

Policy Brief

Title: Export Dynamics in Bangladesh: Exploring the Data

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I. Policy Motivation for Research:

Successful economic development is invariably associated with the growth and diversification of export-oriented industries. What should policymakers do to encourage this transformation? The answer depends, of course, on the institutional and market failures affecting each country, but learning about such failures requires careful analysis of the data. In this pilot project we identify, collect, and analyze sources of data that illustrate the evolution of Bangladeshi exports over the last four decades and the opportunities and challenges for future growth.

II. Policy Impact:

Our analysis suggests that Bangladesh's phenomenal success in expanding apparel exports is unlikely to continue over the next decade. We recommend that Bangladesh examine policies to encourage industry upgrading in apparel and diversification into other industries and countries. Such policies need both to encourage innovation on the part of Bangladeshi firms and to connect them with foreign buyers.

III. Audience:

Policy makers in developing countries; researchers seeking to understand the macro and micro factors of industry export growth.

IV. Policy Implications:

- **Export growth in apparel in Bangladesh is unlikely to sustain the high growth rate achieved over the last decades.** Bangladesh's main advantage in apparel is low wages rather than high productivity, and recent pressure for wage increases and unionization work against this basis for trade. Further, we do not find much evidence of a long term trend toward quality upgrading or movement into more sophisticated products or into major new markets.
- **Export diversification beyond apparel is not guaranteed.** The apparel industry experienced a very particular push in the beginning: knowledge transfers and the demonstration of export viability by Korean entrepreneurs. Its producers also benefitted from the knowledge that the Multi-Fiber Agreement (MFA) and Everything But Arms (EBA) preferences protected them from much of the low-cost competition. These conditions were sufficient to trigger major investments in productive capacity by newly created firms, despite the fact that potential exporters had to anticipate foreign demand for their (yet non-existent) products without the benefit of experience in their home market. It is not obvious that similar circumstances will materialize for the emergence of other export industries in Bangladesh over the next years. On the one hand, Bangladesh continues to enjoy tariff- and quota-free access to the EU for all products under the EBA. Moreover, the success in the apparel industry has allowed the country to accumulate an important set of skills, knowledge and institutions that could be deployed for other export-oriented unskilled-labor intensive industries. On the other hand, current international conditions are much more difficult than they were in the early 1980s. There are many more countries now that are competing in these industries at the international level. More importantly, market and institutional failures imply that the emergence of new export industries is not as natural as it might seem.

V. Implementation:

Action points:

- Bangladesh should explore options for quality upgrading and export diversification. Policies should encourage innovation by existing exporters, by firms that have been successful in selling domestically (without protection), and by entrepreneurs who have not yet gone into business.
- Policies need to ensure successful contract completion by both sellers and buyers (e.g., ensuring timely payment to exporters and timely delivery to buyers)
- Bangladesh should establish a reputation for high performance in production and exporting in new areas and markets.

Future research will allow us to gather more data that will lead to a better understanding about the nature of export growth over the last decade in Bangladesh and in other countries at a similar stage of development. Applying our methodologies to countries that have been more successful at export diversification would tell us how other countries raised quality and broke into new export categories and export markets. For example, were breakthroughs achieved by experienced exporters or by new firms? At that point, we will be in a position to make more specific and relevant policy recommendations.

VI. Dissemination:

1. Export promotion agencies in developing countries, e.g., Sierra Leone at <http://www.sliepa.org/>.
2. Staff at research divisions in international institutions working on international trade, e.g., Hiau Looi Kee, hlkee@worldbank.org.

VII. Further Readings:

- Eaton, Jonathan, Marcela Eslava, Maurice Kugler and James Tybout (2008) "The Margins of Entry into Export Markets: Evidence from Colombia," in Elhanan Helpman, Dalia Marin, and Thierry Verdier, eds., *The Organization of Firms in a Global Economy*, Cambridge, MA: Harvard University Press.
- Krishna, Kala and Yelena Sheveleva (2011) "Wheat or Strawberries? Intermediated Trade with Limited Contracting". Mimeo.
- Lederman, Daniel, Andrés Rodríguez-Clare and Daniel Yi Xu (2011) "Entrepreneurship and the Extensive Margin in Export Growth: A Microeconomic Accounting of Costa Rica's Export Growth during 1997-2007," mimeo.
- Mostafa, Romel and Steven Klepper (2009) "Industrial Development through Tacit Knowledge Seeding: Evidence from the Bangladesh Garment Industry," Working Paper, Department of Social and Decision Sciences, Carnegie Mellon University.
- Rodrik, Dani and Ricardo Hausmann (2003) "Economic Development as Self-Discovery," *Journal of Development Economics*, vol. 72.
- Rhee, Yung Whee, and Therese Belot (1990) "Export Catalysts in Low-Income Countries: A Review of Eleven Success Stories," World Bank Discussion Paper 72. Washington, D.C.