Connecting Local Enterprises to Global Markets: Perspectives from Bangladesh

Selim Raihan
Professor of Economics, Dhaka University
Executive Director, South Asian Network on Economic Modeling

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OVERVIEW OF ECONOMIC DEVELOPMENTS IN BANGLADESH
Source: Author’s calculation from WDI data, World Bank
**Sectoral Composition of GDP**

Source: Author’s calculation from WDI data, World Bank

**Share in Employment**

Source: Author’s calculation from Labor Force Survey data, Bangladesh Bureau of Statistics
Trend in Export and Import

Source: Author’s calculation from WDI data, World Bank

Export and Import as % of GDP

Source: Author’s calculation from WDI data, World Bank
Manufactures Exports as % of Merchandise Exports

Source: Author’s calculation from WDI data, World Bank

FDI as % of GDP

Source: Author’s calculation from WDI data, World Bank
LOCAL FIRMS’ INTEGRATION INTO INTERNATIONAL MARKETS: WHO ARE THE DOMINANT PLAYERS IN BANGLADESH?
World Bank Enterprise Survey 2013: Percent of firms exporting directly or indirectly (at least 1% of sales)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing (All)</td>
<td>30.4</td>
</tr>
<tr>
<td>Food</td>
<td>9.4</td>
</tr>
<tr>
<td>Garments</td>
<td>65.6</td>
</tr>
<tr>
<td>Leather Products</td>
<td>52</td>
</tr>
<tr>
<td>Chemicals &amp; Chemical Products</td>
<td>13</td>
</tr>
<tr>
<td>Furniture</td>
<td>21.2</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>14.7</td>
</tr>
<tr>
<td>Motor vehicles and transport equipment</td>
<td>7.2</td>
</tr>
<tr>
<td>Services (All)</td>
<td>1.8</td>
</tr>
<tr>
<td>Retail</td>
<td>3.3</td>
</tr>
<tr>
<td>Other Services</td>
<td>1.5</td>
</tr>
</tbody>
</table>
Readymade Garment Export

Source: Author’s calculation from Export data, Bangladesh Bank

Share in Manufacturing Employment

Data Source: Labor Force Survey, Bangladesh Bureau of Statistics
Export composition in 1996

Source: Ricardo Haussman, Atlas

Export composition in 2000

Export composition in 2010

Source: Ricardo Haussman, Atlas
Source: Hausmann’ economic complexity index

Source: Author’s calculation using the National Accounts data
Rent Space and Growth: The Case of RMG Industry in Bangladesh

• Sources of rent:
  – Quota (no longer)
  – Subsidies
  – Tax exemption
  – Labor regime
  – Compliance
Rent from Tax Exemption in the RMG Sector in Bangladesh

<table>
<thead>
<tr>
<th>Tax forgone</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax forgone as % of total tax revenue in 2011-12</td>
<td>6.31</td>
</tr>
<tr>
<td>Tax forgone as % of total revenue in 2011-12</td>
<td>5.08</td>
</tr>
<tr>
<td>Tax forgone as % of GDP in 2011-12</td>
<td>1.41</td>
</tr>
</tbody>
</table>

Source: Raihan et al (2013)
Factors behind growth of the RMG sector

- Favorable external environment
- Cheap labor (political economy of labor regime)
- Domestic policies
- Institutional issues
Growth in the Number of RMG firms in Bangladesh: Issue of Compliance

Source: BGMEA
Macroeconomic Stability

Source: Author’s calculation from data from Bangladesh Bank
Local Firms’ Integration into International Markets: Relevant Institutions

Public institutions
- The Ministry of Commerce
- Ministry of Industry
- Ministry of Labor
- Export Promotion Bureau (EPB)
- The National Board of Revenue (NBR)
- Bangladesh Bank
- The Bangladesh Tariff Commission

Private institutions
- The Bangladesh Garment Manufacturers and Exporters Association (BGMEA)
- Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA)
- The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)
- Metropolitan Chamber of Commerce & Industry, Dhaka (MCCI)
- The Leather goods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB)
- Bangladesh Shrimp and Fish Foundation (BSFF), Bangladesh Frozen Foods Exporters Association (BFFEA)
But infrastructure issue is more acute for non-RMG sectors and the SMEs.
LOCAL FIRMS’ INTEGRATION INTO INTERNATIONAL MARKETS: LABOR REGIME
A Demographic Dividend for Bangladesh?

Source: United Nations Department of Economic and Social Affairs/Population Division

World Population Prospects: The 2012 Revision, Volume II: Demographic Profiles
Labor force (15 years and +) by level of education in 2010

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Total</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>No education</td>
<td>40.1</td>
<td>39.9</td>
<td>40.6</td>
</tr>
<tr>
<td>Class 1-5</td>
<td>22.8</td>
<td>22.9</td>
<td>22.7</td>
</tr>
<tr>
<td>Class 6-8</td>
<td>14.3</td>
<td>13.8</td>
<td>15.3</td>
</tr>
<tr>
<td>Class 9-10</td>
<td>9.0</td>
<td>8.3</td>
<td>10.5</td>
</tr>
<tr>
<td>SSC/equivalent</td>
<td>6.2</td>
<td>6.5</td>
<td>5.6</td>
</tr>
<tr>
<td>HSC/equivalent</td>
<td>3.7</td>
<td>4.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Bachelor/equivalent</td>
<td>2.1</td>
<td>2.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Master/equivalent</td>
<td>1.4</td>
<td>1.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Medical/engineering</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Technical/vocational</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Others</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Quantity and Quality of Job: Transition phases

Source: Labor Force Survey, 2010

Source: World Bank, WDI

Source: Raihan (2014)
Evolution of Labor Regime

• Decline of labor movement led by public sector labor union with the rise of private sector.
• Evolution of anti-labor elite political settlement; The case of RMG sector
• The increasing frequency and militancy of RMG labor movement surrounding issues of compliance and wage
• The domestic demand for trade union rights
• The resilience of anti-labor elite political settlement surrounding RMG labor.
• Global pressure for trade union in the RMG sector
• International buyers and the labor standard: Do buyers collude?
• The “Great” disaster of “Tazreen and Rana Plaza”: Dramatic escalation of global pressure.
LOCAL FIRMS’ INTEGRATION INTO INTERNATIONAL MARKETS: NEED FOR ECONOMIC DIVERSIFICATION
New sectors are coming up.....but..

• Leather
• Electronics
• Pharmaceuticals
• Ship building
• Light engineering
Issues to be Considered

• Addressing the domestic binding constraints
• Market access issues: Tariff issues, NTMs/NTBs
• Policies for economic diversification:
  – Trade policy
  – Industrial policy
  – Macroeconomic policy
• Incentives for the economic diversification:
  – Management of the rent space
  – Deals vs. rules
  – Open deals vs closed deals