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CHALLENGES OF EXPORT-LED GROWTH

Breaking into new markets and new products

Zaidi Sattar

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Abstract

For the long-term, theory and historical evidence supports the contention that Bangladesh should continue on a path of export-oriented development. Export markets are vast, and trade openness – in goods as well as in services – is likely to be the order of the coming decades, what with the rapid spread of automated procedures for movement of goods and services, global integration of production networks, significant reduction of transport costs, and modernization of ports, customs administration, and other trade infrastructure. Going forward, export markets, rather than the limited domestic economy, will also be the main driver of employment for the vast number of labor force entering the labor market as an offshoot of the demographic transition the country is experiencing. But trade patterns are changing, creating opportunities as well as challenges for Bangladeshi exporters. Where will our comparative advantage be in future? A new trend that has evolved in the character of export-led growth is the 'unbundling' of production across countries fostered by widespread trade liberalization, advances in ICT, and lower transportation costs. This allows entrepreneurs to 'unpackage' their factories and locate various production stages across countries in accordance with these countries' respective comparative advantages. The fragmentation of production processes across different countries has given rise to global value chains (GVCs) creating opportunities for intra-industry trade globally as well as between contiguous economies within a region. This inevitably fosters a boom in trade in intermediate goods, which has over the years become a major driver of export growth particularly in East Asia and other emerging economies of Asia. Bangladesh is not new to this development as it took advantage of GVCs in the RMG industry. Lessons learnt in RMG production and trade could be useful in linking with regional or global value chains to benefit from the most dynamic sector of international trade, i.e. trade in intermediate goods, as one of the strategies for export diversification. A second major development in global trade and investment pattern is the emergence of several regional groupings (RCEP, TTIP, TPP) aimed at fostering free trade in the face of apparent inertia in multilateralism (WTO). While India is entering into FTAs with all the major groupings, Bangladesh is unable to break into these arrangements in view of its current trade regime that is viewed as highly restrictive with burdensome tariffs. As Bangladesh moves to mainstream trade policy for growth acceleration it needs to rationalize its tariff structure in order to (a) minimize and eventually eliminate anti-export bias, and (b) access these potential FTAs and economic communities of the future, which are located not in Europe or North America but in East Asia and the emerging market economies, which offer the fastest growing markets for future Bangladesh exports. If Bangladesh is left out of these regional arrangements, and it graduates into middle income status by 2021 thus losing many of its preferential market access, its export potential will remain under-utilized, and domestic employment and income generation will become casualties.

CHALLENGES OF EXPORT-LED GROWTH

Breaking into new markets and new products

Introduction

Theory and historical evidence supports the contention that Bangladesh should continue on a path of export-oriented development. Export markets are vast, and trade openness – in goods as well as in services – is likely to be the order of the coming decades, what with the rapid spread of automated procedures for movement of goods and services, global integration of production networks, significant reduction of transport costs, and modernization of ports, customs administration, and other trade infrastructure. Going forward, export markets, rather than the limited domestic economy, will also be the main driver of employment for the vast number of labor force entering the labor market as an offshoot of the demographic transition that Bangladesh is experiencing.

But trade patterns are changing, creating opportunities as well as challenges for Bangladeshi exporters. Where will our comparative advantage be in future? A new trend that has evolved in the character of export-led growth is the 'unbundling' of production across countries fostered by widespread trade liberalization, advances in ICT, and lower transportation costs. This allows entrepreneurs to 'unpackage' their factories and locate various production stages across countries in accordance with these countries' respective comparative advantages. Consequently, trade in intermediate goods has become the fastest growing segment of international trade, and a major driver of export-led growth for many developing countries. A second major development in global trade and investment pattern is the emergence or proposals for several regional groupings (RCEP, FTAAP, TPP) aimed at fostering free trade and investment in the face of apparent inertia in multilateralism (WTO). Economies left out of these major groupings either by membership or FTA agreements could miss out on scale economies of colossal export markets.

These evolving trade patterns of the future will in large measure create the prospects and actual shape of Bangladesh's export markets of the future, thereby determining the scope of job creation at home. Some two million workers will be joining the labor force every year, thanks to the demographic transition the country is passing through, and a pivotal question policymakers will face in the coming decades is how best to create job opportunities for these two million as well as the reservoir of under-employed labor that is engaged in agriculture and informal services. Accessing export markets by strengthening competitiveness based on harnessing the vast reserves of low-skilled labor force will remain the main policy challenge for the foreseeable future.

Domestic or Export Markets for Growth and Employment

International trade has wide implications for an economy's overall health and long-term progress. So what is the approach countries should be taking in managing their trade in goods and services? First, the emergence of the Tiger economies of East Asia during the 1960s and 1970s dispelled the notion of "export pessimism" for low-income and developing countries, an idea that was popularized – wrongly, as historical evidence proved – under the ambit of Prebisch-Singer hypothesis. Export-led growth soon became the mantra for developing economies struggling to come out of poverty. Taking the cue from East Asia, export-led growth soon became synonymous with episodes of trade liberalization. Subsequently, the impact of trade liberalization on growth and employment became one of the most widely researched subjects in the literature on international trade. Reviewing the evidence from research on the cross-country impact of trade openness, it appears that there is a preponderance of evidence in support of the contention that trade openness contributes to growth and employment, provided it is complemented by appropriate policies (OECD et al, 2010).. While it may be argued that greater trade openness does not guarantee economic growth, there is scarce evidence that economies that remained out of global production and financial networks through trade restrictions could attain growth on sustained basis.

While trade openness stimulates competition it also creates access to global markets. Trade restrictions on the other hand cause growth and employment to be dependent relatively more on the demand created within the domestic economy. No matter how large the size of the domestic economy, it is no match to the global economy of about $60 trillion. It is for this reason that even large economies like China and India are eager to access world markets to sell their products and services which is the best way to create jobs and sustain growth at home. Likewise, Bangladesh's domestic market could never have supported the four million direct employment in the $25 billion RMG sector, not to mention the additional workers that are engaged in linkage industries such as accessories and courier services. Thus trade openness frees countries from the constraints of their local economies of limited size when compared to the size of the global economy, adding economies of scale to production, promoting greater efficiency through competition, bringing more consumer and producer choice, and faster technology transfer. The linking of domestic production to export markets also creates the scope for employing vast reserves of unemployed or under-employed labor force. However, trade openness also implies that there will be some firms and workers who are not equipped or ready to withstand import competition. In consequence, some of these firms will have to close and workers have to be laid off reminding us of the painful costs of adjustment. Therefore, it is imperative that a policy of trade openness be part of a comprehensive policy framework that addresses the problems associated with adjustment related to unemployment and closure of firms.

Globalization, pros and cons. Globalization is here and is likely to affect lives and livelihoods for the next two decades. Globalization and trade openness are nearly synonymous as the former compliments the latter in creating access to markets. In a much publicized study of three decades of trade impacts, Dollar and Kraay (2001) argue that openness to international trade has had positive effect on economic growth. The "globalizers", they argue, experienced an increase of their growth rates, from 2.9% per year in the 1970s to 3.5% in the 1980s, and 5.0% in the 1990s while rich country growth rates slowed down over this period. What about developing countries not in the "globalizing" group? They had a decline in the average growth rate from 3.3% per year in the 1970s to 0.8% in the 1980s and recovering to only 1.4% in the 1990s.

In her study of the impact of globalization, Osland (2003) found that globalization caused some countries to make a narrower range of products more efficiently; in other words, it has given them a comparative advantage. This comparative advantage has allowed countries to specialize and enjoy export-led growth. The benefits of globalization could be summarized as follows: (a) globalization has resulted in increased access to more goods for, reduced prices due to competition with local monopolies, and increased food supply in some countries. Globalization has resulted in more jobs in developing countries; (b) globalization encourages higher Foreign Direct Investment (FDI) flows; (c) some workers in lesser developed countries receive more education and training from multinational companies due to globalization; (d) there is some evidence that increased competition has resulted in upgrading educational systems to produce a more highly qualified workforce; (e) it has been responsible for creating and exporting technologies that use fewer natural resources and result in less waste and pollution; (f) globalization has facilitated the dissemination of practices like improved energy efficiency, lowered carbon combustion, dematerialization (reducing overall use of materials), substitution of resources with reduced environmental impact, and metal recovery technologies.

Thomas Friedman (2000) is emphatic that "globalization" promotes faster economic growth, higher standards of living, and greater political freedom, arguing in the same vein that globalization is a boon to developing countries. He explains that today's era of globalization is built around falling telecommunications costs - thanks to microchips, satellites, fiber optics and the Internet. These technologies mean that developing countries don't just have to trade their raw materials to the West and get finished products in return; they mean that developing countries can become producers as well. These technologies also allow companies to locate different parts of their production, research and marketing in different countries and due to the combination of computers and cheap telecommunications, people can now offer and trade services globally--from medical advice to software writing to data processing.

However, there are quite a few skeptics. Rodriguez and Rodrik (2000), argued, “We know of no credible evidence--at least for the post-1945 period--that suggests that trade restrictions are systematically associated with higher growth rates. On the other hand, we believe that there has been a tendency in academic and policy discussions to greatly overstate the systematic evidence in favor of trade openness.” An important critique of globalization is that, while it may be increasing national income, the poor may not benefit proportionately. There is incontrovertible evidence that inequality has increased among and within countries over the past few years thanks to the spread of globalization. Then there are some negative impacts of globalization on the labour market as developing countries have suffered job losses in local industries that could not compete with foreign Multinational Corporations (MNCs) once formerly protected markets were opened. In the East Asian economies, trade liberalization contributed to reduced wage inequality accompanied by rapid economic growth. But in Latin America wage inequality increased following liberalization, meaning that skilled workers benefited disproportionately. Decreased powers of unions, use of child labor, unhealthy work conditions, and forced overtime in export processing zones (EPZ) are some arguments made against globalization.

Trade stimulates growth. Trade theory argues that the gains from specialization and trade according to a nation’s comparative advantage is the way to raise output and its productivity. Trade openness provides the right kind of stimulus for productivity enhancement through efficiency gains stemming from enhanced competitiveness, specialization, greater economies of scale, and technology transfer. In Bangladesh, a World Bank study (World Bank, 2005) found that export industries (e.g. RMG) recorded higher productivity than import substitute industries catering to the domestic market, while FDI-financed RMG industries (embedded with foreign technology and management) in EPZ displayed higher productivity than their domestic counterparts. Another World Bank report noted that, in the 1990s, developing countries that lowered trade barriers had their per capita incomes grow three times faster than those that did not.

Not only do the benefits come from greater access to export markets but open trade also makes available to producers the widest choice of imported inputs at the lowest of prices and best in quality. A point that is seldom discussed in Bangladesh's policy circles is the important role of imports in achieving better economic performance. Imports are a conduit for technology transfer, and import liberalization that comes with trade openness offers producers, large and small, a greater variety of imported capital goods and intermediate goods that embody new technology and help raise the quality and productivity of domestic output. An OECD study (OECD, 2009) found that for 29 industries in 11 OECD economies, a higher inflow of foreign intermediate goods was associated with higher productivity.

In this context, it is worth pointing out that sometimes our own policies on trade and investment could be damaging to our global integration and development. It might be tempting to push for market opening in other countries while protecting domestic industries and services with high tariffs and other barriers to trade and investment. Such a strategy could actually impede our development. Former World Bank Chief Economist, Nicholas Stern (2002) makes a convincing case, as follows: "Countries benefit from their own market opening in many ways. One is technological and managerial: foreign direct investment brings with it innovation in product, process, and organizational technologies, while importation of goods brings embedded technologies and access to lower-cost production inputs and consumer goods. Another benefit is greater efficiency: competition from abroad spurs domestic industry to make productivity improvements, promoting growth and employment over the medium term". Taking his argument at face value, it would mean that Bangladesh should not be holding on to a restrictive trade regime simply because developed countries are not opening up agriculture or textiles.

Employment implications of trade openness. A challenge for researchers and policymakers in Bangladesh is to better understand how trade and the labor market interact and affect the lives of millions of workers. To be sure, the relationship between trade and employment is rather complex and not subject to a clear channel of causation. The hope is that the multilateral trading system, with its flexibilities (special and differential treatment), will result in better employment outcomes for Bangladesh. Whether or not we realize this potential will depend on the strategies adopted to extricate the positive outcomes for the long-term.

By assuming long-run full employment, trade theory ignored the complications of employment adjustments (e.g. unemployment) focusing mainly on sectoral distribution of employment and wage effects. But reality is something else, and unemployment in less competitive sectors cannot be ignored and must be addressed with appropriate safety net and skill development programs. Though consensus is far from clear in the vast literature dealing with the employment implications of trade openness, there is country-specific evidence to suggest significant employment creation potential of greater trade integration (Hoekman and Winters, 2007). Another study by Felbermayr et al (2009) finds that a 10% increase in trade openness reduces unemployment by 1% for a mix of developed and developing countries.

An important outcome of the trade-employment nexus has been described by researchers (Verhoogen, 2008) as a "quality-upgrading mechanism (QUM)" in which, following trade openness, the more productive firms produce higher quality goods than do the less productive firms, also paying higher wages to maintain a higher-quality workforce. It is the more productive firms that can compete in the export market. This QUM is especially significant for developing countries like Bangladesh that produce higher quality goods for export to consumers in developed countries of Europe and North America. In consequence, workers engaged in these export industries benefit from the dynamic effects of trade – wage increases being one of them, defined as the "exporter wage premium". Here lies the economic rationale for recent demands for higher minimum wage for RMG workers which, in light of the exporter wage premium, has to be set at a level higher than the minimum wage in domestic import substituting sectors.

A final point about the dynamic employment effects of trade openness is worth considering. If the RMG sector is any guide, Bangladesh economy has experienced the employment gains from the free trade channel created for this sector that began as a 100% export-oriented industry. As for employment effects of trade liberalization in other sectors, economic literature points to a phenomenon akin to Schumpeter's characterization of capitalist market economies (Schumpeter, 1942) – a process he called "creative destruction". The onset of import liberalization sets in motion a process of "churning" by which jobs are created in more productive activities and destroyed in less productive ones. On balance, whether the net outcome of trade liberalization on employment is positive or negative depends on the initial state of play and the choice of policy regarding the pace and sequencing of trade reforms. The moot point is that complimentary policies are required so that firms and workers can benefit from the opportunities coming from the creative side of trade openness while adjusting to the disruptions caused by its destructive side. Given Bangladesh's sound macroeconomic management for the past decades, analysts would argue that an environment exists for taking the road to further trade liberalization along with complimentary policies that focus on human-capital formation and investment in physical as well as trade infrastructure (e.g. modernization of customs and ports) in order to capitalize on the employment outcome of trade openness.

Mainstreaming Trade and Trade Policy

In FY2013, the Bangladesh economy crossed an important milestone with its trade-GDP ratio reaching 50%, as compared to a mere 19% back in 1990. Trade has been one of the dynamos of growth for Bangladesh. Despite all its challenges, with Bangladesh's proven competitive advantage in low-skilled labor intensive production, trade has created significant opportunities for this country to export its way out of the 5-6% annual GDP growth and reach the heights of 8-10% growth over the medium-term, something the domestic market alone could not have ensured. For this to happen, it would be important to recognize trade as an engine of Bangladesh's growth, just as it has been recognized as an engine of global growth.

Thus mainstreaming trade and trade policy should become a key agenda for policymakers and planners. This means taking trade-related issues into account when planning and executing broader development objectives. It further implies using trade proactively to attain specific national development goals, including poverty reduction. In other words, trade policy agenda – with a focus on market access and competitiveness -- has to be an integral part of the development agenda which has a focus on growth, jobs, and social stability.

East Asian countries reaped an early harvest of accelerated economic prosperity by embracing trade orientation and export-led growth in the 1970s and 1980s. Empirical evidence of the economic prosperity of many other successful economies shows that they were largely driven by trade integration, export expansion and heightened degree of export competitiveness. It is also for this reason that the issue of mainstreaming trade into national development strategies has increasingly gained currency since the mid-1990s. Now that trade and exports have grown in importance in Bangladesh's economic structure, it is time for trade policy to become an integral part of national policymaking. Likewise, for trade reform to unleash its catalytic potential, it should be designed as part and parcel of Bangladesh's Five Year Plans and other longer-term Plans, where its role will be given due cognizance and the necessary facilitating infrastructure adequately provided to make trade policy perform. Once the role of trade is established within a coherent national policy context, trade-related needs could be better defined, prioritized and sequenced.

Exploiting Emerging Trade Patterns for Export Diversification

There are emerging opportunities for changing direction of Bangladesh trade stemming from the evolving pattern of global trade. According to a WTO-UNCTAD report (WTO 2011)), trade in intermediate goods was the most dynamic sector of international trade in the past two decades, accounting for more than 50% of non-fuel world merchandise trade. This is a new trend that has evolved in the character of export-led growth. With the 'unbundling' of production across countries fostered by widespread trade liberalization, advances in ICT, and lower transportation costs, entrepreneurs often find it more economical now to 'unpackage' their factories and locate various production stages far from each other, to other countries in accordance with these countries' respective comparative advantages. Such fragmentation of the whole manufacturing process triggers increased vertical intra-industry trade as assembly operations typically migrate to lower-wage economies, while more developed economies specialize in the production of higher-value added components. This inevitably fosters a boom in trade in intermediate goods, which has over the years become a major driver of export growth particularly in East Asia and other emerging economies of Asia.

The fragmentation of production processes across different countries has given rise to global value chains (GVCs) creating opportunities for intra-industry trade globally as well as between contiguous economies within a region. East Asian countries have seized early opportunities from this development by linking up with China – the world's assembling powerhouse. As much as 75% of East Asia's trade is in intermediate goods, some of which involve high value-added components of sophisticated electronic products like mobile phones, computers, LED TVs, etc. An IMF study found the share of intermediate goods in trade flows into emerging Asia has increased to 65 percent, while the share in similar trade flows among more developed economies is about 40 percent (Gruenwald and Hori, 2008). Studies by Commonwealth-UNCTAD (2014) reveal that these trading opportunities have bypassed or are bypassing LDCs and low-income economies, depriving them of the benefits of the fastest growing component of global trade by keeping them out of some of the most profitable intra-industry production networks.

This conclusion is largely though not completely applicable in the Bangladesh context simply because Bangladesh was an early participant in the GVCs through its leading export sector – readymade garments. Bangladesh started as a pure 'assembler' in a low value added GVC activity – cutting and making of readymade garments (RMG). Thanks to the initial infusion of FDI, bringing technology, management techniques, marketing access and information, both forward and backward linkages were established. Today, Bangladesh has become a leading exporter of RMG in the world.

There are important lessons from this experience regarding the prospects, challenges, and opportunities for Bangladesh stemming from GVCs in other product or service sectors.

- First, it was a foreign investor – in this instance, Daewoo of Korea – which facilitated Bangladesh's entry into the GVC by teaming up with a Bangladeshi company – Desh Garments. Daewoo brought technology, management, and knowledge of market access under the umbrella of MFA. With Daewoo's advice, Bangladesh trade policy was radically adjusted for RMG export production, by introducing a system of duty-free imported inputs within a high-tariff regime (special bonded warehouse), in addition to providing for supply of imported inputs on credit (back-to-back LC system). The total package created a free-trade channel for RMG export production that produced wonders for this one sector. Unfortunately, the lesson from this experience was not passed on to other sectors. Hence, there was no replication of RMG experience – at least, not yet.
- Second, it was a fact that the choice of the GVC component was based on Bangladesh's comparative advantage in low-skill intensive manufacturing production. Then, it must be the case that Bangladesh also had comparative advantage in many other low-skill intensive manufacturing production – which could be in final consumer goods or intermediate goods. Yet, there was no progress in the emergence of intermediate goods in Bangladesh's export basket. 98% of Bangladesh's exports

> today are final consumer goods – an import-substitute sector that remains highly protected from import competition for years on end, with no sign of protection being phased out. Protection to these final consumer goods has been given at the expense of protection for intermediate goods, as tariffs on the latter have been scaled back over time. Indeed, the protection structure creates not just an anti-intermediate goods bias but also an anti-export bias that constrains the emergence of non-RMG products in the export basket, thus stifling export diversification prospects. So, intermediate goods production or exports has not been on Bangladesh's radar in the past. The new trends in global trade reveal existence of tremendous opportunities for export of intermediate goods within GVCs. This calls for a radical change in the current incentive regime that favors production of final consumer goods over intermediate goods.

What must Bangladesh do to exploit GVCs to break into new markets and export new products? What are the entry barriers? As mentioned earlier, to exploit GVCs, entrepreneurs may exploit two specific options: (1) Produce intermediate goods; or (2) emerge as an 'assembling' hub. With regards to the first, Bangladesh entrepreneurs need to identify components that involve labor intensive or low skill intensive processes while searching to establish strategic partnerships with established transnational who will assemble the final product in another location. With regard to the second option Bangladesh may ponder emulating China's successes at GVCs by emerging as an 'assembling' hub. In this case it is instructive to look at the economic rise of China associated with the emergence of a distinctive structure for the Asian-US production system, commonly understood as the 'tri-polar trade through China' model. In this structure: (i) East Asian countries, except China, produce sophisticated parts and components and export them to China; (ii) China assembles them into final products; and (iii) these are further exported to the US market for consumption.

There are several issues worth discussing. To start with, if local entrepreneurs are willing to engage in the production of an intermediate good, then it is probable that they will face issues that are associated with efforts dedicated to 'learning how to imitate'. In short, the technical 'know-how' needed for the production of an intermediate good in the GVC must be obtained if the local entrepreneurs are not exposed to such expertise. In this context, a prudent strategy for local entrepreneurs is to opt for a collaborative production structure that builds long-run commitments between local and foreign actors, so that the technical 'know-how' needed by the local actors is obtained.

On the other hand, if local entrepreneurs are willing to devote resources to assembling activities, then they should choose a product where there is a high local demand in addition to high export demand (e.g. auto parts in Bangladesh, automobiles in India). The security of sales in the domestic market will attract FDI from the foreign firm, and a collaborative production structure will diffuse the initial technical know-how needed for the assembling of the final good (or intermediate good). Thus the choice of the product for which assembling activities is undertaken is partially determined by the characteristics of the local market, especially the level of effective demand it carries for the product (Sattar, 2012).

Thus it becomes apparent that a prudent option for a local entrepreneur is to seek collaboration with foreign firms for the production of intermediate goods, and also to emerge as a key 'assembling' player within the industry. This, however, will mean that foreign direct investment is needed, and policy makers must mitigate any constraints that undermine the prospects of FDI. Apart from the critical need for a stable political environment, issues that need priority attention are:

- Efficient Containerization
- Efficient Land Ports
- Information and Communication Technology
- Export Processing Zones or Special Economic Zones

Other issues that also merit attention are: corporate tax regime with appropriate incentives, import liberalization, strong intellectual property rights, rule of law, and a developed financial system, including modernization of Foreign Exchange Regulation Act (FERA) 1947.

Furthermore, in order to promote integration into GVC (and attract FDI with this objective), the following steps would be essential:

- A liberalized investment policy regime, which offers scope for international firms to have unlimited stake in the local firm.
- Joint ventures with established actors within the GVC will allow the diffusion of technology, which ultimately boost the export potential of the local firm.
- Local firms must have the capacity to innovate and acquire a basic level of technological standard, so that such types of cooperation are possible.
- Availability of appropriately skilled labor at a competitive price, which motivates established foreign actors to participate in joint ventures with local players.

Finally, it is now increasingly recognized that regional economic integration through improved logistics, trade facilitation and connectivity results in larger markets, with trade expanding and benefiting from scale and agglomeration economies. In small economies and less developed countries, such integration has been shown to induce the consolidation of the regional portions of GVCs. Findings from a number of joint Commonwealth Secretariat-UNCTAD studies (COMSEC, UNCTAD 2011) illustrate the scope to develop regional supply chains (RSC) in light manufacturing and processing activities that are able to promote employment generation and structural transformation in many LDCs. The rise of several large developing economies as a major source of trade and economic activities has also contributed to the escalating prospect of value-addition through RSCs, providing opportunities for other smaller and poorer developing countries to engage with these regional growth centres more productively (Brunner, 2013). In addition, with limited entrepreneurial and exporting capacity, firms in developing countries tend to know their regional market relatively well. One of the further benefits of RSCs would be the regional harmonisation of trade related infrastructure and policy initiatives, including safety and other standards, which could all be cohesively raised through stronger regional cooperation.

The Commonwealth-UNCTAD assessment of the textile and clothing (T&C) sector in South Asia identifies many disaggregated items for individual countries where potential regional production linkages can be established. They have identified the substantial untapped potential for expanding the RSC in the T&C Sector within South Asia, enabling all countries within the region to benefit from concentrating specialization and the sourcing of products required for specialization within the region itself. Nevertheless, South Asian countries continue to have formidable trade barriers amongst themselves, covering all aspects of intra-regional flows including goods, services and capital movements. Member countries are often observed to impose more stringent barriers on intra-regional trade flows compared to their imports from the rest of the world partners. A substantial portion of regional trade is also more likely to be channelled through land-ports partly because of the existence of many landlocked countries in both the regions. However, poor and inaccessible land routes coupled with other trade-related barriers restrict regional trade.

The scope for establishing and expanding export-led regional production networks is given that India and Pakistan each have a strong textile base and are sources of important raw materials while Bangladesh and Sri Lanka are mainly apparel manufacturers. While a large range of policy steps are required, several key initiatives will be needed to address intra-regional barriers to trade, improving trade facilitation measures, strengthening trade-related infrastructure and policy support to develop trade capacity, developing more effective regional trade policy mechanisms to promote RSCs.

Exploiting Non-traditional Markets for Exports

Bangladesh exported $27 billion worth of goods in FY2012-13 to over 150 countries of the world. Although geographical diversification of export destinations has been taking place, the fact remains that some 80% of our exports went to USA and Canada in North America, the 27 member countries of the European Union, and Japan. So, for the foreseeable future, it is important to recognize that our main export market for RMG and non-RMG products lies in the developed countries of the world – in the East or in the West. These countries together make up more than one-half of the world's GDP of about US$60 trillion, also accounting for the bulk of the $300 billion market for readymade garments. So the prospects of expanding Bangladesh RMG exports to these markets remain substantial as it now exports merely $25 billion worth. It is not clear whether McKinsey LLC's projection of Bangladesh RMG exports doubling in the next few years took note of markets other than in OECD countries.

So where are the next significant markets for Bangladesh's exports? A cursory review of the growing RMG exports in emerging market economies shown in Table 1 gives a good idea of where to look for future markets. While RMG is one product whose demand grows in tandem with income in developed and developing countries alike, in practical terms, if we are looking for substantial volume growth, it would be logical to look for economies with sizable GDPs (i.e sizable markets) that give an indication of potential demand. The BRICS, Japan,

Table 1: Non-Traditional markets for RMG exports

	FY 11	FY 12	FY 13	GDP (US$ Billion)
Brazil	94.6	127.8	171.8	2252.7
Russia	51.9	76.5	139.6	2014.8
India	35.9	55.0	75.2	1858.7
China	52.8	104.5	139.1	8227.1
South Africa	48.4	55.8	57.7	384.3
Japan	247.5	403.7	478.5	5961.1
Australia	192.9	307.5	428.4	1532.4
South Korea	47.2	80.0	114.4	1129.6
Total				23360

Source: EPB and World Development Indicators, World Bank

Australia, and S. Korea would be foremost in the list of fastest growing RMG markets for Bangladesh, with current GDP totaling over $23 trillion. Adding up all the low-income countries or lower middle income countries of Africa and Latin America would not create a market of any significant size. So it would be strategic for Bangladeshi garment and other exporters to target these markets for future growth and consequent employment creation.

One other notable development of recent times is the move to foster regional groupings (or partnerships) of mega-size with the ultimate objective of removing all sorts of barriers to trade and investment. Whether you look East or West, you come up with two mega initiatives in the offing led by USA and its partners in OECD: the Trans Pacific Partnership (TPP) around the Pacific Rim and a potential Trans Atlantic Partnership (TTIP) between USA and EU. Some 80% of our exports are currently destined for these regions which make a market size of over US$30 trillion. The other potentially formidable initiative for free trade and investment flows is the extension of 10-member ASEAN, into ASEAN+ 6. What is brewing out of the ASEAN trading arrangement is the prospect of an economic community on the style of the European Community: a Regional Comprehensive Economic Partnership (RCEP), which emerges from FTAs between ASEAN and other economies (Australia, China, Japan, India, Japan, Korea) signing up to the commitments for free trade in goods and services besides closing in on a low tariff customs union over time. India has been aggressively signing FTAs with individual countries and regional groups. It is important to reflect where Bangladesh stands vis-à-vis these mega-partnerships in the offing. Although Bangladesh cannot be a member of these regional communities (due to its geographical location), it might not be able to sign FTAs with them either, unless it substantially scales back its high tariffs.

It might be mentioned in passing that these latest moves towards mega partnerships or pacts have something to do with the years of protracted – and often intractable – negotiations that has become the hallmark of multilateralism in trade, as symbolized by WTO. Partly, it could arise from the disappointment of global economic powers from getting critical decisions on freer trade and investment on a fast-track basis in WTO where emerging market economies and developing countries have shown more clout than the size of their economies would warrant. The latest experience with the Doha Development Round might have hastened the process. The Doha Round, which came close to being abandoned on several occasions, was instructive in that it revealed the complexities of consensus-based decision-making in a multilateral organization such as the WTO. Perhaps the principle of "single undertaking" which gave rise to a binding constraint that "nothing is agreed until everything is agreed" often led to an impasse that was almost impossible to come out of. For many, this was frustrating enough. And it might have provided the impetus for rise of the proposed regional partnerships committed to reaching free trade and investment agreements in a short period of time, within a rules framework that would allow decisions to be made faster and easier than what is presently the case in WTO. If the testy last minute bargaining at the 13th WTO Ministerial in Bali between India and the rest WTO on retaining politically sensitive rice subsidies (a political commitment of India's Congress Party) is any guide, it is no surprise that the salient feature of the Bali package eventually centered on the least contentious of the Doha Development Agenda issues: "trade facilitation".

Trade Policy Stance: Where to go from here

If going beyond WTO becomes the norm and regional mega trade and investment partnerships are going to be the popular order of future trade and investment flows, where does that leave Bangladesh? A look at the prevailing trade and tariff regime will give us some idea.

In evaluating Bangladesh's current trade policy stance, it would be useful to reflect on the prevailing viewpoints regarding trade openness amongst academics, policy makers and business circles. After all, what we get in the tariff structure, and the non-tariff measures governing imports, is the outcome of several inter-related developments, such as the approach to supporting domestic industries, external initiatives for market access and promotion of exports, and the strategy for courting FDI. For starters, there are no champion free traders to be found. The most common ground might be found in the position that trade is to be promoted, exports are to be expanded, but imports are to be restricted (a) to protect domestic import substitute industries from stiff import competition, (b) to raise revenues by imposing a wide spectrum of taxes and levies on imports, and (c) to keep the country's balance of payments at manageable levels. This approach to trade could be summed up in the following trade-related policies:

- the trend and structure of tariffs as they impinge on global competitiveness of exports and import substitute production,
- reforms and modernization of customs administration and trade infrastructure,

Tariffs and trade policy. Theoretically speaking, a tariff is an indirect subsidy on import substitutes and a tax on exports. The protection that is afforded through nominal and effective tariffs is also a tax on consumers who bear the ultimate burden of the protection tax by having to pay higher than world prices (tariff-inclusive price) for imported products. So policymakers need to balance the support they extend to producers with the social costs of protection. The community as a whole stands to gain from protection only when the objective of protection is met: domestic import substitute producers become globally competitive in the shortest possible time so that protection can be removed and domestic prices of import substitutes converge to international prices. The longer this takes, higher are the social costs of protection.

The other adverse implication of tariffs and protection is the anti-export bias they create resulting in dis-protection of exports which, in the first place, have to operate under zero protection in the world market, provided they are fully compensated for duties they have paid on imported inputs prior to exporting. If they do not receive full duty drawback or if they are not given the facility of importing inputs duty-free, export production becomes subject to negative protection – a substantial anti-export bias of policy.

Hence, the trade policy stance that is suitable for globally competitive export production must be characterized by low and uniform tariffs and a seamless export-import regime that facilitates least-cost transactions at the border. Does the Bangladesh tariff regime fulfill this requirement?

Around 1990, an assessment of the World Bank's Industrial Sector Adjustment Credit (ISAC II) project revealed that roughly 40% of the tariff lines were subject to over 100% tariffs in addition to widespread bans and restrictions on imports. It produced a highly prohibitive import regime that nevertheless failed to result in any breakthrough in import-substitute production or preventing an impending balance of payments crisis. Tariff rationalization and import liberalization became a trade policy imperative.

We have come a long way since those days of prohibitive tariffs and import controls. Table 2 gives a picture of the latest tariff trends in terms of their implications for nominal protection[1].

Table 2: Tariff Trends FY01-14

Tariffs (%)	FY01	FY 05	FY 10	FY 11	FY 12	FY 13	FY14
Avg. CD (un- weighted)	21.1	16.3	13.7	13.6	13.6	13.9	13.2
Avg. para-tariffs	7.1	10.2	10.2	10.2	12.9	15.1	14.1
Avg. Nominal Protection	28.2	26.5	23.9	23.8	26.5	28.9	27.3
Top CD rate	37.5	25.0	25.0	25.0	25.0	25.0	25.0
Top NPR*	59.0	60.0	79.0	79	88.0	117.0	108.0

(*) excludes tariffs on cars, alcoholic beverages, and cigarettes

Source: NBR & PRI staff estimates

Tariffs and para-tariffs[2] on imports are now the single most important determinant of trade protection after successive governments in Bangladesh made progressive trade openness the cornerstone of trade policy. Whereas tariffs and quantitative restrictions (QR) together determined the extent of openness or restrictiveness of trade policy in the 1990s and before, the QR slate has been wiped pretty much clean since FY2005, leaving tariffs as the main instrument of trade policy and protection. The tariff structure has been simplified by moving

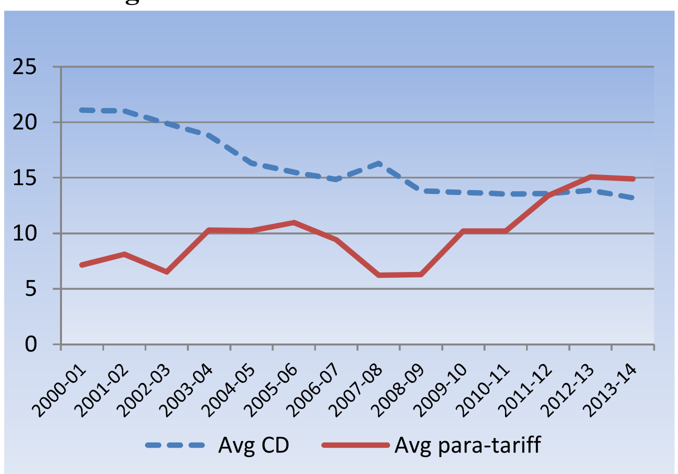
[1] Nominal protection rates have to be distinguished from tariff/tax incidence as some trade taxes, such as VAT on imports (which are trade neutral) or Supplementary Duties (SD) do not have a one-to-one impact on protection.

[2] Trade taxes other than custom duties that are akin to tariffs.

to only four non-zero CD slabs – 3%, 5%, 10% and 25%, but the imposition of a plethora of import taxes and levies (e.g. SD, RD, VAT, AdVAT, AIT) make the tariff structure rather complex. Although the average customs duty has come down over the past 13 years, the average nominal protection rate (NPR) shows mixed trend. It initially declined between FY01 and FY09 and then started rising again over FY10-FY13. What is notable is (a) the perceptible divergence between the top NPR rate (which moved up since FY01) and the average NPR; (b) the top NPR and top CD rate; and (c) gradual preponderance of para-tariffs (Figure 1). Also notable are the prohibitively high NPRs on consumer goods that are domestically produced (e.g. 108% in FY2013). Such high rates, if effective, constitute *de facto* import bans.

The new element is the emergence and sharp rise of para-tariffs (Figure 1) as a protective instrument of trade policy, which rose to over 50% of average NPR since FY13. Going by

Figure 1: CD and Para Tariff Trends



NPR rather than CD, it becomes evident that the top NPR, which is an indicator of the highest level of nominal protection given to an import-competing product, is not 25%, but as high as 108%, imposed on textile fabrics. This is the top rate appearing on a significant number of tariff lines, though there are occasionally higher NPRs on such items as biscuits and confectionaries (in excess of 100%); excluding the high tariffs on cars, alcoholic beverages, and cigarettes, which are meant to generate revenue or to discourage consumption. Though cross-country comparison of tariffs is made on the basis of CD[3], it is fair to conclude from available cross-country data that NPR levels are relatively high in Bangladesh thus raising the first wall of anti-export bias. Globally, tariffs have been coming down so that there is a general perception that they do not pose any barrier or market access problems any more and attention is now being diverted to non-tariff measures. Once Bangladesh graduates out of its LDC status or moves across the middle-income threshold, exporters to Bangladesh could soon start drawing attention to the relatively high tariff and para-tariff levels.

[3] Due to lack of comparable cross-country information on trade taxes other than CD.

According to the World Bank's Trade Restrictiveness Index (TTRI) based on MFN tariffs, Bangladesh ranks 97th among 125 countries. That perception is based entirely on nominal tariffs and does not include para-tariffs. A recent PRI study for the World Bank and WTO (PRI, 2012) found effective rates of protection[4] (ERP) for most import substitute products to range from 100% to over 300%. The ERP computations across products and firms now reveal that effective protection rates far exceed NPRs by wide margins because average input tariffs are well below output NPRs, ranging from over 100% for agro-based products like fruit juice, to over 300% for such products as bicycles and plastic bottles. Barring a few products like carbon rods and jute textiles, which are intermediate products, most of manufacturing in Bangladesh is concentrated on consumer goods production, all of which have output NPR rates between 50-100% (200% for biscuits!)[5]. More important for global competitiveness of Bangladesh's exports, these high NPR and ERP levels create anti-export bias that has perverse resource allocation implications. More than NPR, it is the effective protection levels that accentuate anti-export bias as they are much more pronounced than NPRs. And there seems no indication that these levels are on the decline; rather, the trend seems to be opposite, implying that effective rates of protection are on the rise. Research and cross-country evidence regarding protection confirm that (a) protection once given has a tendency to perpetuate as producers in protected activities develop a vested interest in maintaining it; (b) industries protected for too long become inefficient and uncompetitive at the global level as they have little incentive to innovate or raise productivity.

If anti-export bias is so prominent in our trade policy orientation, it is pertinent to ask how is it that RMG exports rose to such heights as to make Bangladesh one of the leading RMG exporters of the world. It goes to the sagacity of our policy makers to have devised a "free trade channel" for this 100% export-oriented sector within an otherwise high tariff regime. Aided by the MFA which gave access to world markets, domestic policies designed exclusively for RMG industry, comprising special bonded warehouse and back-to-back LC, were able to soundly neutralize anti-export bias of a high tariff regime. Indeed, these policies constituted the bedrock of success for this labor-intensive industry that symbolized Bangladesh's strength in low-skill intensive manufacturing, the sort of specialization that should spill over to other industries as well.

A close examination of the structure of tariffs reveals that the decline in average NPR was due primarily to the reduction in tariffs on basic raw materials, capital goods and intermediate inputs, while the top CD rate remained flat at 25% since FY05, topped up by generous supplement of levies such as supplementary duty (SD) and regulatory duty (RD) – para-tariffs. The trends in nominal protection rates of import categories reveals that in the recent past the average NPR for input categories have been declining rapidly while that of final consumer goods remained practically flat if not increased (Figure 2).

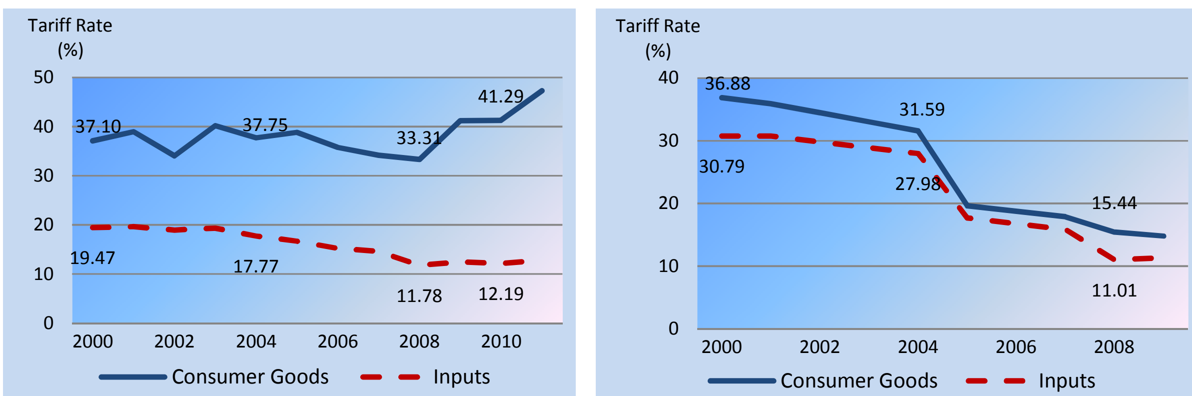
[4] ERP measures the relative change in value added at domestic prices (protective effect on output net of protective effect on inputs) over value added measured in world prices.

[5] Tariffs on biscuits have been lowered to 100% in FY2014-15 Budget.

The common perception is that reduction in input tariffs while keeping output tariffs high makes domestic production of import substitutes more competitive. But the net outcome of this process is higher effective protection to domestic producers over time yielding windfall profits simply through tariffs and without any improvement in productivity or competitiveness. Moreover, tariffs on final consumer goods (most of which have domestic production) are kept so high that they act as implicit ban on imports resulting in lower revenue yields as well. What is seldom recognized is that this trend of input and output tariffs is unique for Bangladesh.

A comparison of the trend in India's output and input tariffs (Figure 2) shows that both rates trended downwards as tariffs were liberalized thus reducing effective rates of protection or leaving them unchanged over time. This is the approach followed by most developing countries over decades as they liberalize trade.

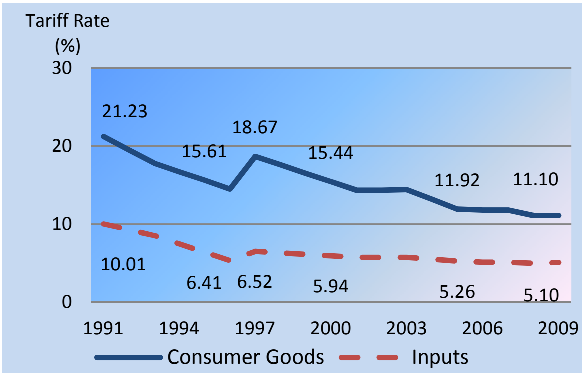
Figure 2: Trends in Output and Input Tariffs: Bangladesh and India



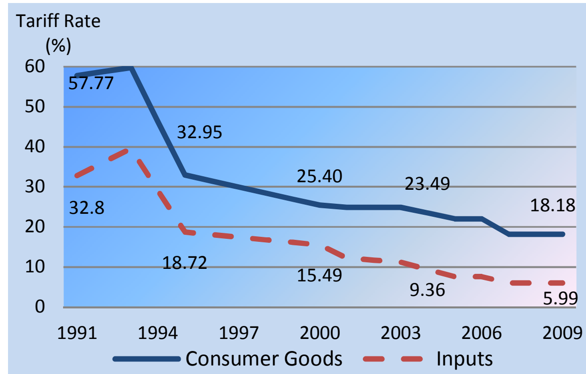
Bangladesh **India**

Box-1 presents trends in output and input tariffs over two decades for a number of comparator countries: Vietnam, Indonesia, Thailand, and Indonesia. Without exception, all countries have pursued a policy of commensurately lowering output tariffs as they lowered input tariffs, just like India. Clearly, this is a long-term strategy of lowering effective

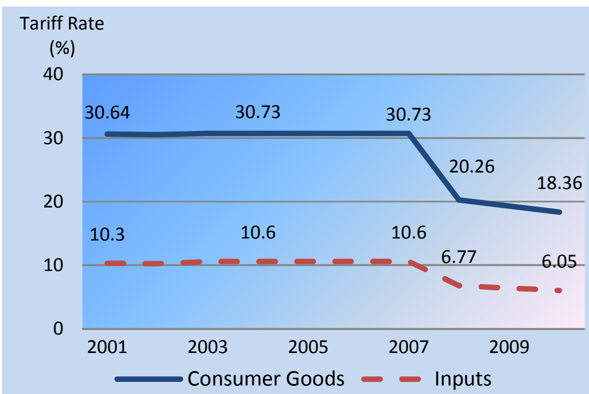
Box-1: Trend in Average Tariffs on Output (Consumer Goods) and Inputs for selected countries



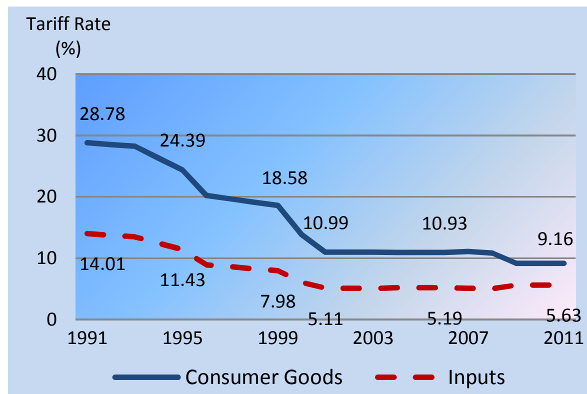
Malaysia



Thailand



Vietnam



Indonesia

protection to import substitute production with a view to improving efficiency and global competitiveness – as trade theory would suggest. This is also a strategy for elimination of anti-export bias of tariff policy which has yielded good results in that all of the countries in question have been able to transform import substitute industries for export production, or create new export-oriented industries, resulting in substantial increase in export-GDP ratio over time (Table 3).

Table 3: Exports of Goods and Services expressed as share (%) of GDP

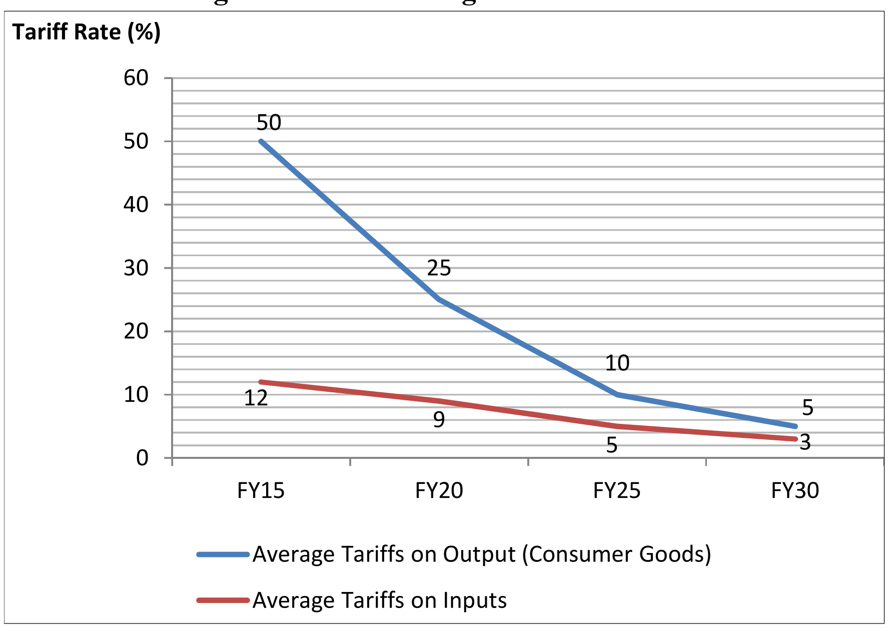
	Year	
	1970	**2012**
Bangladesh	8.31	23.12
India	3.72	24.00
Korea	13.63	56.50
Indonesia	13.45	24.26
Malaysia	41.41	87.14
Thailand	14.99	74.98
Vietnam	6.62*	80.03

*Data for the year 1986

Source: World Development Indicators (WDI) database, The World Bank

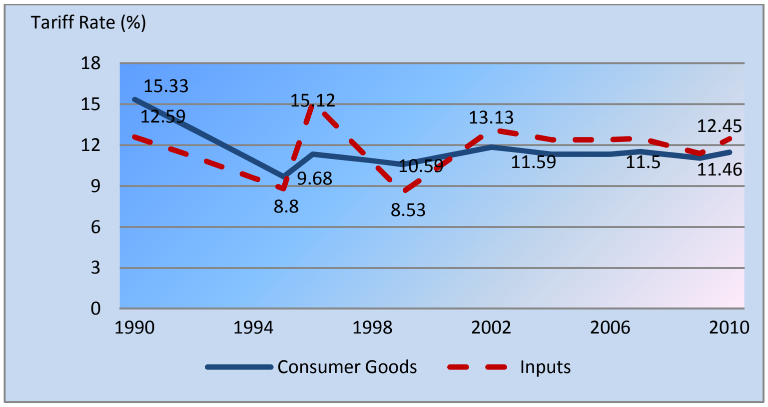
To continue on a path of sustainable export growth with a diversified basket of goods, Bangladesh would have to restructure its tariff regime in order to gradually phase out effective protection levels and anti-export bias. A possible tariff and protection regime of the future is charted in Figure 3. In view of the currently high levels of NPR on final consumer goods, the proposed structure calls for gradual but significant reduction of NPR on these goods while making modest adjustments to input tariffs along the way. Hence, the average NPR of 50% in FY14 will have to be halved by FY20, reduced to 10% by FY25, and to 5% by FY30. Meanwhile, average input NPRs will decline from 12% in FY14 to 3% by FY30. On the face of it, the proposed tariff and protection trend would appear contrary to current trends, but that seems to be the only way to go if Bangladesh is to undergo transformative change in its structure of production where production, jobs and income hinge on the success of exports which, by FY30, could constitute 50-75% of GDP.

Figure 3: A Tariff Regime of the Future



There is yet another twist in the story for the long-term. We have mentioned that the fastest growing segment in international trade is the trade in intermediate goods; and East Asian countries, like Korea, have had great success in exploiting global value chains by linking up with China, the super assembler of the world. To spur the production and export of intermediate goods, requires a different tariff profile where relative incentives to intermediate goods production is no worse, if not better than final goods production (Figure 4). This apparent

Figure 4: Average Tariff Trend for Outputs and Inputs, S. Korea



Source: WITS Database, World Bank

paradox is evident in the Korean approach. Whereas prior to 1994, average input tariffs trended downward and was lower than output tariffs, as usual, we see a reversal of that trend since 1995 when average input tariffs were higher than output tariffs – a clear preference for higher incentives to primarily the intermediate goods sector. It seems Korea has adjusted to the notion of keeping trade policy orientation neutral between inputs and outputs (mostly final consumer goods), which is done by moving towards uniform tariffs, with a slight tilt in favor of intermediate goods (during 2000-2010, average input tariffs are about 1% points higher than average output tariffs). At any rate, where exports are concerned, Korea has an efficient system of free trade channels for export commodities.

Trade infrastructure critical for export competitiveness. Sound and efficient trade logistics made up of customs administration, ports (land, sea and air), rail and road communications, and information communications technology, are most critical in reducing trade transaction costs and ensuring competitiveness of nations. Bangladesh launched customs modernization very early in the 1990s, introducing customs automation with UNCTAD's ASYCUDA package, but the work of customs automation is far from complete as too much manual intervention still delays trade transactions. To get an assessment of where Bangladesh stands with regard to the competitiveness of its tradable products, two global rankings (Table 4) are most relevant: World Economic Forum's Global Competitiveness Index (GCI) and World Bank's Logistics Performance Index (LPI).

Table 4: Ranking of Bangladesh and selected comparators

Countries	World Economic Forum's Global Competitiveness Index*	World Bank's Logistics Performance Index**
Bangladesh	110	108
Malaysia	24	25
Thailand	37	35
Indonesia	38	53
India	60	54
Sri Lanka	65	89
Vietnam	70	48
Pakistan	137	72

(*) Ranked among 148 countries (2013-14) and (**) 160 countries (2014)
Source: World Economic Forum (2013) and World Bank (2014)

In fact, the two are inter-related. The state of LPI is a strong determinant of a country's overall competitiveness in global trade. The table below shows that Bangladesh has a huge challenge in reducing its trade transactions cost in the coming years. What is evident is the huge gap in trade infrastructure between Bangladesh and some its close competitors like Vietnam, India, and Sri Lanka. This suggests that Bangladesh needs to pay continued attention to the efficient implementation of infrastructure investments along with necessary institutional changes relating to customs administration, trade finance, and other behind-the-border facilities to minimize trade transaction costs.

Table 5 shows the progress made by Bangladesh on the competitiveness front in the past few years relative to other countries. While it is evident that Bangladesh has made some progress in improving its competitiveness ratings, it continues to face infrastructure challenges. Most visible progress has been made in electricity supply, where the score has risen significantly to 2.2 from 1.6, thereby increasing the overall logistics performance index for Bangladesh quite noticeably, from 130 in 2010-11 to 110 in 2013-14. But the score for a key infrastructure, roads, has declined to 2.8 from 3.0. Railroad has also slightly declined (from 2.5 to 2.4), although the score for Ports slightly improved (3.5 from 3.4). On the whole, despite progress, the trade infrastructure challenge remains enormous.

Table 5: Progress with Global Competitiveness

Year	Country Ranking	Overall Infrastructure	Electricity	Roads	Railroads	Port
2013-2014	110*	2.8	2.2	2.8	2.4	3.5
2010-2011	130**	2.7	1.6	3.0	2.5	3.4

Source: 2013 World Economic Forum, the Global Competitiveness Report 2013-2014

Bangladesh's notable progress in improving its global competitiveness needs to be sustained and deepened over time. It was mentioned earlier that reduction in trade transaction costs have facilitated transformation from integrated manufacturing activities producing specific products for local markets to global production of product components with subsequent assembly and export to distant markets. In order to integrate these activities, global supply change management has become a major industry providing coordination for delivery of goods and components produced in different locations. Looking into the future, to take advantage of GVCs, Bangladesh will have to completely transform and modernize its trade infrastructure to have an impact on all four dimensions of export competitiveness: cost, quality, time, and reliability.

Trade Policy for the Future

Bangladesh has come a long way since the early years of inward-looking import substituting industrialization policies that neither led to industrialization nor resulted in an acceleration of economic growth. By changing its policy stance to outward-looking export oriented development, it subscribed to a regime of trade openness, on a gradual rather than radical track. Of course, the change in trade policy stance was complimented with a number of market-oriented institutional reforms that included privatization and de-regulation of investment, exchange rate flexibility and current account convertibility, and opening up the economy to foreign portfolio and direct investment. The results are so evident.

For nearly three decades running, our exports have been clocking annual average growth of some 15%, creating domestic employment in export and linked industries of about 10 million workers. Though direct causation would be difficult to establish, the growth acceleration and rapidity of poverty reduction that the economy experienced in the last three decades can in large measure be attributed to the deepening of trade openness, which was one of the most significant policy change of this period. If anything, this experience tells us that the momentum of trade reforms ought to be maintained and even deepened in order to move ahead in our global competitiveness ranking relative to our comparator countries.

Moreover, it is expected that the country will soon graduate from its LDC status and become a middle income country within the next five years. In that scenario, the country's trade and tariff policy will come under close scrutiny of the WTO or countries exporting to Bangladesh. A forward-looking tariff regime that is shorn off the plethora of para-tariffs would become a high priority if Bangladesh is maintain its trading relations or become associated with several mega regional groupings that are evolving outside the ambit of the multilateral system.

With that objective, some new thinking and new directions in trade policy orientation have become the latest imperative. Some of them could be articulated as follows:

- High protection for a long period creates inefficiency and undermines competitiveness over the long-term. Consider reviewing protection policy, scale down the level of protection, and institute a mechanism of time-bound protection for import-substitutes.
- Bangladesh tariffs, nominal and effective protection levels are among the highest in the world. In addition, tariff escalation, and the spread between NPR on output and inputs is too high. Recognizing that a high tariff regime undermines export competitiveness, it is time to seriously start scaling back NPR on domestically produced final consumer goods. NBR must adopt a strategy of lowering average NPRs by 2-3 percentage points every year until 2021, largely by reducing NPR on import-substitute consumer goods.
- The spectacular success of RMG industry has not been replicated. A major reason for this is the existence of anti-export bias in non-RMG export production. To replicate RMG success in other labor-intensive production, the facility of duty-free imported inputs must be provided even to firms that export part of their total production. This facility would no longer be required once tariffs on output have declined close to levels related to intermediate goods. The policy for providing duty-free inputs for export production is not a privilege (or support) but a requirement for all export production in order to be on a level playing field with global competitors who have access to world-priced inputs. Export success calls for a policy environment with no anti-export bias.

- 98% of Bangladesh's exports are final consumer products with little or no intermediate goods. Trade and domestic policies have an anti-intermediate goods bias. This needs to change as trade in intermediate goods is the fastest growing component of global trade. Bangladesh needs to exploit the opportunities created by cross-border production networks to produce and export intermediate goods that could be assembled elsewhere. In this regard, the Korean approach to relative tariffs on inputs and outputs demonstrated in Figure 4 is worth looking at.
- Bangladesh is a beneficiary of the multilateral trading system under the auspices of the WTO. It stands to gain from the flexibilities accorded under the special and differential treatment as an LDC. However, while using the special dispensation of S&D, it must not lose sight of a long-term strategy of deepening its competitiveness in order to prepare for the time when it graduates out of its LDC status. At the same time, it should also continue seeking market access under the various bilateral and regional trade and investment arrangements. What is notable is that it might be easier to sign on to South-South regional arrangements, but the greatest gains will come from North-South regional communities. In future, apart from emerging market economies, Bangladesh should be looking forward and preparing to reach trading arrangements with some forthcoming mega pacts like TPP, TTIP, and RCEP, where the bulk of our future export markets will lie. However, to access those communities through potential FTAs will require fulfillment of stringent tariff and non-tariff standards. Unless rationalized, our tariff regime will become the first significant hindrance to such FTAs.

To conclude, over the next fifteen years, international trade will increasingly become the lifeline of the Bangladesh economy; more so than today. The share of exports in GDP could be expected to rise to over 75%, as in the case of East Asian economies today. Therefore, tariff and non-tariff measures, and the gamut of trade policy instruments along with customs administration, will have to be geared to the needs of a dynamic export sector. Bangladesh has only passed through what might be described as first generation trade reforms, though even that remains incomplete. Further trade policy reforms – at-the-border and behind-the-border – will have to be undertaken to unleash the catalytic potential of trade to grow the economy out of poverty and under-employment. It is time to mainstream trade and trade policy which should be designed as part and parcel of Bangladesh's Five Year Plans and other longer-term Plans, where its role will be given due cognizance and the necessary facilitating infrastructure adequately provided to make trade policy perform. In practical terms, this means incorporating trade issues into every stage of the development planning cycle. This must be underpinned by strong inter-ministerial coordination and consultative processes with a wide range of stakeholders, including consumer groups.

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