

Export diversification for structural transformation in Bangladesh

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Bangladesh's success in export diversification remained unsatisfactory. According to the UNCTAD, Bangladesh's export concentration in 2021 was significantly higher than India, Vietnam, and the averages for the LDCs, and South Asian countries. Bangladesh's exports remained concentrated in a few sectors, mainly RMG, which accounted for over 80% of the country's export earnings in 2023.

From 2006 to 2021, Bangladesh's export basket expanded by only 9 items, based on the 4-digit HS code, which generated export earnings worth US\$ 823 million in 2021. In contrast, Vietnam added 41 new products that earned exports of US\$ 145 billion in the same year. India and Thailand also achieved notable success during this period. Moreover, Bangladesh's exports consisted mainly of low-complex products, according to the product complexity scale (see Atlas CID, Growth Lab), while Vietnam advanced to higher-complex products. Such a high concentration of export basket poses risks

for Bangladesh's export growth and resilience, as it makes the country vulnerable to external shocks, such as changes in global demand, prices, quality standards, and competition. Also, such a highly concentrated export basket inhibits the productive structural transformation of the economy.

Structural transformation is the process of shifting the composition of an economy from low-productivity and labour-intensive activities to high-productivity and skill-intensive activities. It is a key driver of economic development, as it can increase the average

income, productivity, and living standards of a country. Structural transformation can also generate positive spillovers, such as technological innovation, human capital development, and institutional improvement. However, structural transformation is not automatic or inevitable, and it requires appropriate policies and institutions to facilitate and sustain it.

Export diversification can help structural transformation by enabling a country to expand its production and export base to more productive and dynamic sectors, industries, or technologies. Moreover, export diversification can stimulate innovation, learning, and spillovers, as a country acquires new capabilities and knowledge from exporting new or more sophisticated products or services to new or more demanding markets.

To understand the association between export diversification and structural transformation, we have constructed a Structural Transformation Index (STI) using three indicators: (i) the percentage share of manufacturing value-added in GDP (data source is WDI,

World Bank); (ii) the percentage share of industrial employment in total employment (data source is ILO); and (iii) the Economic Complexity Index which is rescaled between 0 and 100 (data source is Atlas CID, Growth Lab). We have assigned equal weights to each indicator. The index is constructed for the period between 1995 and 2021 (27 years) for 133 countries. The trend in the STI shows that Bangladesh advanced in structural transformation from 1995 to 2021, but at a much slower rate than Vietnam. Bangladesh and Vietnam had a similar STI level in 1995, but by 2021, Bangladesh's STI value was only 25.35, far below India's index value of 33.15 and Vietnam's 36.43.

We have created a scatterplot considering UNCTAD's export concentration index on the horizontal axis and our constructed STI on the vertical axis using the data for only 2021. The non-linear trendline in the scatterplot shows a negative association between the indices of export concentration and structural transformation. The flatter section of the trendline at the very high end of export concentration suggests that a small decrease in export concentration at that level has little impact on

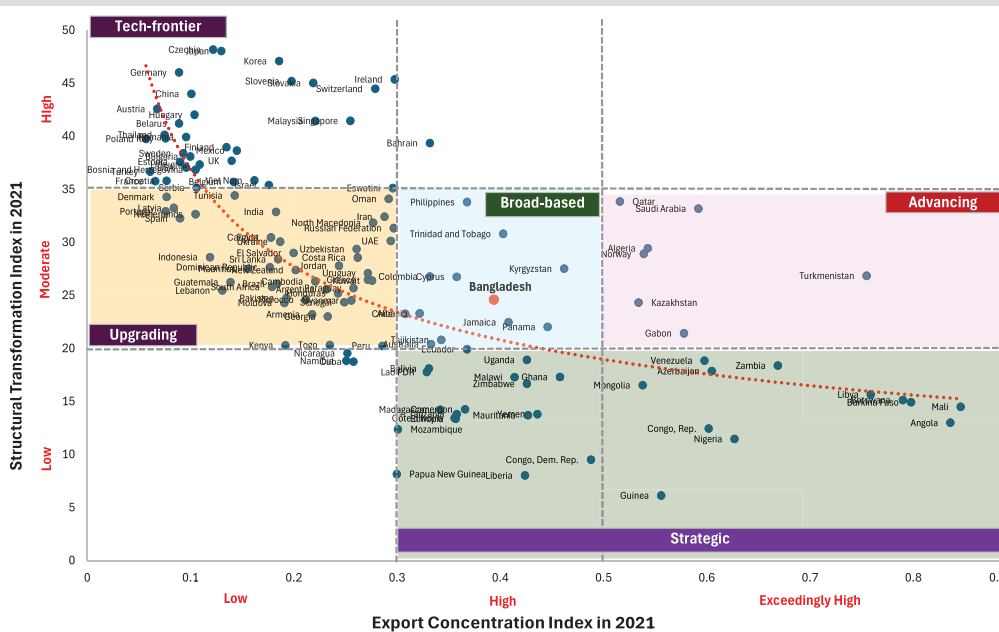
transformation): Consolidation of reforms and achievements. Leveraging existing successes to enter into more sophisticated export products. Countries like India and Vietnam fall into this category.

(4) **Tech-frontier** (for the countries with low levels of export concentration and high levels of structural transformation): Emphasize further technological advancement, research and innovation, and development of new products. Most of the OECD countries fall into this category.

(5) **Broad-based** (for the countries with high levels of export concentration and moderate levels of structural transformation): Moving away from narrow to broad-based industrial policy. Rapid and accelerated reform for diversification. Bangladesh and only a few countries fall into this category.

A broad-based industrial policy for Bangladesh means creating effective incentives for export diversification. This requires reforms and development in trade policy, the financial sector, trade logistics, and skill development. High import tariffs in Bangladesh are a major obstacle to export diversification. Bangladesh had one

of the world's highest tariff rates in 1990, and it remained very high in 2020. More than 40% of products had a tariff rate above 15% in 2022, compared to 10.6% in India and 14.4% in Vietnam. Bangladesh also performs poorly in the global ranking of the ease of paying taxes, according to a PwC survey. Financing is a common challenge for industrialization and a key factor for export diversification. Bangladesh faces high rates of non-performing loans, a weak capital market, and low financial inclusion. Lastly, reforms are needed to enhance the quality of formal



the increase in the structural transformation index. The figure illustrates five types of industrial policies that we have defined based on the combinations of the levels of export concentration and structural transformation. We have classified export concentrations as low, high, or exceedingly high, and structural transformation as low, moderate, or high.

- Strategic** (for the countries with high or exceedingly high levels of export concentration and low levels of structural transformation): Identify and support a few strategic sectors that can diversify exports and foster further structural transformation. Most of the sub-Saharan African countries fall into this category.
- Advancing** (for the countries with exceedingly high levels of export concentration and moderate levels of structural transformation): Mostly oil-rich countries that have the resources to diversify into new products.
- Upgrading** (for the countries with low levels of export concentration and moderate levels of structural

institutions, especially regulatory quality.

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Scan for conference proceedings

KEYNOTE SESSION: "ECONOMETRICS FROM THE SKY: HOW REMOTE SENSING DATA CAN HELP DEMOCRATIZE DEVELOPMENT RESEARCH"


Professor Jean-Louis Arcand, President of the Global Development Network (GDN) is the Conference Keynote Speaker of the 7th SAEC 2024. Professor Arcand is a Canadian economist and professor of economics at the Graduate Institute of International and Development Studies in Geneva, as well as an affiliate professor at the Université Mohammed VI Polytechnic in Rabat. Professor Arcand holds a PhD in Economics from the Massachusetts Institute of Technology (MIT), an MPhil from Cambridge University and a BA (high honors) from Swarthmore College.

During his discussion, Professor Arcand emphasized the utility of Night Time Luminosity (NTL) data in inaccessible regions, particularly in conflict-prone and data-deficient countries. The session also featured a special guest, Professor Wahiduddin Mahmud, a prominent economist from Bangladesh, adding further expertise to the dialogue.

Professor Arcand's presentation was structured into three main parts. First, he conducted an impact evaluation based on a sample he directed over several years in Morocco. Second, he discussed the broader macroeconomic issues, drawing on the renowned paper "Reversal of Fortune" by Daron Acemoglu, Simon Johnson, and James A. Robinson. Here, he explores how NTL can serve as an indicator of economic development. Third, he applied the concept of NTL to policy analysis, examining its economic impact in Gaza within the context of current affairs. Through these sections, he navigated from micro-level impact evaluation to macroeconomic theory and finally to practical policy analysis, utilizing NTL as a lens to understand economic dynamics.

Similarly, Professor Wahiduddin remarked in his discussion that, in Bangladesh, illumination may appear to indicate GDP growth in terms of calculation. However, if we consider the loss of wetlands and forests, it presents another picture that is not favorable for our country. We are trying to protect the Sundarbans area, but there has been an increase in luminosity due to highly contested power capacity building in those areas. We can trace how the Sundarbans is shrinking by observing the increase in the lighted area around it.

The discussion concluded by underlining the key take aways regarding the utility of NTL data in inaccessible areas. Dr Arcand highlighted how NTL offers a granular perspective on economic conditions, enabling impactful impact evaluations.

PANEL DISCUSSION ON "THE EMERGENCE AND RISE OF THE DOMINANT PARTY STATE IN BANGLADESH: WHAT ARE THE CONSEQUENCES FOR DEMOCRACY AND DEVELOPMENT?"


The panel discussion session was chaired by Professor Rounaq Jahan, Distinguished Fellow, Centre for Policy Dialogue (CPD). As the special guest was present Professor Rehman Sobhan, eminent economist and Chairman of CPD. The presentation was delivered by Dr Mirza M. Hassan, Senior Research Fellow, BRAC Institute of Governance and Development (BIGD). As distinguished panelists were present Dr Mahbulul Mokaddem, Professor, Department of Economics, University of Dhaka, and Dr Ashikur Rahman, Senior Economist, Policy Research Institute (PRI).

Professor Jahan underlined the critical role that both individual freedom and collective actions play in promoting democracy. She also brought attention to the alarming tendency in Bangladesh, where collective actions are frequently used to advance individual interests. The possibility of a power vacuum in the evolving political environment raises concerns about the nation's future course and has ramifications for democracy and development.

Dr Hassan provided insight into Bangladesh's evolution from its founding towards a dominating party state paradigm. Bangladesh has tended towards monopolistic party rule, ignoring constitutional bodies and concentrating power, notwithstanding sporadic glimpses of competitive party politics.

In highlighting the influence of election systems on results, Dr Rahman attributed Bangladesh's winner-take-all phenomenon to the country's first-past-the-post voting method. The nation struggles to establish democracy despite years of fair election regimes, which calls for a more thorough investigation of the underlying problems. A historical account of Bangladesh's political era was provided by Dr Mokaddem, who distinguished between periods of military dictatorship, democratic promise, and the rise of crony capitalism. The collapse of bipartisanship following the 2008 election highlights the necessity for new political frameworks that can adapt to changing socio-political conditions.

In his analysis of Bangladesh's political development, Professor Sobhan noted the country's shift from military to civilian government as well as the emergence of two potent political parties in the 1980s. The country's governance environment is made more complex by the dynastic influence of political leaders and geopolitical issues.

SPECIAL LECTURE: "THE LABOUR MARKET AND MACROECONOMIC POLICY: IS THERE AN 'ANTI-WORKER' BIAS?"


On the second day of the 7th SAEC attendees were treated to a stimulating panel discussion centered around the theme of "The Labour Market and Macroeconomic Policy: Is There an 'Anti-Worker' Bias?" Chaired by Dr Rizwanul Islam, Former Special Adviser to the Employment Sector at the International Labour Office in Geneva. The session featured DrIyanatul Islam as the speaker. Dr Islam, an Adjunct Professor at the Griffith Asia Institute (GAI) in Griffith University, Australia, and a Former Branch Chief at the ILO Geneva, delivered an insightful lecture addressing the complex interplay between labor market dynamics and macroeconomic policy, probing into the question of whether there exists an inherent bias against workers within macroeconomic frameworks.

Dr Iyanatul Islam's paper provided an insightful examination of the labor market and macroeconomic policies, starting with an overview of the current consensus and the ideal of a perfectly competitive labor market. He acknowledged the gap between this normative benchmark and the reality of labor markets worldwide, focusing on deviations and the reasons behind them. Two primary factors explored are the Worker Power Thesis (WPT) and the Employer Power Thesis (EPT). Through evidence and policy options, Dr Islam offered valuable insights into addressing these deviations. Finally, he concludes his discussions by offering a brief reflection on Bangladesh's context, discussing how the insights from his analysis could be adapted to the specific challenges and dynamics within the country's labor market and macroeconomic policy landscape.

In concluding the session, Dr Rizwanul Islam commended DrIyanatul Islam's paper as an inspirational contribution. He made observations on the anti-worker bias embedded in macroeconomic policy-making, suggesting that it arises not necessarily by design but often due to overlooking the interests of workers. Dr Rizwanul Islam illustrated this point with the example of the wage-setting process in Bangladesh's RMG industry in 2023. He further noted the absence of labor market considerations in macroeconomic policymaking in Bangladesh, highlighting the need for economists to broaden their perspective beyond conventional macroeconomic stability frameworks to incorporate employment and labor market concerns. The session concluded with questions from the audience, fostering further discussion and engagement on the topic.

PANEL DISCUSSION ON "RIFTS IN THE GLOBAL ORDER AND THE RISE OF MULTIPOLARITY: COUNTERBALANCING STRATEGIES FOR BANGLADESH"


The panel discussion session was chaired by Dr Lailufar Yasmin, Professor and Chairperson, Department of International Relations, University of Dhaka. Additionally, the following notable panelists were present, Brig. Gen. (retd) M Shakhawat Hossain, PhD, Former Election Commissioner and Senior Fellow, South Asian Institute of Policy and Governance, North South University; Ambassador M. Humayun Kabir, President, Bangladesh Enterprise Institute (BEI), Dhaka; and DrImtiaz Ahmed, Professor, Department of International Relations, University of Dhaka.

Dr Yasmin opened the discussion by shedding light on the problems that Bangladesh is facing both domestically and internationally. She underlined Bangladesh's vital position as a gateway to Northeast India and stressed its importance in the changing international scenario. She further emphasized that Bangladesh must take charge of its own destiny and proclaim its own story.

In his engrossing speech, Brig. Gen. (retd) M Shakhawat Hossain also discussed the global dynamics and Bangladesh's strategic importance. He talked about the post-World War II era shifting centres of power and stressed Bangladesh's need to forge its own course in the face of conflicting pressures.

Ambassador M. Humayun Kabir raised concerns about privacy and sovereignty while challenging the reality of multipolarity and offering insights into the swift changes taking place on the international scenario. He advocated critical discourse to rebuild the multilateral framework and caution in evaluating regional trends.

In his exploration of the complexity of the contemporary world, Dr Imtiaz Ahmed highlighted the dynamic character of multipolarity and the globalisation of production. He emphasised Bangladesh's advantageous position within this new global order, but he also stressed that professionalism and global involvement are critical to Bangladesh's success.

The panellists discussed a range of topics during the Q&A session, such as the intersectionality of disciplines, diplomatic reach, foreign policy ramifications, and multilateral agreements.

To sum up, the panel discussion offered insightful perspectives on Bangladesh's place in the changing global order and highlighted the significance of critical thinking, interdisciplinary cooperation, and strategic positioning for overcoming obstacles and seizing opportunities in the contemporary world.

SPECIAL SESSION: "COVID-19 PANDEMIC, POST-PANDEMIC CHALLENGES, AND POVERTY DYNAMICS IN BANGLADESH: EVIDENCE FROM SANEM-GDI CLEAR PROJECT"


The special session titled "COVID-19 Pandemic, Post-Pandemic Challenges, and Poverty Dynamics in Bangladesh: Evidence from SANEM-GDI CLEAR Project" was inaugurated by the Chair Dr Sohela Nazneen, Senior Research Fellow at the Institute of Development Studies, University of Sussex, UK. Dr Selim Raihan, Professor at the Department of Economics, University of Dhaka, and Executive Director of SANEM, presented the findings of the project. The session also featured Mr. Yuges Pradhanang, International Technical Advisor and Project Manager at the Livelihoods Improvement of Urban Poor Communities Project, UNDP Bangladesh, as the discussant.

Dr Nazneen opened the session by emphasising the importance of addressing not only the economic effects but also the broader social and political impacts of the COVID-19 pandemic. She highlighted the significance of initiatives like the GDI SANEM program, which was specifically recognized for its efforts in this regard. The GDI project utilizes existing databases and places a strong emphasis on multidimensional poverty, acknowledging its impact that extends beyond purely economic dimensions. Professor Selim Raihan began the presentation by acknowledging the research team members. He highlighted their collaborative efforts in conducting a household survey in Bangladesh involving 10,500 households, with SANEM overseeing the practical organization of the data. The project aimed to examine not only poverty dynamics but also labor market dynamics, encompassing a comprehensive survey that referred to results from 2018 and 2020. Dr Raihan outlined three phases: the COVID-19 pandemic, the recovery phase, and the subsequent global price shock leading to inflation. The methodology involved surveying households on various aspects such as education, health, social security, migration, remittances, shocks, and consumption patterns. While presenting an overview of the findings, Dr Raihan highlighted issues such as limited access to online education, healthcare coverage for COVID-19 vaccinations, and inflationary pressures impacting household food security. He suggested policy implications focusing on housing protection programs and advocating for social protection measures to address urban poverty challenges. In conclusion, Mr. Yuges Pradhanang highlighted the significant impact of job losses and reduced incomes on households, particularly in urban areas, leading to increased poverty rates and a widening poverty gap.

PANEL DISCUSSION ON "CHALLENGES OF EXPORT DIVERSIFICATION AND STRUCTURAL TRANSFORMATION IN BANGLADESH"


The panel discussion session was chaired by Dr Zahid Hussain, Former Lead Economist, World Bank Dhaka Office. The presentation on the topic was delivered by Dr Selim Raihan, Professor at the Department of Economics, University of Dhaka, and Executive Director of SANEM. The distinguished panelists of the discussion were Dr Zaidi Sattar, Chairman and Chief Executive of the Policy Research Institute (PRI), Bangladesh; Dr Syed Akhtar Mahmood, Former Lead Private Sector Specialist at The World Bank Group; and Mr Syed Nasim Manzur, Managing Director of Apex Footwear.

A thorough study of Bangladesh's export scenario was given by Dr Selim Raihan. Bangladesh is behind nations such as Vietnam in terms of export diversification, even though the Ready-Made Garments (RMG) sector has had tremendous success. In an effort to boost competitiveness and promote diversification, Dr Raihan emphasised the pressing need for changes in monetary policy, exchange rate regulations, and logistical systems.

Furthermore, Dr Raihan stressed that high import tariffs harm export diversification and food security. He used Bangladesh's low tax-to-GDP ratio in comparison to other nations of comparable size to support his case for comprehensive fiscal reforms aimed at increasing revenue generation.

Later Dr Syed Akhtar Mahmood highlighted Bangladesh's potential for economic diversification, notably in the electronics industry. In order to close the FDI deficit with Vietnam and draw in more FDI, he emphasised the necessity of taking strategic action.

Mr Syed Nasim Manzur, on the other hand, offered a more upbeat perspective by highlighting the sizeable non-RMG industry share in Export Processing Zones (EPZs). In order to draw in foreign investors, he emphasised the significance of streamlining export laws, encouraging innovation, and maintaining transparency.

Dr Zaidi Sattar noted that the primary impediment to Bangladesh's economic diversification was the policy framework. He emphasised that one major barrier to export diversification is the anti-export bias in tariffs. In spite of prior successes, export diversification would remain difficult, according to Dr Sattar, if these policy issues were not resolved. In conclusion, Bangladesh must use a multipronged approach to tackle the issues of export diversification and structural reform.

Some Snapshots of 7th SAEC 2024

Inaugural Session



Participants at the 7th SAEC



Participants engaging in panel discussions



Recap Session



Budding Economists' Session



Cultural Session



Closing Session



SANEM Team at 7th SAEC

