



Export Diversification and Global Value Chain: Opportunities for Bangladesh

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Bangladesh exhibits a highly concentrated export sector.

As it can be noted from figure-1, our economy entertains a concentrated export base in comparison to other Asian markets. In fact, the export diversification scenario in Bangladesh remains bleak as 77% of export earnings emerge from the RMG sector. This dependence on readymade garments makes our economy extremely vulnerable to any adverse external shock to the global demand or prices (terms of trade). In this respect, Global Value Chain [GVC] offers an unique possibility for Bangladesh to diversify its export base. Consequently, in this write up, I evaluate the key characteristics of GVCs, so that the nature of trade that governs the production of final and intermediate goods within such framework is understood. This is important as it will help explain how private sector can expand our export potential by utilizing the opportunities available by emerging as a key actor within the GVCs. More

specifically, it is essential to pinpoint *what* constraints the capacity of our entrepreneurs to participate in the global value chain and *how* public policy and private sector initiative can facilitate their role in GVCs. It also involves disentangling the *type* of production structure in which entrepreneurs in Bangladesh is likely to have a relative comparative advantage.



Source: International Trade Centre, Geneva

GVCs are an essential unit of analysis for understanding the pattern of trade that dominates global economic environment in the present globalised era. The activities along GVCs may involve concept, design, production, marketing, distribution, retailing and R&D. In other words, a value chain involves the full range of activities through which a good or service evolves from its conception to its distribution and consumption. Depending on the industry needs, each link of the chain performs an activity, and different enterprises add value at each stage of the production or service process. All these activities can be contained within a single enterprise or divided among different firms. They can also be contained within a single geographical location or spread over wider areas. Thus, a GVC is a chain of activities which are divided among different firms in multiple geographical locations, and this increasing fragmentation of value chains has led to the rise of trade flows in intermediate goods, especially in the manufacturing sector.

Entrepreneurs in Bangladesh can help diversify the export base by tapping into the opportunities available in GVC. Furthermore, two specific options are available to domestic entrepreneurs while they opt to engage in the export of a new commodity:

1. Produce intermediate goods: Trade in intermediate goods was the most dynamic sector of international trade, constituting more than half of non-fuel world merchandise trade in 2009. Hence, there is great scope for entrepreneurs in Bangladesh to participate in the production of intermediate goods for export purposes. So, policy makers must scrutinize the existing constraints that private sector actors must aim to mitigate if we need to reap the opportunities available in the production of intermediate goods. It also involves understanding the strategies that are likely to aid the scopes of entrepreneurs in Bangladesh to emerge as producers of intermediate goods for the GVC.

1. Emerge as an ‘assembling’ hub: The economic rise of China is 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. Consequently, understanding the strategies that will allow local policy makers and entrepreneurs in Bangladesh to replicate this structure is fundamental for attaining any success in transforming Bangladesh as a key assembling hub in the global economy.

As a result, it is important to offer an intuitive discussion on the possible options that are available to entrepreneurs and policymakers in Bangladesh from a pragmatic view point. 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. Forming collaboration with foreign actors for the production of an intermediate good also minimizes the risks that the local entrepreneurs will find themselves in some sort of hold up problem. That is, given the strict specification criteria and compliances associated with the production of an intermediate good, the local entrepreneurs will not have an option to sell such items to other actors if the relevant foreign actor refuses to consume such items. Thus, such risks are magnified if the production structure is fragmented or depends on minimum coordination, due to the lack of long-term commitments.

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. The security of sales in the domestic market will attract the 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. 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. For example, it is often noted that the growing joint ventures between Japanese and Indian automotive firms (especially between Maruti Udyog Ltd, a State-owned company, and the Japanese multinational Suzuki Motor Company) is a resultant outcome of the growing middle class in India, which appeared as an important and lucrative market for the Japanese firms. Hence, local entrepreneurs in Bangladesh can choose to assemble products for which there is a high local demand, as it will attract foreign firms to undertake possible joint ventures. Additionally, once such joint-ventures materializes, local firms can then explore export markets for these products (in the same manner how Indian firms have started exporting Maruti Suzuki cars).

To conclude, this article aimed to describe how local entrepreneurs in Bangladesh can diversify its export by participating in the GVC. To this end, it discussed the variation in the production structures that are associated with GVCs, and the nature of the trade that governs GVCs. It also tried to isolate some prudent but pragmatic strategies that the local entrepreneurs can adopt if Bangladesh has to diversify its export base. In this respect, it is argued that local entrepreneurs are more likely to merit success if their *choice* of production structure within the GVC pays attention to the need of diffusing the 'technical know-how', so that the local entrepreneurs can learn the art of imitating the production of an existing product or an intermediate product. It is also argued that for attaining any success in 'assembling' activities, local entrepreneurs must pay attention to the choice of the product - taking into consideration the effective demand for such products in the local economy.