

Time to shun export pessimism

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Exports continue to be on a tear; and so it should be. Eight months into the fiscal year 2011, exports have clocked an envious 40%

annual growth rate. If this rate of expansion is maintained for the last four months of the fiscal year, we could end the year with the fastest rate of export growth in memory, surpassing the conservative target of \$18.5 billion set by the EPB for the current fiscal year by some 14% with record exports of \$21 billion. What is notable is that all this happened while the world economy was still reeling from the aftershocks of the subprime crisis and the global recovery is still anything but robust.

It can be argued that this high growth rate comes on the back of a lukewarm export performance last year (4.0% growth in FY2010); so the low base partly explains the high performance this year. Also, this stellar performance may not be sustained for the next four months and it is reasonable to expect some slowdown for the next few months with year-end export figures of about \$20 billion rather than \$21 billion. Still fresh in our memory is the export collapse of fiscal year (FY) 09. After a record growth of 45% in the first quarter, exports petered out to end the year with a modest 10% growth. However, FY11 is not FY09, and the buzz in the local RMG sector is quite different. In Quarter 1 (Q1) FY09, the premonition of an export collapse was very much in the air particularly for the readymade garment (RMG) sector as orders were in short supply. There is no such portent this time around and export performance appears quite broad-based, from frozen food and jute products to footwear, plastics, ships, home textiles, woven garments, and knitwear.

Two questions come to mind. To what do we attribute this surge in exports? Is this a one-time phenomenon or a more sustainable feature of our export scene, at least for the medium-

term? The slow but sure recovery of global demand from the depths of the 2008-09 global recession is clearly the primary reason for the upsurge. Both Europe and North America have provided the major stimulus as export destinations. The new surprise is an element of diversification of the export basket and emerging destinations for RMG, e.g. Thailand, Malaysia and Japan. Second, it would be a mistake to think this is merely a one-time blip. “Made in Bangladesh” has become a recognized brand in the clothing markets of the world alongside China, India, Vietnam, Sri Lanka, and Indonesia.

Bangladesh has taken a mere 5.0% of the global clothing market of an estimated US\$315 billion market. There is still a long way to go but indications are strong that Bangladesh has all the potentials of capturing a much bigger chunk of that market which is expected to grow in step with world income. Therein lies the answer to the sustainability question.

Furthermore, the days of unrivaled Chinese competitiveness in low-cost garments is all but over. Chinese entrepreneurs have been grappling in vain with the steep rise in wages compounded with labour shortages especially in the special economic zones of Guandong and Beijing area. Foreign investors no longer see China as the ultimate destination for investment or the fountain of future profits. They are scurrying to find alternative safe havens for their capital investments and reliable production locations for a wide range of consumer goods and durables. Despite the current power shortages, weak infrastructure and the proverbial governance problems, Bangladesh suddenly looks like a promising destination to relocate some of their investments. Low labour costs and its position as a least developed country (LDC) with preferential access in key global markets are its key attractions as a foreign direct investment (FDI) destination. Not surprisingly, footwear and toys could soon emerge as the next RMGs in the Bangladesh export basket.

Finally, in the present scheme of globalized production, vertical integration of production chains which give rise to intra-industry trade is becoming the norm. The RMG industry with its external sourcing of fabric and yarn was the first case of such global vertical integration in Bangladesh. It is unlikely to be the last as new ventures in footwear and leather products, toys, parts and components of automobiles and other consumer durables like refrigerators, TVs and air-conditioners begin to take hold. These are the stuff of which export booms of today are made. Bangladesh stands on the threshold of such a boom underpinned by labour-cost advantage that promises to last another decade at the very least.

In the group of LDCs, Bangladesh is unique in being primarily an exporter of manufactures; 90-95% of its exports are manufactures while most other LDCs predominantly export primary products to the world market. While the share of exports in Bangladesh's GDP has risen from 7.0% in 1990 to 17% in 2010, the share of exports in manufacturing production is now estimated to be 60%, though more than 80% of manufacturing employment is in the export sector. Indeed, manufacturing performance is now intrinsically linked with export performance, suggesting that in fiscal 2011, even a 30% export growth will push manufacturing growth to exceed 12% for the year – which will be a record.

Very conservatively, assuming agricultural growth at 4.0%, service sector growth at 7.0%, and manufacturing growth over 12%, this implies GDP growth of well over 7.0%, compared to the targeted 6.7% for the year. At this stage, this appears to be the outlook on growth performance based on exports and manufacturing prospects, though serious cracks have appeared in the macro management front that might have adverse consequences in the near term.

Finally, I come to the last but moot point. With Bangladesh becoming increasingly integrated with the global economy, it is no surprise that the global recession of 2008-09 came as a shock to the economy mainly from the slowdown in export demand. That led many of our economists to nostalgically reiterate the 1960s dictum of “export pessimism” and talk about focusing attention on domestic demand as the recipe for sustained growth.

That focus could not be more misplaced. True, the domestic economy is now large and growing with gross domestic product (GDP) having crossed the US\$100 billion milestone. Yet that is no match for the US\$75 trillion world economy (2010 estimate) whose markets are open to our exports in various degrees subject to competitive supply.

The first case for export focus comes from the economies of scale argument. No matter how large the domestic economy is, it is still limited in size to take advantage of the kind of scale economies which the world market provides.

Second, there is no way that Bangladesh's domestic economy can create decent wage or self-employment for the roughly two million additional labour force that is added every year. Only exports and their expansion can offer that possibility. Third, the argument for domestic

market focus comes with the supplementary case for creating a protected domestic market where import competition is minimized if not eliminated by various policy instruments (e.g. tariffs) that serve to transfer benefits to producers at the cost of consumers.

Protection walls thus built tend to take a life of their own, are hard to tear down, and eventually leave a legacy of inefficiency making domestic products uncompetitive in world markets. On the other hand, the argument for export orientation emphasizes internationally competitive production for domestic as well as export markets. Higher productivity and efficiency over the long haul are the hallmarks of such a strategy.

Compared to India and China, Bangladesh's domestic market is small in size. Yet those two countries have done everything possible to open doors in foreign markets for their products. Can Bangladesh afford to do otherwise? True, China found its over-dependence on export markets a problem during the Great Recession of 2008-09. It soon realized that the growing affluence of its own population of 1.5 billion could be a sizable alternative market if it could also stimulate domestic consumer spending by reducing its traditionally high savings-GDP ratio. That was the principal goal of its post-crisis stimulus package which turned to be most effective in lifting the Chinese economy rapidly out of the debacle caused by the collapse in exports. Today, China has overtaken Japan to become the second largest economy in the world after the USA.

For Bangladesh to mimic China in a similar escapade would be the height of folly. That is clearly not an option for Bangladesh or any other developing country with much smaller markets. In the circumstances, positioning to expand export markets will remain, for the foreseeable future, the only road leading to high growth, job creation, and decent livelihood for the vast majority of Bangladesh's population.

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