

Increased productivity is key to Bangladesh becoming an export power house

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In the midst of slower and mixed economic growth in different regions of the world, South Asia is a shining star in recent years in terms of its growth performance. The region is growing and it is radiating a lot of potential. India is leading the growth momentum, and Bangladesh is a close second within the region. After the unprecedented East and Southeast Asian development experience, whereby many of these countries earned the title of “Tiger Economies,” the eyes of the world are now on South Asia. The East and South East Asian miracle was the result of their export-led growth strategy through enhanced productivity. The next question is: Is it now South Asia’s turn and can South Asia be the next export power house of the world?

In line with the East Asian experience, South Asia can now aim at ambitious development targets. However, whether South Asia can really become the next export powerhouse of the world is still a puzzle. Despite some gains, South Asia as a region has reaped only limited benefits from global integration. South Asia’s export to gross domestic product (GDP) ratio is 17-21 percentage points below East Asia. The regions average foreign direct investment (FDI) inflow has been 2.2-2.8 percentage points of GDP less than the counterparts in East Asia. Against this mixed background, the recent World Bank’s flagship study “South Asia’s turn: policies to boost competitiveness and create the next export powerhouse,” released on November 14 in Dhaka, focuses on aspects of transforming South Asia into an export hub.

One of the key takeaways of the report is the dire need of boosting productivity. Across the globe it has been demonstrated that higher productivity is always associated with higher income and economic development. Raising productivity to higher standards however is a

major challenge for policymakers of any developing country. Nonetheless, international experience also indicates that there are ways to achieve the goal.

Bangladesh has already shown promising signs of becoming a strong export performer. Its performance has been driven by its success in apparel export, making it the largest apparel exporter in South Asia and the second largest in the world. An insightful glance at Bangladesh economy suggests that — along with other South Asian economies — there is an urgent need to advance productivity in Bangladesh in order to strengthen its export performance and overall economic development.

It is imperative to understand that improving competitiveness is about raising productivity rather than keeping costs low by suppressing workers' real wage. Competitiveness occupies a central position in government and industry agendas in Bangladesh.

Bangladesh possesses several key advantages in the apparel sector: it has an abundant supply of workers, labour costs are relatively low, and its South Asian neighbourhood is a top cotton producer. Nevertheless, it continues to lag well behind China which accounts for 41 per cent of the global market for readymade garments or RMG (where Bangladesh is 6.4 per cent and India is 3.5 per cent). Despite higher labour costs, China is still able to attract buyers by offering a wide range of apparel at short lead times, while high productivity limits total costs despite relatively high wages. Bangladesh ought to offer a comparable package of goods and services.



Bangladesh has enjoyed rapid growth in output and per capita income since 1990. However, the contribution of total factor productivity to GDP growth has played a negligible role during the entire period. In Bangladesh, the investment in labour-oriented segments and the increases in the number of workers have been the foremost drivers behind the growth.

As in other countries at similar stages of development, resources in Bangladesh are moving from agriculture to manufacturing and services. This shift in economic activities from lower-productivity, traditional/informal sectors to more formal and productive ones is part of the ongoing structural transformation of Bangladeshi economy.

Meanwhile, real GDP per capita of Bangladesh significantly increased, nearly doubling in last 10 years. However, the share of agriculture in total employment still remains just below 50 per cent, despite the fact that labour productivity in industry and services are several times that of agriculture. In case of Bangladesh, the response of employment to differences in sectoral productivity levels is much higher than in the Organisation for Economic Cooperation and Development (OECD) economies, indicating that boosting productivity growth in manufacturing and services carries a much greater potential for accelerating the structural transformation, increasing non-farm employment, and raising income growth.

Policy spotlight on raising productivity

Ahsan Mansur in continuation of his economic analysis, 'Increased productivity is key to Bangladesh becoming an export power house', that appears on the front page of today's issue of this paper

Productivity can be measured at different levels — macro, sectoral, geographic, and so on. However, the most robust representation is at the level of the firm. The firm as the unit of analysis and firm dynamics as the driver of productivity growth is thus vital. Bangladesh performs poorly on many indicators of the quality of the business environment, which greatly constrains firms' productivity in general and particularly limits the growth of firms with high productivity.

While firms may have different capabilities to overcome various investment climate constraints, studies show that an average firm in Bangladesh experiences a sizeable productivity loss from the poor investment climate.



In addition to improving investment climate, participation in global value chains can also raise productivity through exposure to competition and knowledge spillovers resulting from connections with lead firms. According to a World Bank study, in Bangladesh firms that participate in global value chain have higher productivity. However, Bangladesh's participation in this arena is largely confined to apparel.

Reducing trade barriers, increasing skills, and improving logistics would facilitate greater participation in global value chain. Usage and access to technology (the use of e-commerce and other productivity-enhancing online business tools) are still limited but they seem promising given the information communication technology (ICT) policy adoption in Bangladesh. The development of managerial and technical skills that are complementary to technology, greater investment in R&D and improved resource management will drive innovation and thus boost productivity.

Studies have found that “learning-through-exporting” has boosted productivity of firms that enter export markets. Thus it is not surprising that firms in Bangladesh with more export experience exhibit higher productivity. Among domestic producers of apparel inputs in Bangladesh, even those firms that do not export and do not supply to exporters can experience productivity spillovers by learning from the experience of other firms that are part of a shared supplier network that supports exporters. On the import side, access to imported intermediate inputs can also boost firm productivity. For example, the Desh-Daewoo joint venture, which included the intense technical and managerial training of 130 Bangladeshi in Daewoo’s Pusan plant in 1979, established the foundation for the next generation of Bangladeshi entrepreneurs.

In Bangladesh, the authorities initiated a number of reforms to address binding constraints impeding private sector productivity in the recent years. New pieces of business-friendly legislations include: (i) the Economic Zones Act of 2010; (ii) the Competition Law, which is meant to uphold a level playing field for businesses; and (iii) a new Value Added Tax Law which, if implemented properly with an automated tax administration along functional lines, will ease tax compliance cost for businesses.

Regulatory reforms aimed at streamlining business registration include a total of 56 regulatory processes. To foster trade competitiveness, Bangladesh has launched a trade information portal and introduced risk management in clearance process, as well as taking preparatory steps to a new Customs Act, a New Income Tax Law/Code, a national single window for trade, and making multi-modal transport effective for trade logistics.

How these reforms will manifest — leading to productivity gains — will depend on the political will of the authorities.

Productivity-boosting agglomeration economies are under-leveraged in Bangladesh. Agglomeration economies are the benefits that arise when firms and people locate near one another (for example, in cities and industrial clusters). In Bangladesh — where concentration of economic activity is rather high — there is plenty of potential for agglomeration economies to increase productivity.

The full productivity benefits of agglomeration economies are yet to be realised. Economic activity tends to be geographically concentrated. Neither South Asia nor Bangladesh is an exception. Measures of firm concentration in manufacturing in Bangladesh are quite high. In India, the five largest districts account for 18 per cent of total employment. In Bangladesh, the share of the five largest districts is significantly greater (80 per cent) than in India.

Agglomeration is positively associated with firm performance in Bangladesh. In Bangladesh, households with better access to major urban centres achieved higher returns. The Chittagong-Dhaka Corridor has noticeably higher productivity than the rest of the country combined. The ongoing urbanisation process is also likely to increase productivity due to agglomeration, which may reinforce the rise in productivity as workers move from lower-productivity agriculture to higher-productivity manufacturing and services. Prudent policies aimed to leveraging agglomeration across the country, will magnify the productivity benefits in an ever-urbanizing Bangladesh.

In conclusion, it must be acknowledged that Bangladesh, and South Asia at large, has captured the opportunity to benefit from apparel exports. However, the productivity can be significantly raised in the sector. Following the East Asian example, Bangladesh is very close to making it in the global electronics industry. This will require continued improvements in the urban eco-systems with respect to improving productivity by focusing on skilled labour and technological innovations. With apt policies to enhance competitiveness, firm-level innovations will proliferate.

Productivity enhancing policies have enabled Vietnam, which once was more underdeveloped than Bangladesh, to become an export powerhouse. Vietnam exports six times more than Bangladesh on a per capita basis. The general recipe for improving productivity is the same in Bangladesh as it is in Vietnam: better connection with global value chain, maximisation of agglomeration benefits and policies to strengthen firms. With two million young people

joining the labour force every year, the demographic transition can only be turned to demographic dividend if the country succeeds in enhancing the productivity level of its firms and workers. The report from the World Bank identifies several factors limiting Bangladesh's and South Asia's ability to compete with the rest of the world, and proposes approaches to enhance productivity and connecting to global value chain.

The diagnosis and recommendations of the flagship report certainly deserves the attention of our Government and industries. Time is right and we must take advantage of the rising cost in East Asia. With policy spotlight on raising productivity, Bangladesh will not only be able to create more jobs and more exports, but it can also create better jobs and diversified and high-value exports.