Export diversification for structural transformation in Bangladesh

Selim Raihan

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 labor-intensive products, according to the product complexity index (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 labor-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 and 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), (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 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.

1. **Strategic** (for the countries with high or exceedingly high levels of export concentration and low levels of structural transformation): Bangladesh had one 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 institutions, especially regulatory quality.

2. **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.

3. **Upgrading** (for the countries with low levels of export concentration and moderate levels of structural 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 institutions, especially regulatory quality.

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**SANEM**

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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 has been affiliated with the Massachusetts Institute of Technology (MIT), an MPH from Cambridge University and a BA (Honors) from Concordia University.

During his discussion, Professor Arcand emphasized the utility of Night Time Luminosity (NTL) data in inaccessible regions, particularly in conflict-prone areas, in promoting democracy. He highlighted the importance of Night Time Luminosity (NTL) data in understanding regional and global trends.

The panel discussion session was chaired by Professor Rounaq Jahan, Distinguished Fellow, Centre for Policy Dialogue (CPD). As distinguished panelists, we have Dr M. Shahidul Islam, Professor of Economics at the University of Dhaka, and Dr Ashikur Rahman, Senior Economist, Policy Research Institute (PRI).

Professor Jahan underlined the critical role of both individual freedom and collective actions play in promoting democracy. He also brought attention to the alarming trend in Bangladesh, where collective action is becoming more difficult 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 Rahman provided insight into Bangladesh’s experience of the Sundarbans is shrinking by observing the key takeaways regarding the reality of NTL data in inaccessible areas. Dr Arcand highlighted how NTL offers a granular perspective on economic, social, and environmental conditions, enabling impactful policy evaluations.

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Some Snapshots of 7th SAEC 2024

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Participants engaging in panel discussions
Recap Session
Budding Economists' Session
Cultural Session
Closing Session
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