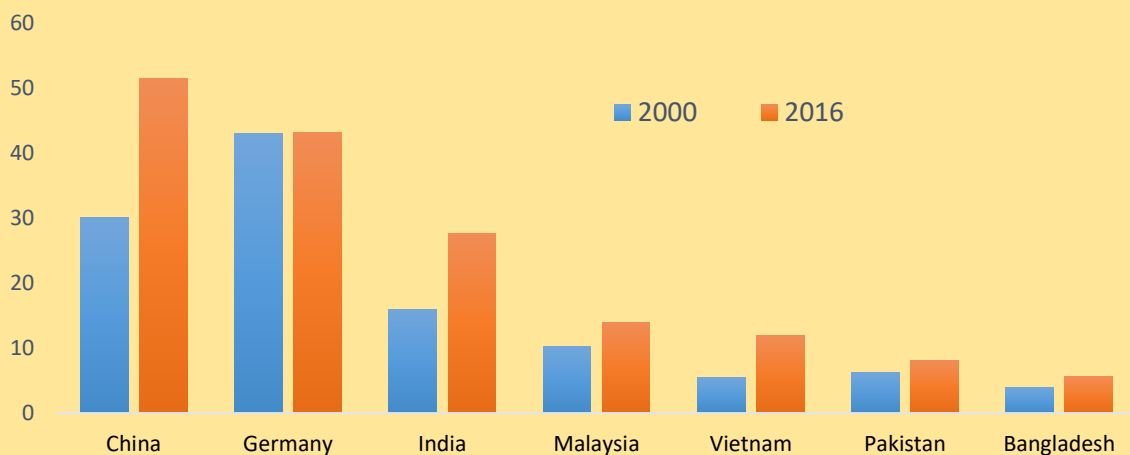


The nature of market concentration can also be assessed by the Index of Export Market Penetration (IEMP). It first considers the total number of all possible market reaches based on the country's all individual export items. Then, it computes the actual number of market connections that a country has been able to establish as a share of all possible market reaches estimated in the first step. The constructed IEMP here (Figure 14) shows Bangladesh's export market penetration rate remains very low and is estimated to be just 5 percent in 2016. Most successful exporters in the global economy such as China and Germany have export market penetration rates higher than 40 percent. While India has close to 30 percent market reach, the rate for Vietnam is more than twice as much as that of Bangladesh.



**Figure 14**

**Export market penetration rate (%)**



Source: BEI project team estimates.

Lack of export diversification means the full potential of export-led growth and development process is not being utilised. There is evidence of global economies with greater export diversification to be associated with higher per capita incomes. A diversified export basket would imply a lower risk of export earnings instability. It also helps attract foreign investment as the variety of export sectors indicates a wide range of established opportunities, particularly for those multinationals that are inclined to expand horizontally across sectors. Successful export diversification can also result in achieving product sophistication as the new export items offer possibilities for technological upgradation and adaptation and further learning opportunities from the global markets.

## Chapter 3: Challenges and Policy Priorities

Addressing the challenges faced by the export sector is extremely important given that several national policy objectives are inextricably linked to its strong performance. The experiences of most successful export-led growth countries, particularly those of the East Asian nations, seem to suggest providing long-term, consistent, and often sector-specific customised policy support as crucial for promoting exports and export diversification.

Many general development issues related to the state of investment climate, infrastructure, human resource base, etc also have impacts on export performance. Additionally, macroeconomic factors such as movements in prices and in the exchange rate have direct and immediate consequences for export competitiveness. There has been a lot of discussion on the issues related to export promotion and diversification.<sup>15</sup> The section briefly considers some selected areas that require urgent policy attention and interventions.

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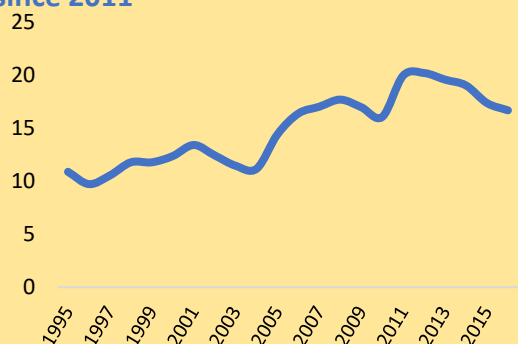
<sup>15</sup> The need for diversified export basket is featured prominently in various discussions and policy documents. Bangladesh's Export Policy 2015-18, prepared by the Ministry of Commerce, Government of Bangladesh, is focussed on increasing export, expanding markets and diversifying products. In the Diagnostic Trade Integration Study (DTIS) on Bangladesh, the World Bank has recommended breaking into new markets and new products (and thus export diversification) as two important pillars for a strategy to spur a faster export-led growth paradigm. The 7<sup>th</sup> Five Year Plan (GED, 2015) envisages a manufacturing based export-led growth strategy with emphasis on export diversification. Bangladesh Industrial Policy 2016 developed by the Ministry of Industries, Government of Bangladesh, states establishing export-oriented industrial units and export diversification is a key objective. ADB (2016) further provides assessments and policy suggestions on economic and export diversification.

### 3.1 Boosting export-orientation in the economy with renewed efforts to trade openness

Bangladesh's 7<sup>th</sup> Five Year Plan (2016–2020) outlines a manufacturing sector development strategy with an emphasis on export-led growth. Such a strategy will eventually mean the share of exports in GDP to rise thereby propelling the growth of the overall economy.<sup>16</sup> Bangladesh's export-GDP ratio has been on the decline: from almost 20 percent in 2011 to 16.6 percent in 2016. The Sixth Five-Year Plan (2011–2015) projected the share of exports in GDP to rise by 7.7 percentage points to reach 23.9 percent. This was not materialised as the export share in GDP remained at the level of that in 2010 (Figure 15). The overall trade-orientation - measured as exports plus imports as proportion to GDP – also fell by about 10 percentage points, from 47.4 percent in 2011 to 37.9 percent in 2016.

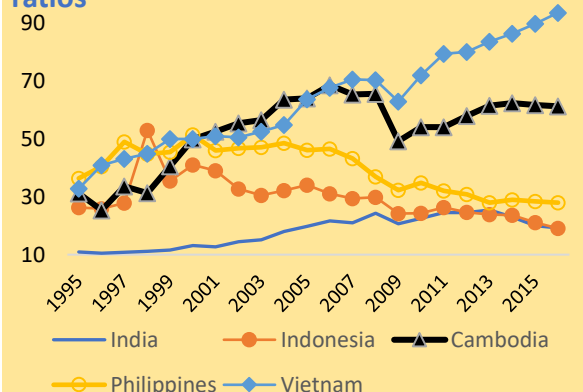
**Figure 15**

**Bangladesh's export-GDP ratio (%) has been on the decline since 2011**



**Figure 16**

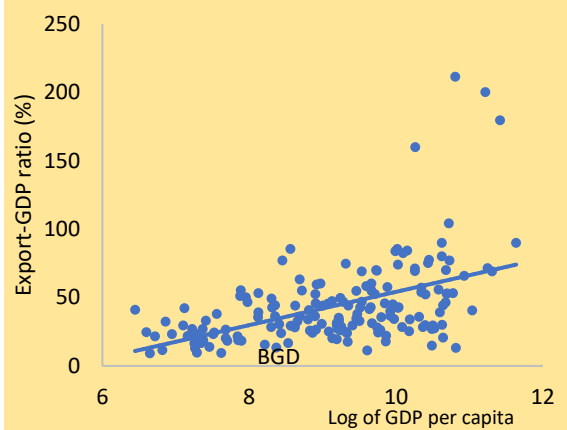
**Comparator countries' export-GDP ratios**



<sup>16</sup> Note that while assessing export-orientation in the economy exports are generally measured in gross terms but GDP is a measure of value added only (i.e. final goods and services less intermediate inputs). As a result, export-GDP ratios for many countries are over 100 percent. If exports are also measured in value added, the export-GDP ratio is likely to be much smaller for most countries.

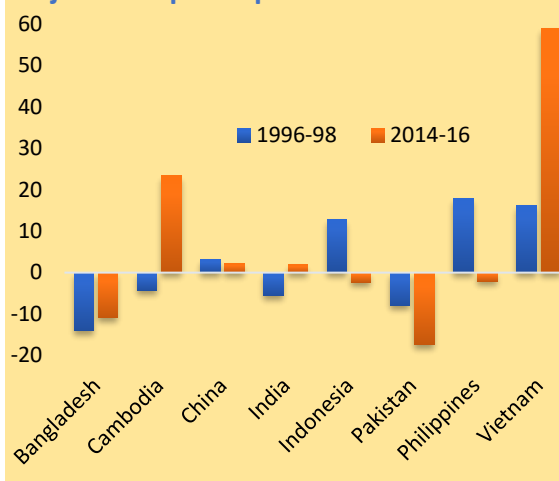
**Figure 17**

**Bangladesh's export-orientation is lower than predicted**



**Figure 18**

**Adjusted export-openness**



Notes and sources: Predicted export-orientations are based on a relationship between export-GDP ratio and GDP per capita in purchasing power parity (PPP) terms; BGD indicates Bangladesh's location in the cross-country relationship; adjusted export openness estimates are based on a cross-country regression of export-GDP ratios, controlling for population and various geographical characteristics; data used in the analysis are from the World Development Indicators; Adjusted openness measures are BEI project team estimates.

The falling trade and export-orientation is a cause for concern. While some comparator countries (such as Indonesia and the Philippines) have also seen their export-orientation falling, they had earlier achieved much higher export-GDP ratios and export volumes followed by rapid growth in their domestic economies. Indonesia maintained more than 30 percent export-GDP ratio until as late as 2008, while the comparable figures for India and the Philippines were about 25 and 37 percent respectively (Figure 16). On the other hand, countries like Vietnam and Cambodia continue to maintain very high export-orientation. Given the current level of GDP per capita (in purchasing power parity dollars), Bangladesh's export propensity is lower than what can be suggested from cross-country experiences (Figure 17).

Structural characteristics of countries such as population and geography influence export-orientation. But even after controlling for such factors, Bangladesh exports less than predicted and the situation hardly changed since the late 1990s (Figure 18).<sup>17</sup>

This calls for reviewing the trade policy regime to deal with any systemic anti-export bias along with renewed efforts for export promotional measures that should also help export diversification. The 7th Five Year Plan has set a target to achieve a trade-GDP ratio of 50 percent by 2020. Without a vibrant export sector backed by reinvigorated export support measures, this target will be difficult to realise.

## 3.2 Promoting export diversification while sustaining the RMG sector dynamism

There is often a suggestion that non-RMG exports cannot grow because of policy support provided for the RMG sector. This is however a flawed argument given the enormous scope for expanding exports from both the sectors. Promoting export diversification and maintaining the RMG sector dynamism must go hand in hand.

Bangladesh has a huge potential for growing its RMG exports many folds further, and revitalising and sustaining dynamism in the garment sector will help expand export faster. There are tremendous opportunities for further expansion given the expected growth of global apparel demand in the future. Available projections suggest that the annual global

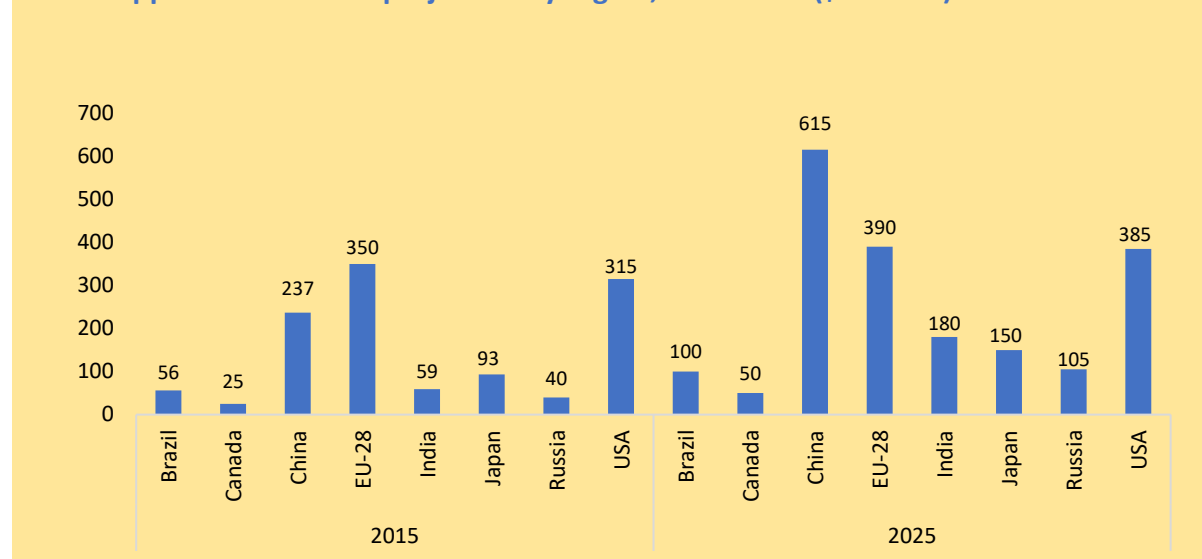
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<sup>17</sup> Countries with bigger populations will generally have larger exports in absolute terms (as shown in Figure 5). However, larger countries tend to have lower export-orientation, as measured by the export-GDP ratio. The estimated adjusted export-openness controls for populations and certain geographical characteristics (such as, whether countries are landlocked or island economies) that influence export-orientation. Controlling for these factors, it is possible to infer if a country is exporting more than what can be predicted for it given its population size and geographical features. It is found that Vietnam's actual export-GDP ratio is almost 60 percentage points higher (for the period 2014-16) than predicted. Similarly, Cambodia has an export-GDP ratio 25 percentage points higher than what is predicted. In contrast, Bangladesh's propensity to export (for 2014-16) is about 11 percentage points lower than predicted. China, with a much bigger population than Bangladesh, has adjusted export-openness higher than predicted. India as well depicts higher adjusted export-openness for 2014-16, an improvement from the situation in the late 1990s when its export-GDP ratio was about 5 percentage points less than predicted.

apparel consumption could exceed \$2.5 trillion by 2025 (from currently \$1.8 trillion), giving boosts to exports of clothing from various suppliers.<sup>18</sup>

**Figure 19**

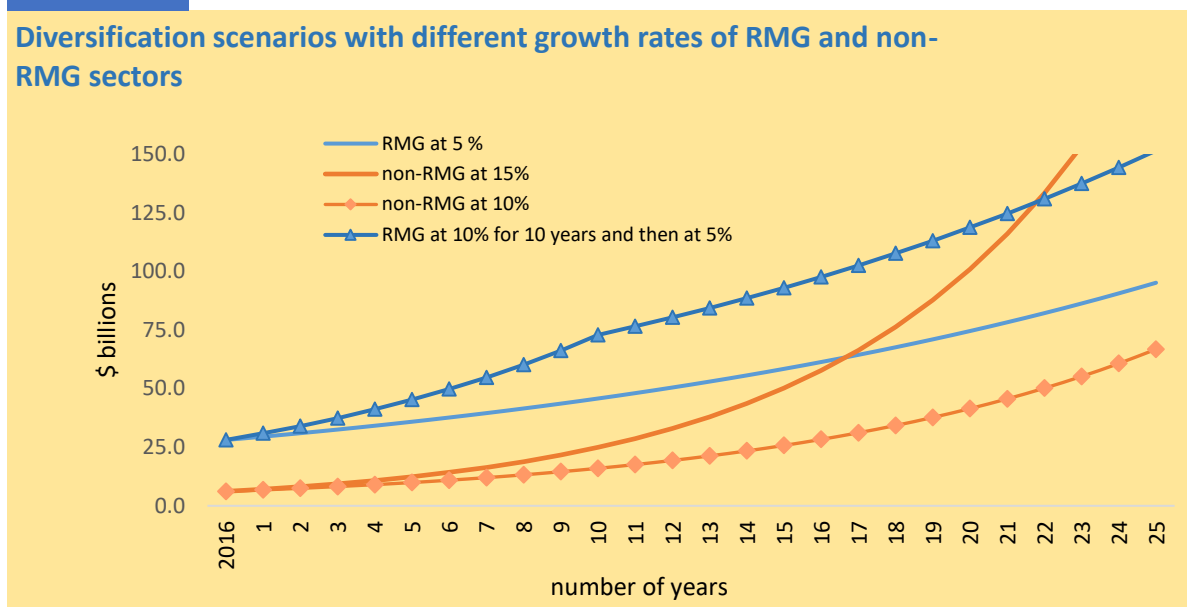
**Global apparel market size projection by region, 2015-2025 (\$ billions)**



Against the above, the RMG sector now stands at a critical juncture. In the most recently concluded fiscal year, readymade garment exports hardly grew. This makes achieving the \$50 billion export-earning target from the sector alone by 2021 an extremely challenging task: Bangladesh will need to register a compound annual growth rate of 15.44 percent over the next four years. This may not be possible without proactive policy support measures. The vast potential of employment generation also justifies maintaining the central role of the sector.

The strategy of export diversification is to be complemented by maximising overall exports. The large RMG export base means achieving and sustaining very high growth rates will be difficult, while much smaller size of non-RMG sector should expand at a faster rate to put Bangladesh into an ideal situation of rapid export growth driven by a range of products. Given the current export composition, if non-RMG exports grow at a rate of 15 percent per annum as against of say a modest 5 percent annual expansion in RMG, in 10 years' time non-RMG exports can be just over half of RMG exports. Even if non-RMG exports are growing at a rate of 10 percent, it should also contribute significant broadening of export base.

<sup>18</sup> This includes the demand components that countries meet from their domestic production. See ADB (2016) and <https://www.statista.com/statistics/279757/apparel-market-size-projections-by-region/>.

**Figure 20**
**Diversification scenarios with different growth rates of RMG and non-RMG sectors**


### 3.3 Making export incentives result-oriented

One key ingredient in Bangladesh's RMG-led export growth success was an elaborate incentive package, which became a characteristic feature of the trade policy regime in the 1990s.<sup>19</sup> The principal policy interventions undertaken in this respect included, *inter alia*: (i) a general reduction in tariffs that helped reduce anti-export bias in trade policy regime, (ii) duty drawbacks on imports of intermediate goods, (iii) bonded warehouse facilities to enable exporters importing intermediate inputs duty-free, (iv) operation of cash compensation schemes for the so-called non-traditional exports with the cash assistance rate for the exporters not availing duty-drawback or bonded warehouse facilities rising from 15 percent to a peak of 25 percent before being phased down, (v) provision of duty-free imports of machineries for export-oriented firms, (vi) allowing exporters to retain a portion of their export receipts in foreign currencies, (vii) income tax rebate, (vii) an export credit guarantee

<sup>19</sup> The major objectives of those incentives were to tackle policy and administrative constraints on export activities; enhance backward linkage; help diversify export basket; support export-oriented investment; and promote price competitiveness in global markets.

scheme for exporters to cover their marketing risks, (viii) credit disbursed through Export Development Fund at subsidised and/or lower rates of interest.<sup>20</sup>

The above export incentives continue to operate, although the nature and depth of coverage for some of them have changed. The case of cash assistance is perhaps the most prominent one. Since the early 2000s, such assistance for the RMG sector has been quite low.<sup>21</sup> Currently (for 2017-18), this assistance is provided under different mechanisms: (1) export-oriented RMG firms, not using bonded warehouse and duty-drawback facilities, are eligible for cash assistance of 4 percent of the value of their export shipment; (2) small and medium sized firms in RMG can avail additional 4 percent assistance; (3) Exporters exporting to new markets (other than Canada, the EU and the USA) receive 3 percent cash assistance on f.o.b. value of export; and (4) RMG exporters exporting to Eurozone countries receive additional 2 percent cash assistance (to compensate for the taka appreciation against the Euro).

Several other sectors are eligible for cash assistance of higher rates (see Table 1). However, apart from leather and to some extent frozen shrimp and fish, there is no other sector with any sizeable export base to take advantage of available incentives for contributing meaningfully to overall export growth and diversification.

The current policy is clearly geared towards stimulating export response from the relatively less-established emerging sectors, and higher rates of assistance for them are justified. However, the overall ambition of the export policy, which is to raise export earnings to \$60 billion by 2021, should not be overlooked.<sup>22</sup> As such, all possible avenues for revitalising exports must be considered. This should include the option of keeping the existing cash assistance for the new sector while raising the level for others as well. For example, the 20 percent cash assistance for active pharmaceutical ingredients (API) can help encourage future expansion of the sector, but in the short- to medium-term any large export response is unlikely. On the other hand, as pharmaceutical products have already established a respectable export base and production capacity, comparable incentives granted to the

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<sup>20</sup> A detailed analysis of the trade policy regime and export incentives of the 1990s can be found in Bayes *et al.* (1995) and Rahman, M. (1997).

<sup>21</sup> In 2001, a plan was adopted to phase down the 25 percent support under the cash compensation scheme (CCS) gradually.

<sup>22</sup> This is based on the target set in the Export Policy 2015-18. The 7<sup>th</sup> Five Year Plan states the objective as “substantial improvement of exports to \$54.1 billion by FY20” (GED 2015, p.24).



sector will more likely to have resulted in significantly higher export earnings, helping export diversification efforts. For the emerging sectors with currently small exporting capacity, it is important to maintain the support for a reasonably longer time period to provide them with policy consistency.

It also needs to be pointed out that Bangladesh is going to graduate out of the LDC group over the next 7-10 years, after which some of the existing policy flexibilities and trade preferences will either be lost or will be significantly reduced. Bangladesh as an LDC enjoys tariff-free market access not only in the EU but also in several other countries. A much bigger push is now needed to make the most out of it. Lack of supply response means, many of the available trade preference schemes have remained underutilised.

Also, after graduating from LDCs, export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the WTO.<sup>23</sup> Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly before Bangladesh loses its LDC preferences and privileges.<sup>24</sup>

Concerns about loss of revenues can prompt export support not being extended. This will not help attain the national policy objectives of promoting exports and diversification. Export earnings induced by policy support can generate many additional economic activities with potentials for further revenue generation.<sup>25</sup>

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<sup>23</sup> Under the WTO Agreement of Subsidies and Countervailing Measures, providing export subsidies to industrial goods by LDCs is not prohibited, subject to their not achieving export competitiveness, which is defined as the global market share of the concerned/individual product being more than 3.25 percent.

<sup>24</sup> Export subsidies by Countries with per capita gross national income (GNI) less than \$1,000 are also not prohibited. For other countries, maintaining export support regimes compatible with WTO provisions can be quite challenging. Newspaper reports have recently highlighted such difficulties faced by, for example, India with its export support under schemes such as the Merchandise Exports from India Scheme, Export Promotion Capital Goods scheme and interest equalisation scheme for the textiles sector under the country's Foreign Trade Policy. See, <http://www.financialexpress.com/economy/as-india-breaches-wto-threshold-centre-to-seek-export-subsidy-phase-out/878573/> (accessed on 2 October 2017).

<sup>25</sup> According to estimates provided in MTMPS, Ministry of Finance, total incentives for the export sector for 2015-16 and 2016-17 were Tk 35 billion and Tk 40 billion, respectively. In proportion to total revenue, these are estimated at 2 percent for 2015-16 and 1.8 percent for 2016-17. As percentage of GDP, the total valuation of export incentives is just about 0.2 percent (for both the years).

**Table 2 Cash assistance to various sectors (% of value of export shipment)**

Sector	2002-05	2009-10	2014-15	2016-17	2017-18
Export-oriented RMG (instead of duty drawbacks)	5	5	5	4	4
Incentives for the small & medium apparel (RMG) firms (in addition to the existing policy)	n.a.	n.a.	5	4	4
New product/new market expansion assistance - except for markets in the EU, Canada, the USA (Apparel Industry)	n.a.	n.a.	3	3	3
Additional cash assistance for apparel exporters to the Eurozone	n.a.	n.a.	n.a.	2	2
Articles of hogla, straw, sugarcane, etc	-	15-20	15-20	15	20
Agri and agro-processing	15-20	20	20	20	20
Guts, horns, etc of cows/buffaloes				10	10
Light Engineering	-	10	10	15	15
100% Halal Meat	-	20	20	20	20
Frozen Shrimp (Depending on ice coverage)	10	12.5	10	7-10	7-10
Frozen Fish (Depending on ice coverage)	10	12.5	-	2-5	2-5
Articles of leather	-	17.5	15	15	15
Export of crust and finished leather exported from the relocated firms in Savar)	n.a.	7.5	-	-	10
Ships/tractors and ocean-going vessels	-	-	5	10	10
Potatoes	15	10	20	10	20
Pet bottles-flex	-	10	10	10	10
Furniture	-	-	-	15	15
Vegetable seeds	-	-	-	20	20
Carbon from Jute Stalks	-	-	-	20	20
Articles of plastic	-	-	-	10	10
Paper and paper products	-	-	-	-	10
Joss sticks and scented oil (agar and atar)	-	-	-	-	20
Jute goods	5	10	-	-	-
Diversified jute products	-	-	10	20	20
Hessian, sacking and CBC	-	-	-	7.5	10
Yarn and twine	-	-	7.5	5	5
Software, ITES and hardware	-	-	-	-	10
Synthetic and fabrics made footwear	-	-	-	-	15
Active Pharmaceuticals Ingredients (API) exports	n.a.	n.a.	n.a.	n.a.	20
Accumulator batteries (H.S 8507.10 and 8570.2)	-	-	-	-	15
Articles of coconut shell	n.a.	n.a.	n.a.	n.a.	20
Tobacco	10	-	-	-	-
Bicycle	15	15	-	-	-
crushed bones	15	15	15	-	-
Hatching egg and Chicks	-	15	-	-	-
Liquid Glucose	-	20	-	-	-

Notes and sources: “-” indicates information is not available. “n.a.” implies the scheme was not made available to the sector. Compiled from various official circulars.

There are studies that have mentioned certain discriminations against non-RMG sectors in accessing various incentives. The evidence needs due consideration in granting similar support to these exports. In this regard, extending bonded warehouse facilities to all sectors will constitute a helpful initiative. Possible leakages to domestic market sales are sometimes cited as reasons for restricted bonded warehouse facilities. However, governance failures should be addressed by appropriate administrative and legal provisions rather than imposing across-the-board restrictions that can hurt competitiveness of dynamic firms within a broad sector. In the 1990s, the issue of leakages from bonded warehouses also featured prominently in the policy discourse. Nevertheless, continuation of the scheme proved to be extremely successful in boosting export competitiveness.

The 7<sup>th</sup> Five Year Plan has emphasised on reversing anti-export bias in trade regime for boosting exports and promoting export diversification. This would require rationalisation of the tariff structure to dismantle any policy-induced disincentives for allocating resources in the export sector (Sattar, 2015).<sup>26</sup> As long as this cannot be undertaken - and since export production cannot be protected by tariffs - direct support will be critical in alleviating policy bias against exporters.

An increased coverage and depth of cash assistance will help mitigate some of the adverse consequences faced by exporters from Bangladesh's weaker performance in various areas such as institutions, infrastructures, technological readiness, financial market development, etc. that contribute to overall competitiveness of the economy.<sup>27</sup> In the Global Competitiveness Index 2017-18 Bangladesh is outperformed by many of its comparators in terms of most of these indicators (Figure 21).

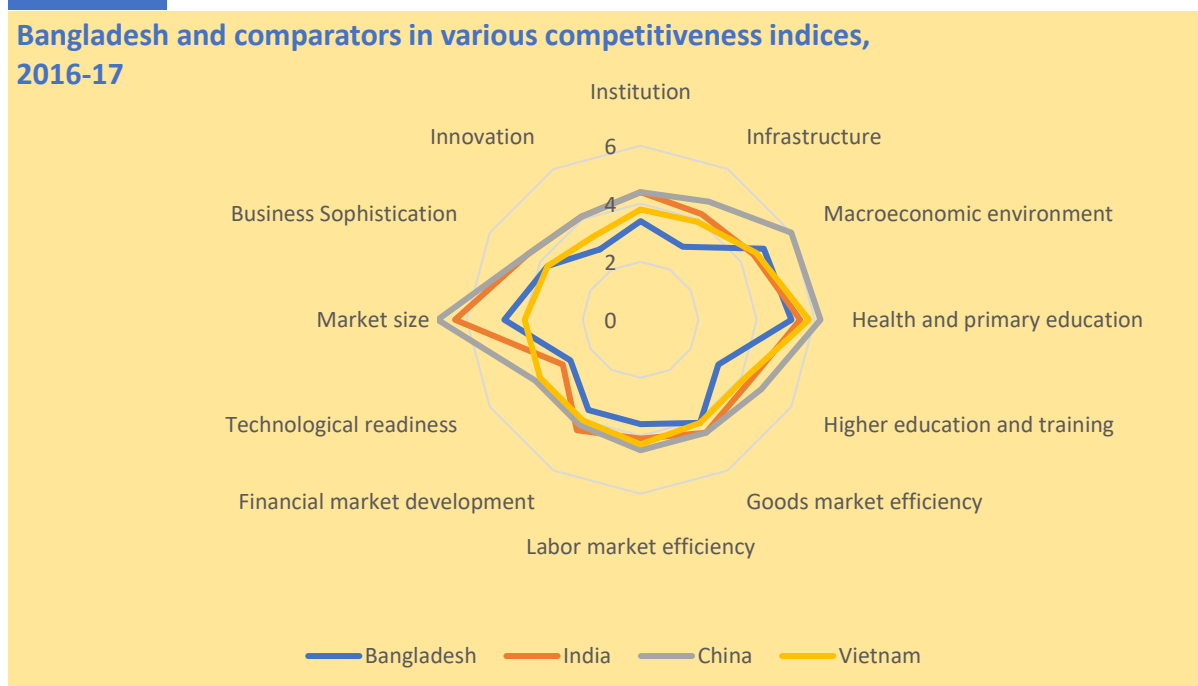
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<sup>26</sup> Bangladesh did undertake significant trade liberalisation in the 1980s and early 1990s. But since the late 1990s, the pace of liberalisation slowed down. In some instances, the impact of initial tariff cuts has been offset by introducing tariffs and trade taxes in addition to customs duties. Thus, while average customs duties fell from 21 percent in 2001 to 13 percent in 2015, protection under the shield of other taxes and duties increased from 7 percent to 15 percent. It has been argued that this rise in protection for the domestic sectors creates an anti-export bias (Sattar, 2015).

<sup>27</sup> Another policy issue is the appreciation of the real exchange of Bangladesh affecting the country's competitiveness (discussions are in a later sub-section in the paper).

**Figure 21**

**Bangladesh and comparators in various competitiveness indices, 2016-17**



Source: BEI project team analysis using data from the Global Competitiveness Report 2016-17.

Finally, Bangladesh's national development strategies and Export Policy 2015-2018 are quite comprehensive in covering relevant issues, identifying policy gaps and outlining implementation strategies. However, monitoring the implementation mechanisms and developing follow-up actions to address any deviations from the proposed plans are areas that require renewed attention.

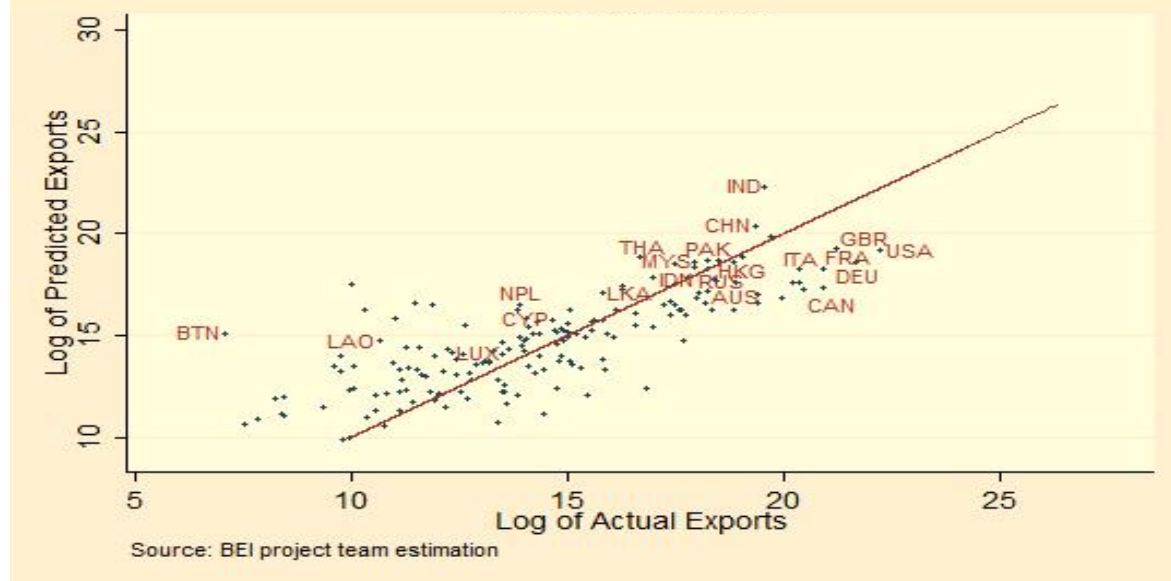
### 3.4 Proactively exploring new markets and supporting export relationships

Bangladesh's geographical location between the world's two fastest growing and largest economies provides enormous opportunities for export growth and diversification. The most successful analytical workhorse in explaining trade flows between countries as available to economists, the gravity model, suggests rising incomes and geographical proximity to have a positive influence on the volume of trade. However, Bangladesh exports less to both India

and China than expected (this is reflected in Figure 22 as both the countries are located above the 45-degree line). Given the global experience of how countries trade with their partners, it is estimated that Bangladesh's exports to India are at least \$4 billion less than predicted. Bangladesh is also an under-exporter to most East Asian countries.

**Figure 22**

**Bangladesh's exports to global economies: Actual versus predicted**



Note: The graph presented here is based on a global gravity model explaining bi-lateral trade flows for the period 1995-2014. The number of observations used in the exercise was 269,877. Predicted exports for Bangladesh are then calculated based on the estimated regression parameters. In the graph, actual exports are lower than the predicted exports for the countries lying above the 45-degree line.

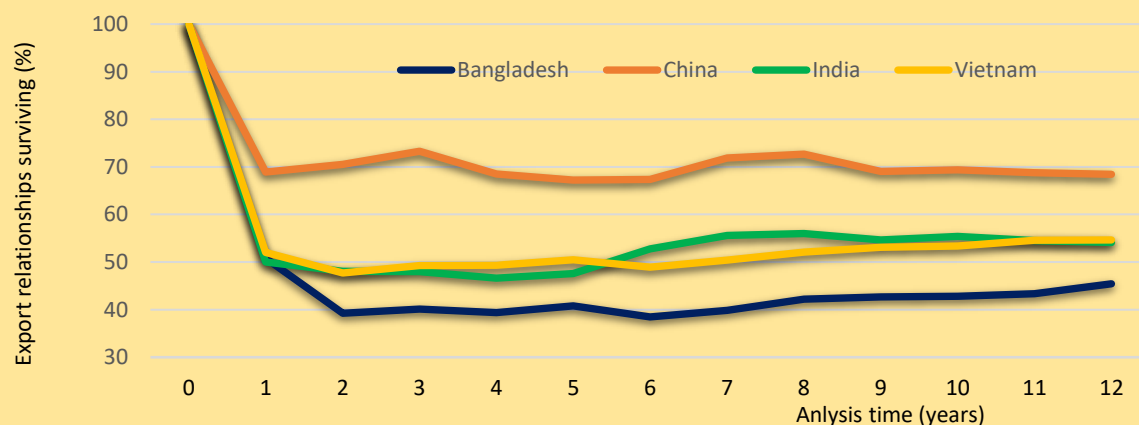
The shares of China, India, Japan and ASEAN in the country's exports are growing but still very small - only 0.8 percent, 1.9 percent, and 1.5 percent, respectively (GED, 2015). As most of these countries grow much faster than the rest of the world, export potential in these markets will expand at a higher rate, constituting a major opportunity for market diversification. In recent times, China and Japan have particularly turned into important export destinations for Bangladesh. Exports to China grew from \$382 million in 2011 to \$715 million in 2015 while during the same period exports to Japan increased from \$543 million to \$957 million. Amongst European destinations, Poland is an emerging partner as Bangladesh exports to Poland increased from \$293 million to \$610 million during 2011-2015. While prominent export items such as RMG and footwear, as expected, account for the main sources of growth

in these markets, emerging items such as plastic, home textiles, leather and pharmaceutical products also feature new exporting relationships.

These market opportunities need to be explored proactively. As India provides duty-free access (on all products except a handful number of products related to mainly alcohol and tobacco), the 7<sup>th</sup> Five Year Plan calls for simplification of rules of origin with India to augment export success. It also suggests a selective cooperation in the form of a preferential trading arrangement/general trade cooperation agreement with China. Bangladesh does not have any bilateral trading arrangements with any of the countries. Such trade deals along regional trading arrangements/cooperation could be an option and explored to break into some of East Asian countries and integrate into their global value chains. The impact of non-tariff measures in exploiting export opportunities and means to address them need to be assessed.

**Figure 23**

## Comparison of survival rates of exporters (2003-2015)



Source: BEI project team estimates

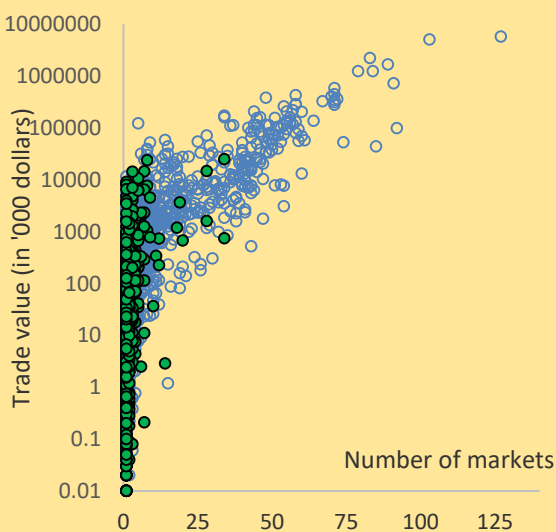
Establishing new export relationship in new markets can be quite challenging. Sustaining the export flows can be even more challenging. It is estimated that the survival rates of Bangladesh's exports are lower than those of India, China and Vietnam. China can sustain 70 percent of its new export relationships in comparison with Bangladesh's 40 percent. From the

second year of a new export relationship, Bangladesh's survival rate is 10 percentage points lower than that in both India and Vietnam.

Analysis of individual products at a disaggregated level can provide further insights. For example, considering the period 2005-2015, there are 204 products from Bangladesh that reached at least 10 markets in both the start year (2005) and end year (2015). In this category, 159 products reached a higher number of markets in 2015 and 39 products reached a smaller number. The number of individual products reaching at least 50 markets was 52 in 2015, up from 19 in 2005. The green dots in Figure 24 indicates the products that were not exported in 2005 but in 2015. A close look at the figure shows that most of these new items are targeted to a small number of markets; only five of them were being exported to more than 25 countries. On the other hand, yellow dots in Figure 25 represent the export items that were present in 2005 but not in 2015, indicating either death or suspension. Three of these products had actually reached more than 25 markets.

**Figure 24**

**Product survival and birth:  
2005-15**



Note: Green dots indicate new products that did not exist in 2005. Blue dots represent products that exist in both periods. Number of markets and trade values are for the end-year. BEI project team analysis.

**Figure 25**

**Product survival and death:  
2005-15**



Note: Yellow dots indicate export items that are extinct. Blue dots represent products that exist in both periods. Number of markers and trade values are for the start year. BEI project team analysis.

Clearly, Bangladesh's new export relationships emerge within a narrow band of markets. Exploring new markets are therefore likely to require far stronger policy support. There is a need for export promotional measures to shift from their traditional focus on finding new

export market opportunities to supporting new and existing exporters to increase survival rates during the first few years after beginning to export. All export support measures to help firms sustain their export relationships should be strengthened. Against these export market dynamics, export incentive schemes should be strengthened to make them effective.

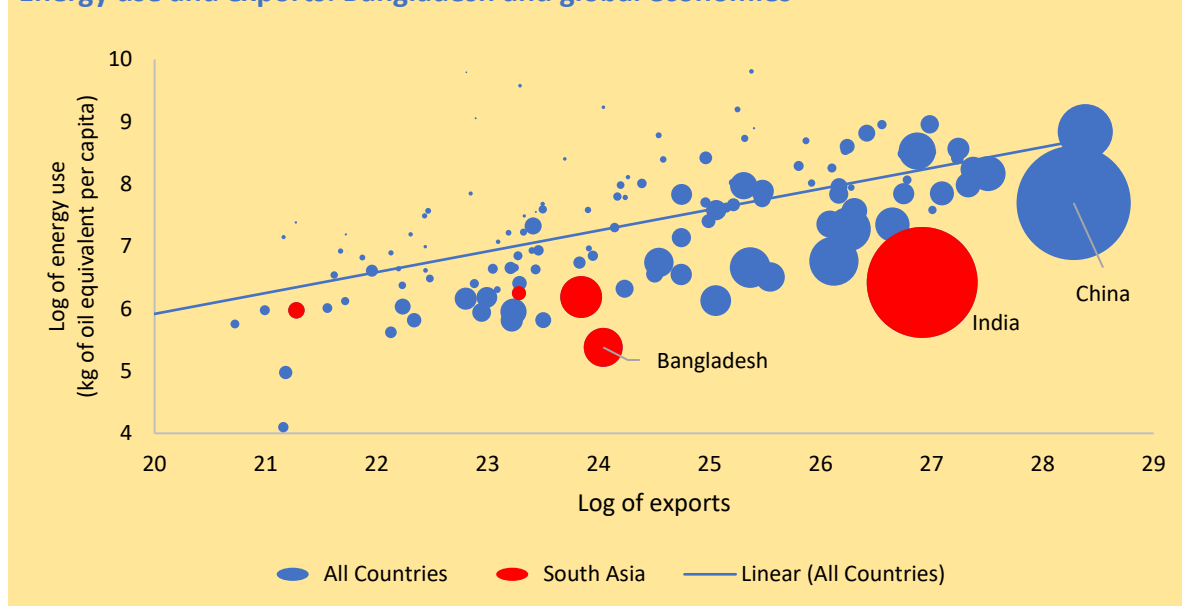
### 3.5 Tackling infrastructural bottlenecks and weak trade facilitation

Infrastructural bottlenecks pose major constraints for Bangladesh's export competitiveness, and are likely to be even bigger problems for less-established export products. Despite Bangladesh's impressive efforts in dealing with shortage of electricity supplies in the recent past years, an enormous task of adding a very large generation capacity lies ahead.<sup>28</sup> Per capita electricity consumption in Bangladesh remains among the lowest in the world, and is approximately just one-third and one-fifth of the consumption levels in India and Vietnam, respectively. Without significant expansion in energy use, Bangladesh would not be able to compete globally. Currently there is no other country in the world that exports as much as Bangladesh with as little energy use (Figure 26). Also, all countries with populations bigger than Bangladesh have much higher energy consumption per capita. While this shows Bangladesh has so far been able to demonstrate much greater export propensity with very limited energy use, it can also suggest that maintaining such a position in the future could be extremely difficult given cross-country experiences.

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<sup>28</sup> ADB (2016) estimates that after allowing for phasing out or decommissioning of old and gas-guzzling power plants and all recently installed quick rental power plants, achieving the intermediate target of 19,000 MW by 2021 will require adding new generation capacity of about 23,809 MW by that year, almost doubling the December 2015 capacity.



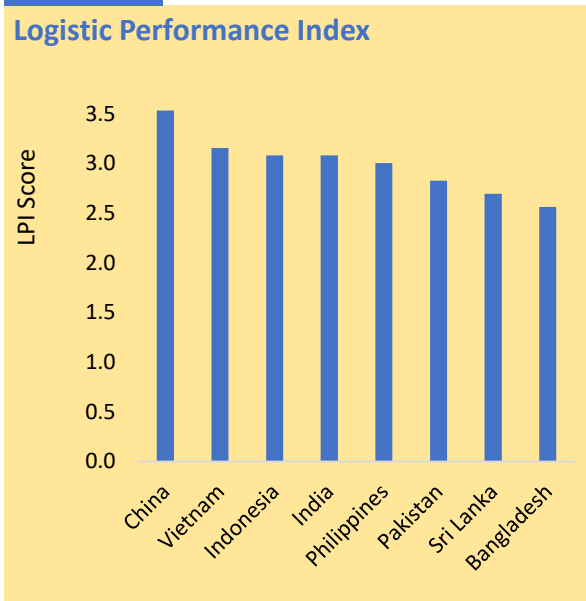
**Figure 26**
**Energy use and exports: Bangladesh and global economies**


Note: Bubble sizes correspond to population sizes by different countries. Red bubbles are for South Asian countries. Both energy use and exports are averages of 2012-14. Exports are measured in constant 2010 prices.  
Source: BEI project team analysis using data from World Development Indicators

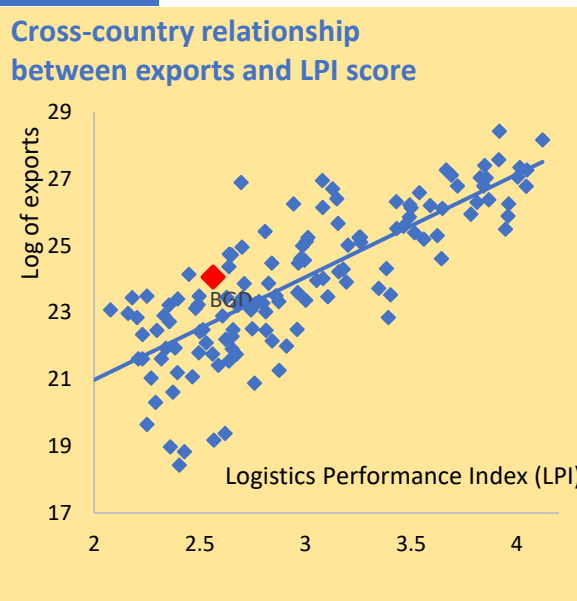
Inland road transportation and trade logistics, which suffer from various shortcomings, is another dimension of weak and inadequate infrastructure. Congestions in the country's main economic corridor, the Dhaka-Chittagong highway; limited containerization and inefficient handling and management of containers; customs processes; and inadequate port infrastructures – all add to trading costs.<sup>29</sup> Academic studies show that a 10-percentage point increase in transport costs reduces trade volumes by about 20 percent (Lima and Venables, 2001). Moreover, *ad valorem* transport costs of 20 per cent on both final output and intermediate goods reduce domestic value added (that includes wages and profits) by 60 per cent when intermediate goods account for 50 per cent of costs. Within this reduced valued added, there are two-way shipping costs involved: import of raw materials and then export of final products. The implication is that inefficiencies in trade logistics and infrastructures make it increasingly difficult for exporting firms to compete in world markets.

<sup>29</sup> World Bank (2016) provides a detailed analysis of these issues.

**Figure 27**



**Figure 28**



Source: BEI project team analysis using data from World Bank

Bangladesh has certainly made some improvements in recent times. Ongoing reforms in customs, expansion in various road networks, increased electricity generation as mentioned above, etc. are pointers to that respect. However, in terms of Logistics Performance Index (LPI) Bangladesh continues to be outperformed by most South Asian countries and almost all our trade competitors (Figure 27).<sup>30</sup> With the current level of logistics and infrastructural development, Bangladesh indeed has managed to do better than expected (Figure 28). But, increasing exports in the future might prove exceedingly challenging if things do not improve.

Bangladesh has ratified the World Trade Organisation's Trade Facilitation Agreement (TFA), which is regarded as the single most important achievement of multilateral trade negotiations since the establishment of the WTO in 1995. According to an estimate, the implementation of the TFA has the potential to increase global merchandise exports by up to \$1 trillion per annum. One salient feature of this deal is the provision for financial and technical assistance for LDCs. This constitutes an important opportunity for Bangladesh to proactively engage with the WTO to fast track the implementation of TFA, particularly in areas where external

<sup>30</sup> The LPI index, prepared by the World Bank, reflects logistic friendliness of a country and assesses the performance along the logistics supply chain. The index is a combination of performance in six areas: customs, transport infrastructure, international shipments, logistic competence, tracking and tracing, and timeliness.

assistance is needed. By cutting trade costs and improving trade facilitation, external competitiveness can be boosted, supporting export diversification efforts.

An issue that is now becoming increasingly indispensable for increased trade and perhaps also for enhanced diversification is connectivity. Although a broad concept, it particularly captures quality and coverage of broadband and mobile phone facilities. According to one estimate, increased economic activities resulting from efficient and expanded internet access could generate \$2.2 trillion in additional GDP and more than 140 million new jobs in the global economy (Deloitte, 2014). For a developing country like Bangladesh where the internet penetration rate is still very low, dividends from broadband use can potentially be large. The role of e-commerce in international trade is growing fast and this provides tremendous opportunities particularly for small and medium enterprise (SME) exporters for breaking into global export markets. Along with internet facilities, legal and e-transaction facilities and infrastructure are important for taking advantage of this trade. The on-going drive for promoting digitalisation of Bangladesh economy can greatly facilitate the growth of this sector.

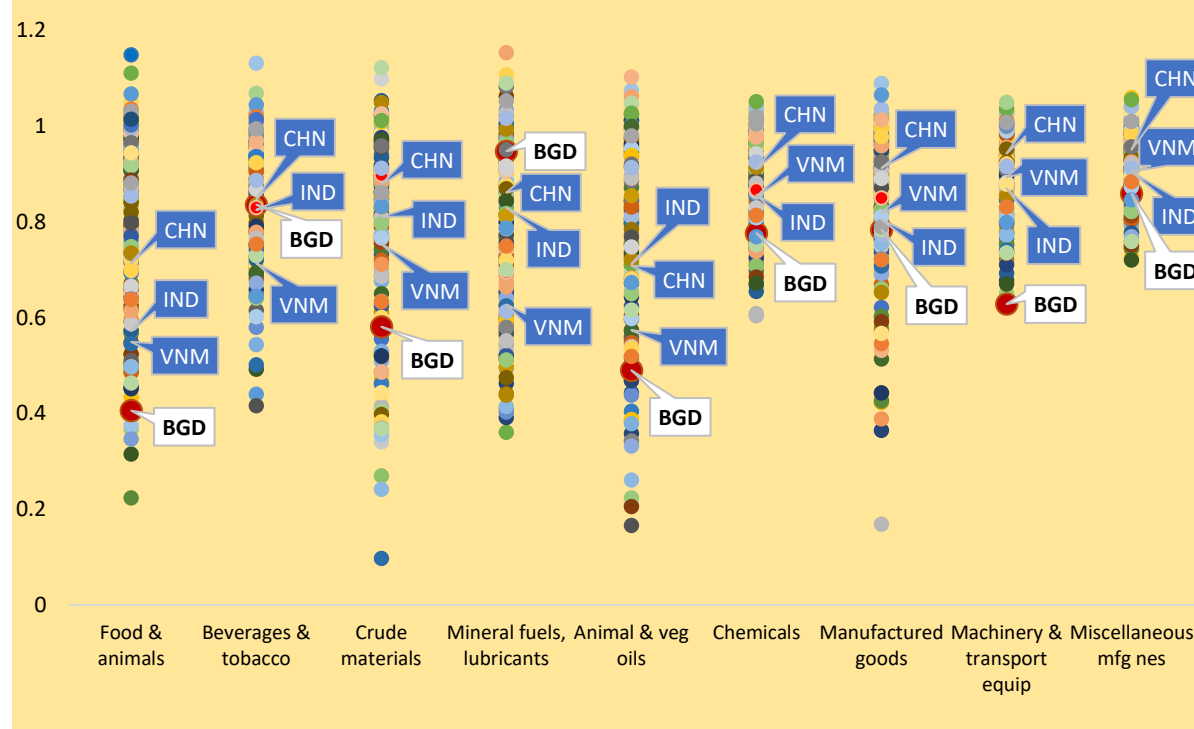
### 3.6 Improving quality and product sophistication

For many emerging export items, improvements in product quality, sophistication and standards are important for export expansion. It is known that goods in the same product category (e.g. under the same HS and SITC code) can differ widely in quality. Quality upgradation, sophistication and product differentiation are often associated with higher prices. An analysis of the most comprehensive export quality database seems to confirm the widely perceived view that Bangladesh can potentially increase its export receipts by improving quality (Figure 29).

At the SITC 1-digit level, apart from one category, Bangladesh's quality adjusted unit values are lower than those of China and India.<sup>31</sup> In most categories, Vietnam's unit prices are also higher than those of Bangladesh. Bangladesh's quality of products in the broad category of food and animal products (SITC 0) is quite low, suggesting that increasing export of agro-processed sector could be a challenge. In the case of manufactured goods category, which include much of the country's exports, Bangladesh is at around 80<sup>th</sup> percentile which suggests room for substantial improvement.

**Figure 29**

**Export quality by SITC-1 digit sectors**



Note: BEI project team analysis using IMF Export Quality Database. The year of analysis is 2014, the latest year for which data are available. The methodology used in deriving quality estimates (Henn *et al.* 2013) involved utilising unit values but with important modifications. First, a trade price relationship is devised, and then a quality-augmented gravity equation is specified to calculate a comprehensive set of quality estimates. All quality estimates are normalized by their 90<sup>th</sup> percentile in the relevant product-year combination.

There are suggestions if exporters manage to survive and stay on exporting, product quality eventually converges. At the initial stage, new products can suffer from poor quality but

<sup>31</sup> At SITC-4 broad category defined as “mineral fuels, lubricants, and related materials”, Bangladesh is shown to have unit values higher than those of China, India and Vietnam. Bangladesh is not a major exporter in the category and thus the higher unit prices reflect a very small quantity of a high-quality product.

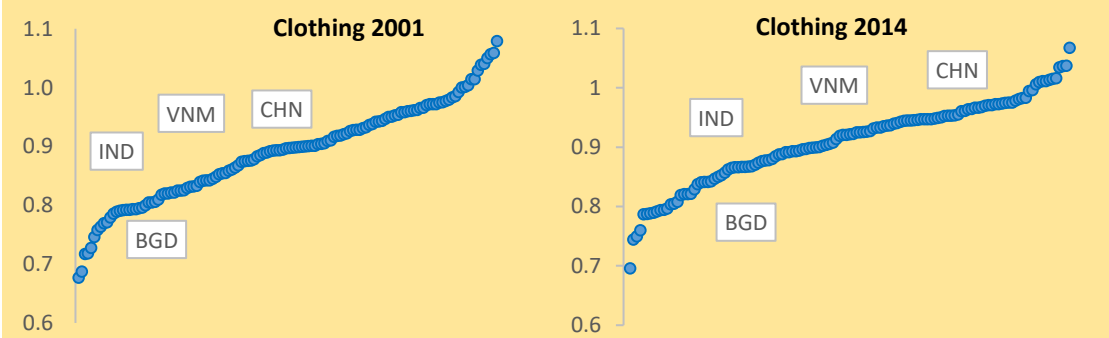
overtime their unit prices improve. Within a category where the global frontier of productivity is high, learning and catch-up can be high (Reis and Farole, 2012). The quality data on same products for different countries can be used to generate quality ladders, measuring the relative quality of a country's exports against all other countries that export a specific product. The Quality ladders reflect the extent of heterogeneity in quality across different varieties of a given product.

A close look at Figure 30(a)-(d) would reveal that in clothing, footwear and plastic products Bangladesh has moved up the quality ladder. In these products China's improvements have been particularly noticeable. In clothing, footwear and plastic export quality ladders, Bangladesh was lagging behind India, Vietnam and China in 2001 and the situation did not change in 2014.

The length of a quality ladder indicates the potential for quality upgrading for each product. Clearly, Bangladesh needs to catch up by climbing up the quality ladder significantly.

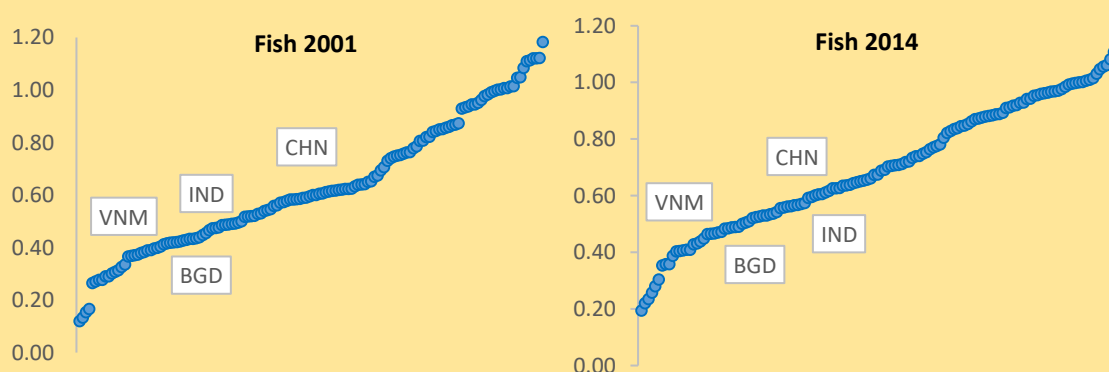
**Figure 30 ( a )**

**Quality ladder for clothing (SITC Division 84: Division: 84 - Articles of apparel and clothing accessories)**



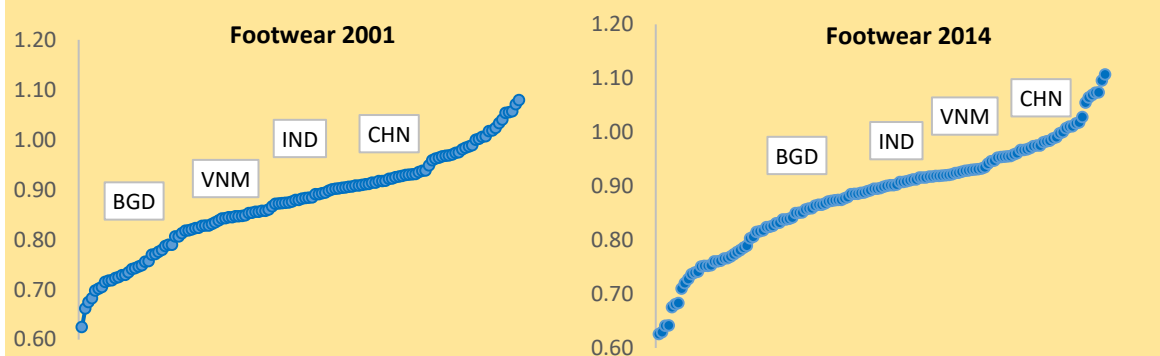
**Figure 30 ( b )**

**Quality ladder for fish (SITC 034: fish, fresh, chilled or frozen)**



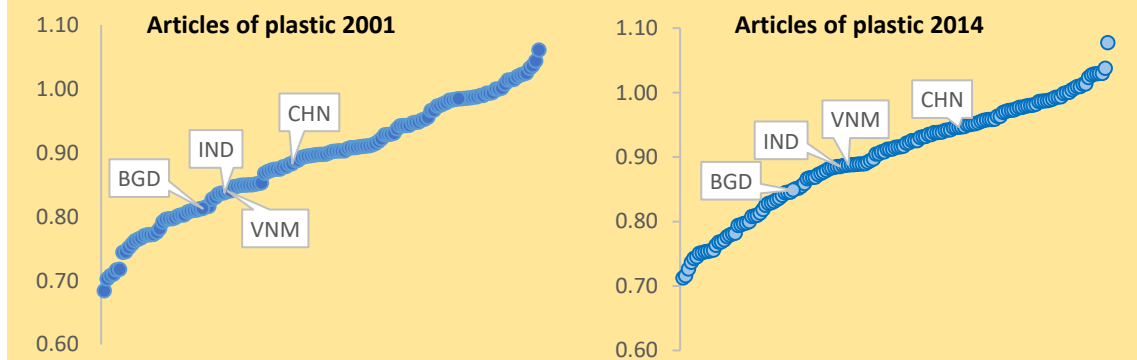
**Figure 30 ( c )**

**Quality ladder for footwear (SITC Division 85: Footwear)**



**Figure 30 ( d )**

**Quality ladder for plastic goods (SITC 893)**



Notes and Source: All quality adjusted unit value estimates on the vertical axis are normalized by their 90<sup>th</sup> percentile in the relevant product-year combination. Bangladesh, China, India and Vietnam are denoted by BGD, CHN, IND, and VNM, respectively. BEI project team analysis using the data described above

A related issue is the increasing requirement of exporters' complying with standards determined by importers and lead buyers in global and regional value chains. Exporting firms are often under pressure to meet quality requirements through certification. This may require developing and maintaining proper institutional infrastructures, from laboratories to coordinating institutions. The value of quality infrastructure is increasingly recognised as traditional border measures such as tariffs are of declining importance relative to standardisation, metrology, accreditation, testing, control and certification, technical regulation and market surveillance systems. The role of human capital and institutional

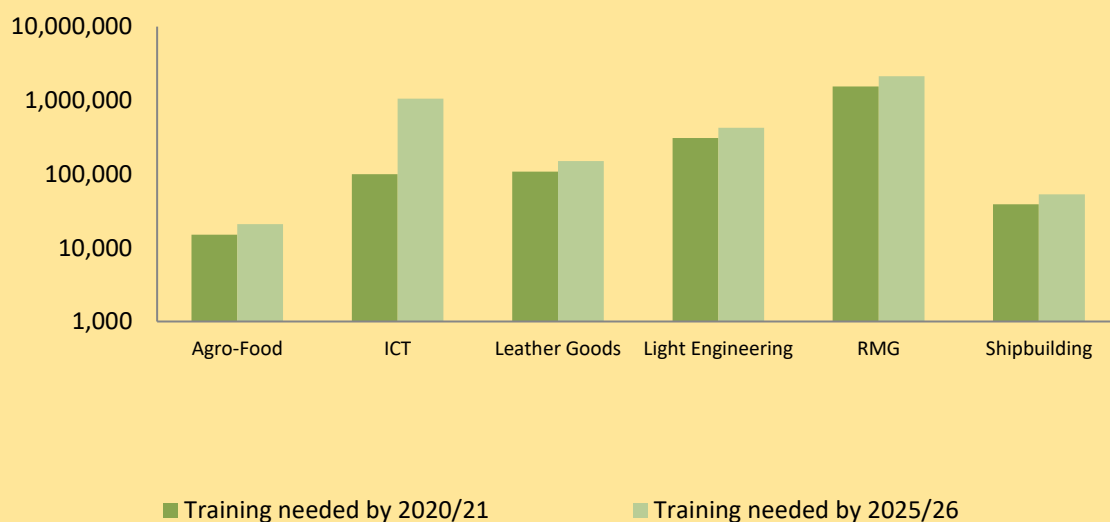
quality in generating product quality is critical and in this respect moving up the value chain and quality ladder is associated with an increasingly skilled work force.

### 3.7 Addressing shortage of skilled workers

Shortage of specialised professionals and skilled workers constitutes a severe problem for export-oriented firms – both in RMG and non-RMG sectors. The last World Bank Enterprise Survey on Bangladesh reported 21 percent of the exporting firms identifying an inadequately educated and trained workforce as a major constraint. The rate is significantly lower for comparators like China (4%), India (12.1%), Indonesia (10.9%), Malaysia (8.3%), Philippines (12.6%) and Vietnam (19.2%). In the human capital index of the Penn World Table Bangladesh is ranked at 109th place amongst 145 countries, while most of the comparators rank below 80.

**Figure 31**

#### Future Training Needed by Leading sectors



According to a recent employment projection exercise (BIDS, 2017), currently there is a shortage of 119,479 skilled workers in the RMG sector, while the corresponding figures for ICT and leather sectors are 88,000 and 62,246, respectively (Figure 31).<sup>32</sup> The estimated skill-gap in the agro-food sector is a staggering 76 percent, followed by 40 percent in IT and ITES sectors, and 36 percent in the light engineering industry.<sup>33</sup> According to the study, more than 5.6 million workers need to be trained by 2025.

Many export-oriented firms are now becoming increasingly dependent on foreign nationals for fulfilling managerial, mid-to-higher level and other technical positions.<sup>34</sup> Employing foreign professionals is expensive and has implications for firms' export competitiveness. In addition, remittance outflow from Bangladesh through the official channels reached a peak of \$4 billion in 2012, and was estimated to be \$2 billion in 2016. Outflows through informal channels are not known but is widely perceived to be high as well. This problem skill shortages has also been acknowledged in the 7<sup>th</sup> Five Year Plan (GED, 2015).

The proportion of workforce with tertiary education is quite low for Bangladesh (ADB, 2016). The current mainstream programmes to address the skill gap under the Technical and Vocational Education and Training (TVET) lacks capacity and relevance to the major export sectors such as garments. On-the-job training opportunities are also limited in Bangladesh because of market failures and lack of measures to tackle them.

Although the skill mismatch has been in discussion for long, proper public as well as private sector led initiatives are not forthcoming. It is in this backdrop that the effective

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<sup>32</sup> *BIDS Study Report: Labor Market and Skill Gap in Bangladesh (Macro and Micro Level Study)*, Ministry of Finance, Government of People's Republic of Bangladesh, Dhaka, Bangladesh: May, 2007

<sup>33</sup> According to ADB (2016), Bangladesh does not have a deep pool of specialized human capital needed to drive core pharmaceutical processes, such as technical manufacturing, reverse-engineering, quality assurance, active pharmaceutical ingredient production, and innovative research.

<sup>34</sup> The number of work permits issued from BIDA in favour of expatriates employed in private sector industrial enterprise during the fiscal year of 2016-17 was 4,248 (including new contracts and extensions). These foreign nationals represent 65 countries, of which more than one-third (1,534) comprised Indian nationals followed by Chinese (911). Information on people working informally is not available.



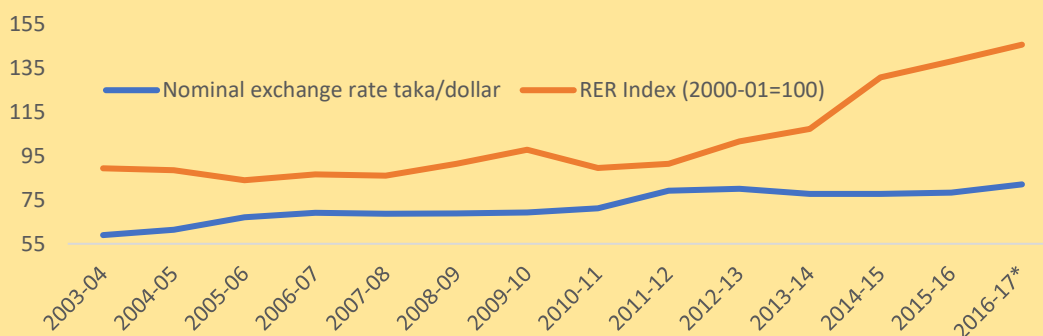
implementation of the national skills development strategy as outlined in the 7<sup>th</sup> Five Year Plan cannot be overstated. Meeting specific skill demands of the export sector should be accorded a special priority.

### 3.8 Dealing with real exchange rate appreciation

A rising trend in the real exchange rate appreciation severely undermines Bangladesh's external competitiveness. There was a 6.5 percent appreciation in the RER in the 12-months through December 2016 (World Bank, 2017), and it is estimated that such a trend continues. In recent years, when many of Bangladesh's important trade partners have confronted subdued economic growth with weaker domestic prices, Bangladesh has continued to face a moderate inflationary pressure.<sup>35</sup>

**Figure 32**

#### Nominal and Real Exchange Rates



Note and source: The data are from Bangladesh Bank. \* - the real exchange rate for 2016-17 is estimated.

For a country like Bangladesh, management of the exchange rate is important for a diverse set of policy objectives including bolstering economic growth, containing inflation and maintaining external competitiveness. While the country has been successful in avoiding large and abrupt rises in nominal exchange rates (NERs), RER appreciations are often a major

<sup>35</sup> It has been estimated that between February 2016 and February 2017, Bangladesh's inflation differential with the USA, Canada, Eurozone economies and the UK was more than 6 percentage points (World Bank, 2017). The comparable figures with East Asia countries in most cases range from 4 to 6 percentage points. India and Indonesia, however, have shown inflationary pressures comparable with Bangladesh.

challenge. In the face of rising price levels, currency depreciation is regarded as a wrong policy choice, contributing to inflationary pressures. On the other hand, mounting inflationary differentials with trade partners will be reflected in appreciated RER thereby weakening the country's export competitiveness. There is robust empirical evidence that exchange rate movements are important for export performance (Leigh *et al.* 2016).

Nominal exchange rate adjustments are an important policy instrument for influencing external competitiveness. One challenge however is that nominal devaluations may not always translate into RER depreciations or the effect can be short-lived. The movement in the RER in the long run is determined by various economic fundamentals such as openness of the economy, international terms of trade, technological progress, share of investment in GDP, composition of public spending etc (Edwards 1989; Badia and Segura-Ubiergo, 2014). In addition, fiscal and monetary policies need to be consistent with the exchange rate regime to promote a country's external competitiveness. Therefore, management of the exchange rate is a delicate task for policymakers.<sup>36</sup>

### 3.9 Improving access to trade finance

Lack of access to trade finance restricts the entry of new exporters, particularly those of small and medium enterprises. Cover for payment risks and mobilising working capital are the two important components of trade finance. In addition, purchase of new capital equipment and raw materials at the time of start-up is one of major finance-related hurdles that potential exporters would have to overcome. Only 34 percent of all small and medium enterprises (SMEs) in Bangladesh could have access to any loan from a formal financing institution (World

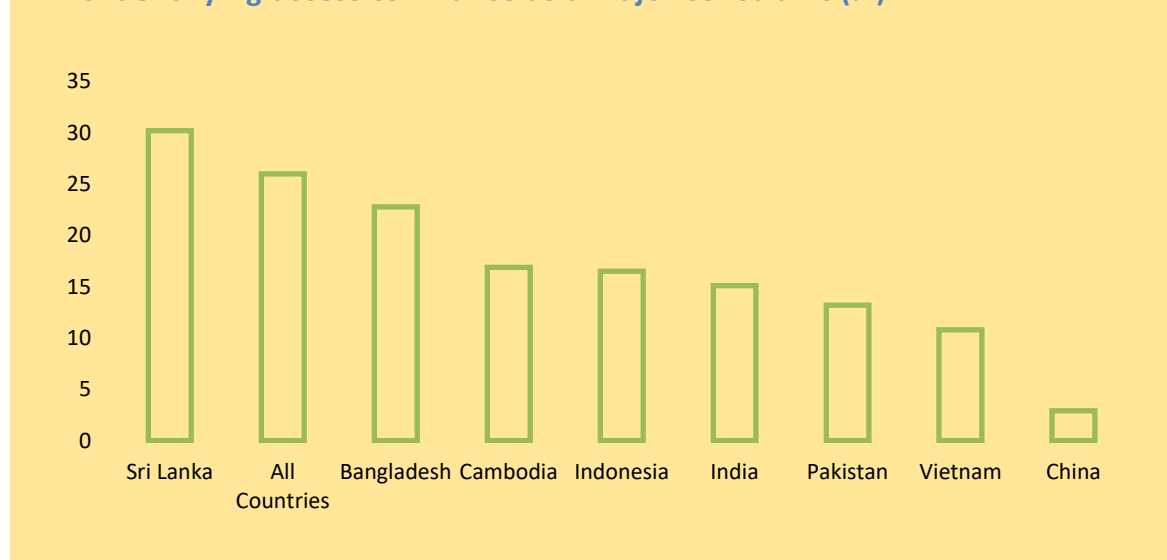
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<sup>36</sup> Another dimension of the RER management is the implications for overall economic growth. Whether and how exchange rate movements influence overall economic growth is a longstanding controversial issue in the relevant literature. In an influential paper, Rodrik (2008) argues that tradable sectors are more severely affected by bad institutions and market failures, resulting in their below optimal size. Undervaluation of national currencies helps overcome these problems. This contrasts the 'Washington Consensus' view that undervaluations are harmful and lead to overheating and excessive inflation (Berg and Miao, 2010). For Bangladesh, Razzaque *et al.* (2017) provide evidence that in the long run a 10-percent depreciation in the real exchange rate is associated with, on average, 3.2 percent rise in aggregate output. In the short-run however there is a contractionary effect so that the same magnitude of real depreciation would result in about a half percent decline in GDP.

Bank, 2013). Almost a quarter of the firms interviewed in the World Bank Enterprise Survey viewed access to finance as a major constraint in Bangladesh.

**Figure 33**

**Firms identifying access to finance as a major constraint (%)**



The most common type of trade finance mechanism followed by the Bangladeshi exporters is L/Cs. All exporters deal trade financing with the local banking sector as it is not possible to acquire financing from abroad. In contrast, globally only 20 percent of trade finance comes from the bank intermediated sources (Baylis, 2016). Amongst others, India and Sri Lanka, have set some good examples of alternative financing to boost exports.

The amount of collateral required for a loan in Bangladesh is one of the highest in the world (272 percent of total loan) (World Bank, 2013). The common practices like high security deposit requirements along with personal guarantees from the firm's owners and directors sometimes work as barriers to trade finances, especially for small, and new entrepreneurs.

Bangladesh's Export Development Fund (EDF) offers trade finance at 7 percent interest rate per year.<sup>37</sup> While the Export Credit Guarantee Scheme (ECGS) - administered by the Sadharon Bima Corporation - provides pre- and post-shipment export finances, whole turnover export

<sup>37</sup> BRPD Circular No. - 01, dated 10 January 2004, Bangladesh Bank

finance (pre-shipment) guarantees, and export payment risk policies.<sup>38</sup> The use of these schemes and their access by different types of export firms need to be reviewed. Experiences of successful export credit agencies could be sought from countries like India, Indonesia and Sri Lanka and Indonesia. The option of opening up to trade finance market can be carefully reviewed as access to global credits can expand coverage and reduce borrowing costs. Utilisation of trade finance schemes operated by the Asian Development Bank and World Bank/IFC can provide useful options. There is an estimate that just 20 percent of RMG exports financed through IFC's Global Trade Supplier Finance (GTSF) scheme could reduce export receivables credit delays by 45 days, releasing up to \$350 million annually in cash flow for exporters (Baylis, 2016).<sup>39</sup>

### 3.10 Attracting FDI inflows

The role of FDI in expanding exports and promoting export diversification is well-established in numerous academic studies and reports. The most direct impact of FDI is through employment generation, skill upgradation, and improvement in productivity. The spillover effects arising from knowledge and technology transfers and better management practices are also considered hugely significant. It helps recipient countries integrate with global value chains.

Private investment in Bangladesh has been stagnant at around 22 percent of GDP for more than a decade with an additional 6 – 7 percent public investment. Because of weak investment climate and high cost of doing business, FDI inflow into Bangladesh has been subdued: less than 1 percent per year on an average for the period of 2000 to 2016.<sup>40</sup> In contrast, over the same period of time, the average FDI inflow in China, Cambodia, India, and

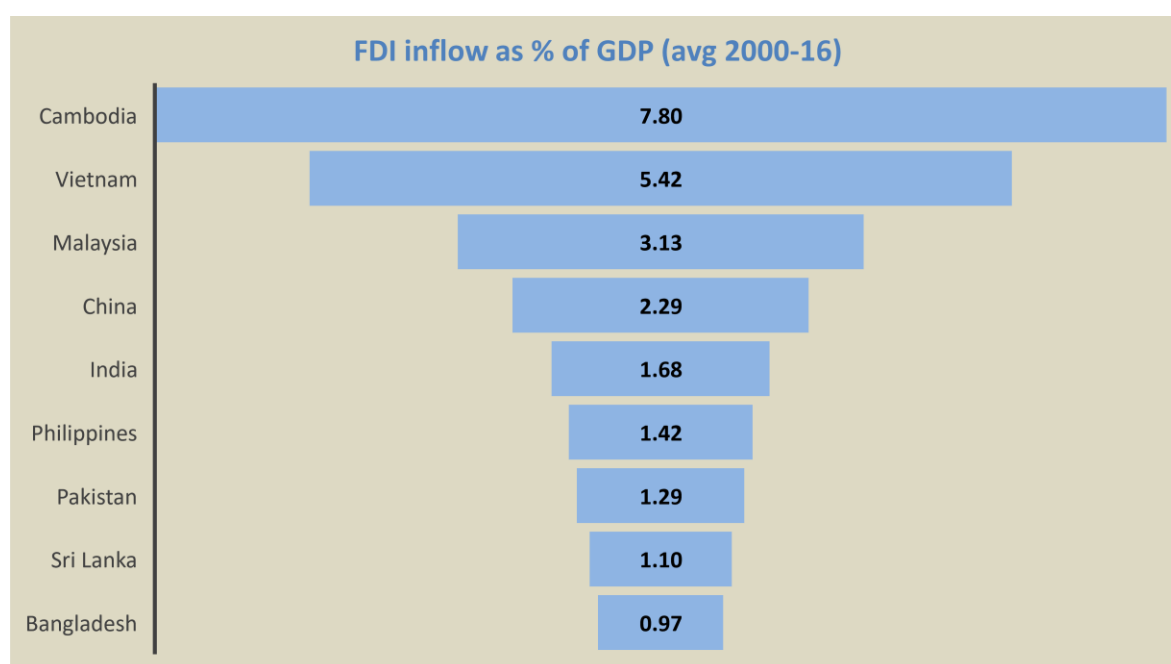
<sup>38</sup> [http://mail.sbc.gov.bd/ins\\_export\\_credit.php](http://mail.sbc.gov.bd/ins_export_credit.php)

<sup>39</sup> Established in 2010, the Global Trade Supplier Finance (GTSF) program is a \$500 million multicurrency investment and advisory program that provides short-term finance to emerging market suppliers and small- and medium-sized exporters, helping to address a huge shortfall in supply chain finance.

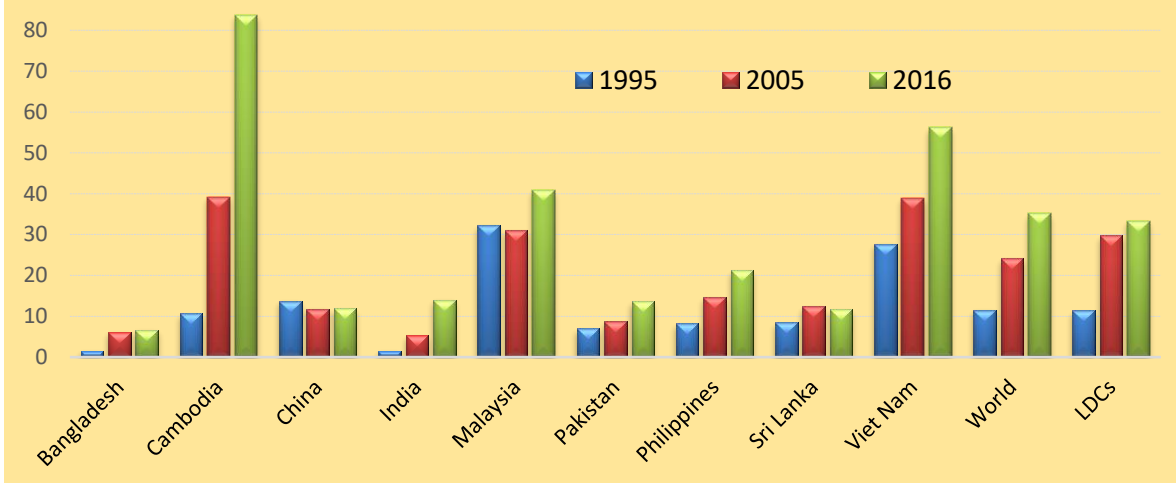
<sup>40</sup> The sector that is attracting most FDI in Bangladesh is the telecommunications industry followed by the banking sector, readymade garments, energy, and leather and footwear. Apart from the flows in energy, almost all other FDIs in the manufacturing sector are directed to the EPZs.

Viet Nam were 2.3 percent, 7.8 percent, 1.7 percent, and 5.4 percent, respectively. The FDI stock as percentage of GDP for Bangladesh, 6 percent, is far lower than that of its comparators. For example, the FDI stock for Cambodia increased from about 10 percent in 1995 to more than 80 percent in 2016, while Viet Nam's share increased from around 28 percent to more than 55 percent.

**Figure 34**



Attracting FDIs, particularly in non-RMG export sectors, can be a big boost for export growth and diversification. Such features of the Bangladesh economy as big domestic market, large pool of workforce, competitive labour price, and existence of a global export industry like the garment sector, should make the country an important investment destination provided that factors affecting investment climate and cost of doing business can be dealt with effectively. The ongoing initiative of establishing 100 Specialized Economic Zones (SEZs) with the objective of providing the investors with serviced industrial plots and improved business environment could be an opportunity to revamp the country's investment regime while facilitating export expansion.

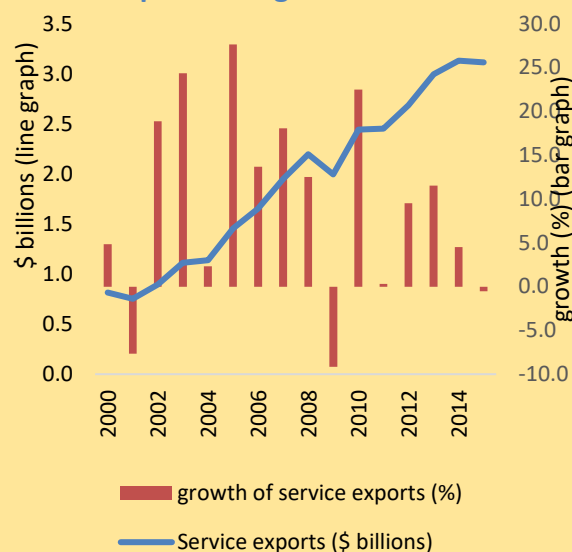
**Figure 35**
**FDI Stock as % of GDP**


### 3.11 Promoting Exports of services

Export growth and diversification can also be promoted through enhanced exports of services. Non-factor service exports of Bangladesh stood at just over \$3 billion dollar in 2015. The growth of this sector has been somewhat erratic (Figure 36). Unlike in the case of merchandise exports, Bangladesh's share in global service exports has grown at pace slower than LDC exports (Figure 37). When the relative significance of services exports in total exports is considered, Bangladesh, China and Vietnam show very much comparable shares. However, as both Vietnam and China have larger export volumes (\$11 billion and \$217 billion, respectively), services exports base in those countries is much bigger.

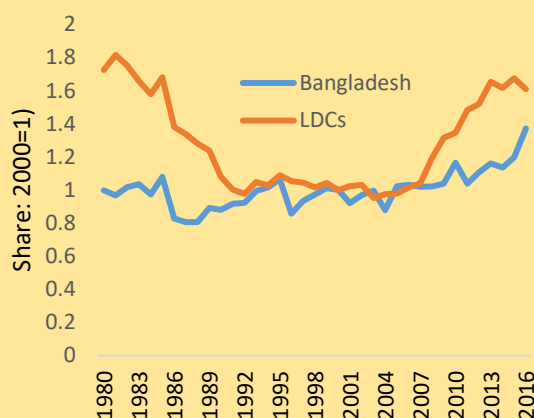
**Figure 36**

**Service exports and growth**



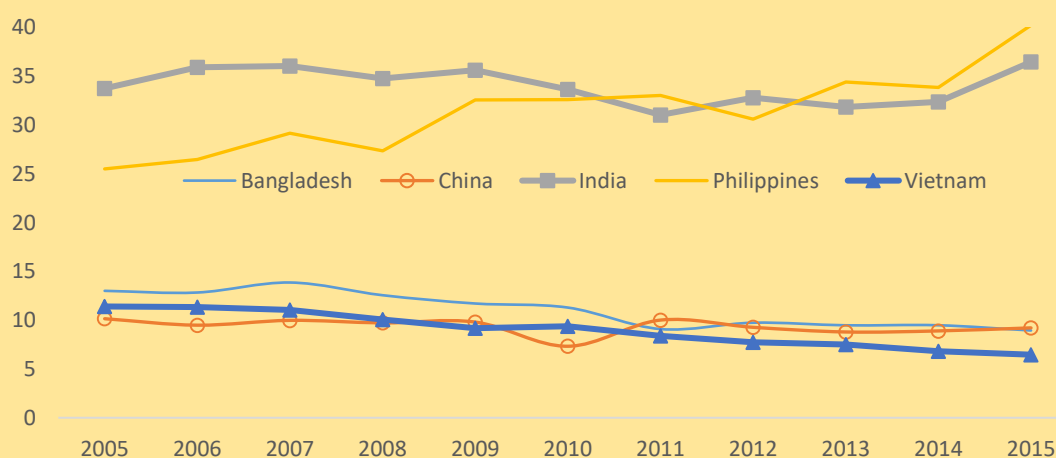
**Figure 37**

**Bangladesh and LDCs- growth of share in world services export (%)**



**Figure 38**

**Share of service exports in total exports (%)**



The 7<sup>th</sup> Five Year Plan provides a detailed strategy of services sector development, a major objective of which is to increase the growth of non-labour export services, specifically ICT, international transport services and tourism. It has set a target of achieving export earnings of \$6 billion (from \$1.5 billion in 2015) by the end of the plan period from such services as ICT, travel and tourism. It outlines incentive policies and initiatives to encourage foreign investment in export-oriented services.

Table 3 Value and share of services export by subsectors (Value in million USD)						
Services sectors	FY 2010-11		FY 2013-14		FY 2016-17	
	Value	Share	Value	Share	Value	Share
Transportation	191	7.4	460.9	14.8	436.3	13.8
Travel	85.6	3.3	142.4	4.6	290.9	9.2
Construction services	11.3	0.4	45.7	1.5	135.6	4.3
Financial services (other than insurance)	59.6	2.3	59.2	1.9	88.5	2.8
Telecommunication and information services	349.6	13.6	444.8	14.3	376.5	11.9
Other business services	670	26.1	403.3	12.9	502.8	15.9
Government goods and services	1192.7	46.4	1468.3	47.1	1313.3	41.5
Miscellaneous services (not included elsewhere)	10.4	0.4	90.6	2.9	20.8	0.7
Total	2570.2	100	3115.2	100	3164.7	100

Note: Miscellaneous services include manufacturing services on physical inputs, maintenance and repair services, insurance services, charges for the use of intellectual property and personal, cultural and recreational services.

The 7FYP aims to boost the service export of to global ICT market through an ICT strategy.<sup>41</sup> Amongst others, ICT exports are thought to be constrained by shortage of quality human resources in the industry, high prices of bandwidth and lack of funds. The strategy emphasizes on expanding broadband connectivity. Various projects and programmes for setting up hi-tech, software and technology parks and IT villages in the country. A special economic zone (SEZ) for IT/IT-enabled services and hi-tech industries is being set up. ICT firms are now availing the Equity Entrepreneurship Fund (EEF), a venture capital fund provided by the Bangladesh Bank, albeit in a limited scale. In order to tackle the skill shortage in the ICT sector, the 7FYP aims to pursue a strategy to double the current supply of 5,000 yearly IT graduates.

In order to encourage tourism, the 7FYP strategy considers two major elements: the expansion of fixed infrastructure to facilitate a safe aviation system and to expand and upgrade tourist facilities such as visa and currency exchange facilities, hotels, restaurants, tourist resorts and inland transportation.

Bangladesh earned close to \$400 million from international transport services (12.7 percent of total service exports) in 2015. However, the country paid \$5,764 million for transport services. This shows the potential for expansion in this area. Significant efforts are needed to reduce this deficit by improving the capacities and performance of the shipping and air industries. To provide strong institutional support, the 7<sup>th</sup> Five Year Plan highlighted to establish specialised task

<sup>41</sup> This is included in Chapter 12 of the Part II of the 7<sup>th</sup> Five Year Plan (GED, 2015).



forces to review the capacity of public institutions and agencies with a view to strengthening and improving export competitiveness of aviation and shipping services, tourism and ICT. While the articulated strategies are extremely helpful starting points, their effective implementation need to be ensured.

### 3.12 Consolidating improvements and maintaining good work place safety standards

Bangladesh's future export success is likely to continue in labour-intensive manufacturing sectors. While this is good for employment generation, unfavourable labour issues attract widespread global attention and can adversely affect export prospects. In recent years, various initiatives have been implemented to improve work place safety standards and working environment. The progress made in these areas should be consolidated and efforts must continue to make further improvements. It is also important to take greater ownership of these issues to maintain good practices in a sustainable manner.

## Chapter 4: Conclusion

Despite being resilient throughout the period of the 2008 global financial crisis-led economic recessions in Western developed countries, the export sector appears to have eventually come under some severe strain. Bangladesh's exports grew by just 1.7 percent in the last fiscal year amid persistent slowdown in world trade flows, increased pressure on external competitiveness due to several factors, and heightened policy uncertainty related to globalisation backlash causing political upheavals in Europe and the United States.

This is particularly concerning for Bangladesh given the objectives of achieving \$50 billion RMG exports and an overall \$60 billion exports by 2021, as set out in the Export Policy 2015-18. Along with this, export diversification remains a longstanding challenge. Various national development strategies have emphasised on export-led growth and renewed export diversification efforts to boost manufacturing outputs and generate jobs that Bangladesh needs badly.

Several emerging sectors such as agro-products, light engineering (including auto-parts and bicycles), leather and footwear, pharmaceutical, software and ICT, home textiles, ocean-going vessels, plastic and furniture, etc. hold great promise for export expansion. But, until now apart from footwear and home textiles, export response has been largely subdued.

Along with products, Bangladesh's export markets are also concentrated. There is some evidence of expanding range of export products, but unlike more successful exporters such as China, India and Vietnam, Bangladesh has not been able to increase market share in these emerging products.

For promoting export competitiveness and export diversification, this paper has emphasised on some selected issues for priority consideration.

## Revitalising Bangladesh's export trade: Policy issues for growth acceleration and diversification

- First of all, contrary to the national objective, Bangladesh's export-orientation in recent times has fallen quite significantly. This would require urgently assessing the trade policy regime to deal with any systemic anti-export bias complemented by enhanced export support and promotional measures.
- Export diversification efforts should be enhanced while strengthening the RMG sector dynamism. The global apparel market is to expand rapidly in the near future and this constitutes a tremendous opportunity for RMG export expansion.
- There is a need for reviewing the export incentive schemes (including cash assistance and bonded warehouse facilities). These were critical ingredients of initial export success. There is further room for expanding and deepening such incentives not only to help diversify the export basket but also to push for enlarged export earnings from established sectors. The export incentive policies should be consistent with the national objectives of export-led growth and job creation and should not be unduly constrained by revenue concerns. In some cases, lack of supply response means the available export incentives are not being utilised, while the same are not being extended to other sectors with supply-side capacity. Bonded warehouse facilities should be extended to all export sectors.
- Bangladesh needs to proactively aim for expanding exports in new markets. India and East Asian nations can be sources of future export growth. Despite the global trade slowdown in recent years, market prospects in China and Japan look very promising. Establishing new export relationships is challenging, and given the evidence provided in the paper of a lower survival rate of Bangladesh's new exports, it is important to deepen support for new exporters to increase survival rates during the first several years after beginning to export. The support for market promotion in conjunction with cash assistance to deal with uncertainties in new products and new markets is likely to be helpful.

## Revitalising Bangladesh's export trade: Policy issues for growth acceleration and diversification

- Improvements in product quality, sophistication and standards are important for export expansion. Quality adjusted unit prices for export items of Bangladesh in almost all cases are lower than those of competitors.
- Infrastructural bottlenecks, including troublesome inland road transportation and weak trade logistics, pose major constraints. It needs to be seriously reviewed if the current state of infrastructural facilities can realistically support a \$60 billion export target over the next few years. The energy use per capita in Bangladesh is much lower than expected for a country with its current size of export volume. Despite recent improvements, further increase in energy use will be an important determinant future export success.
- The need for skill training of workers is now very important for the export sector. Currently there is huge shortage of skilled workers in the RMG sector as well as in other sectors. As such, the effective implementation of the national skills development strategy as outlined in the 7<sup>th</sup> Five Year Plan cannot be overstated. Meeting specific skill demands of the export sector should be accorded a special priority.
- The appreciation of the real exchange rate has serious implications for exports. Bangladesh needs to maintain international competitiveness for which adjustments in the nominal exchange rate is important. The exchange rate management is an involved task as its effectiveness in maintaining external competitiveness will depend on many other factors including accompanying monetary and fiscal policies. Bangladesh has been successful in maintaining exchange rate stability, but more policy attention is also needed in tackling real exchange rate appreciations.
- Amongst other factors, attracting FDI inflows can greatly help Bangladesh break into new and emerging export sectors.

The *Bangladesh Export Policy 2015-18* states one of its principal objectives is “to take target oriented steps to raise export earnings to US\$60 billion by 2021”. The 7<sup>th</sup> Five Year Plan 2016-2020 envisages a manufacturing sector development with an export-led growth strategy aiming to significantly enhance the trade-orientation (i.e. trade-GDP ratio) of the country. Given the current situation, there is clearly a need for reviewing the policy options for revitalising the export sector.

As Bangladesh is likely to graduate out of the group of Least Developed Countries (LDCs) over the next decade, a proactive initiative of making use of any available policy space and preferences cannot be overemphasised. It is also important to assess existing policy support mechanisms to make them more effective.

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