

Trade Competitiveness for Greater Export Diversification

**Sanjay Kathuria, Lead Economist
&
M. Masrur Reaz, Senior Economist**

**Trade and Competitiveness Global Practice
World Bank Group**

**PRI, Dhaka
January 30, 2017**

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

DTIS Bangladesh

- A development report: Very broad and intensive coverage of cross-cutting issues and sectors
- This report is about how to do even better on job creation and trade, and therefore poverty reduction.
- So it asks hard questions and searches for answers.

Themes	Sectors
Trade policy	Ship building
Trade facilitation	Jute products
Standards	Non-leather footwear
Institutions of trade policy	Bicycles
Market access	Polo shirts
Trade finance	ITES
FDI	Services
Trade outcomes	Pharmaceuticals

Some emerging questions on jobs and trade

- Only 58 mn of Bangladesh's 103 mn working age people employed
- Impressive poverty reduction; further decline increasingly difficult. Reforms of institutions necessary for MIC are more difficult.
- Enhanced job creation not possible without exploitation of deep regional and global markets
- Low level of literacy and years of schooling of the labor force make skill acquisition more difficult
- Need to strengthen competitiveness beyond low wages, to sustain export growth and improve worker and consumer welfare

New sources of competitiveness is the subject
of the DTIS

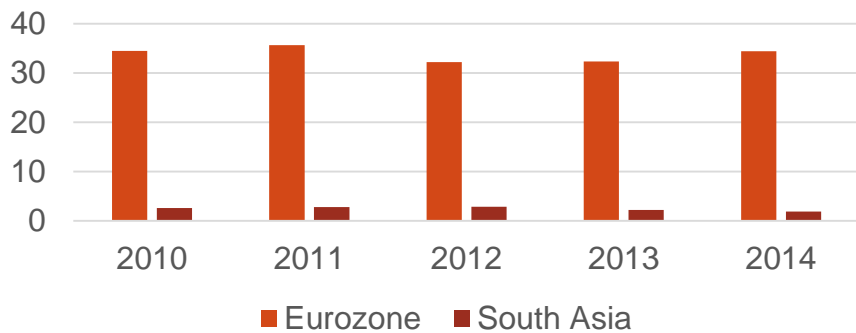
Opportunity knocks but timing is critical

End goal is both market and product diversification to support the domestic market in creating the needed jobs:

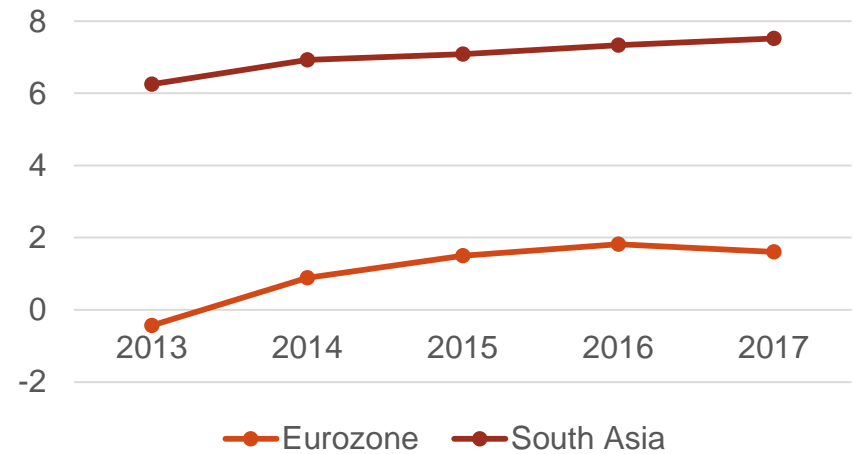
- DTIS shows significant unexploited market and technology acquisition opportunities through South Asia and East Asia
- Capitalize on strong momentum for deeper India-Bangladesh economic relations, and, more generally, within BBIN (MVA, India-Bangladesh joint statement, etc.)
- Bangladesh critical to connect BBIN to ASEAN, added impetus by India's Act East Policy and "Make
Finite window of opportunity: China exiting labor-intensive space, but strong competition from other countries, esp. in Asia

Future markets lie in Bangladesh's neighborhood: back the right horse

Bangladesh's export share (%) is not focused towards its own region



Future markets lie nearby



Source: Global Economic Prospects, World Bank Group

Enormous Potential for trade with Regional Markets in South and East Asia

- Fastest growing regions in the world
- Potential important source of FDI (e.g., Japan, China, India, Korea)
- Integrate regional supply-chains



- Address through better connectivity with South Asia and East Asia, and improved and more harmonized quality infrastructure

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

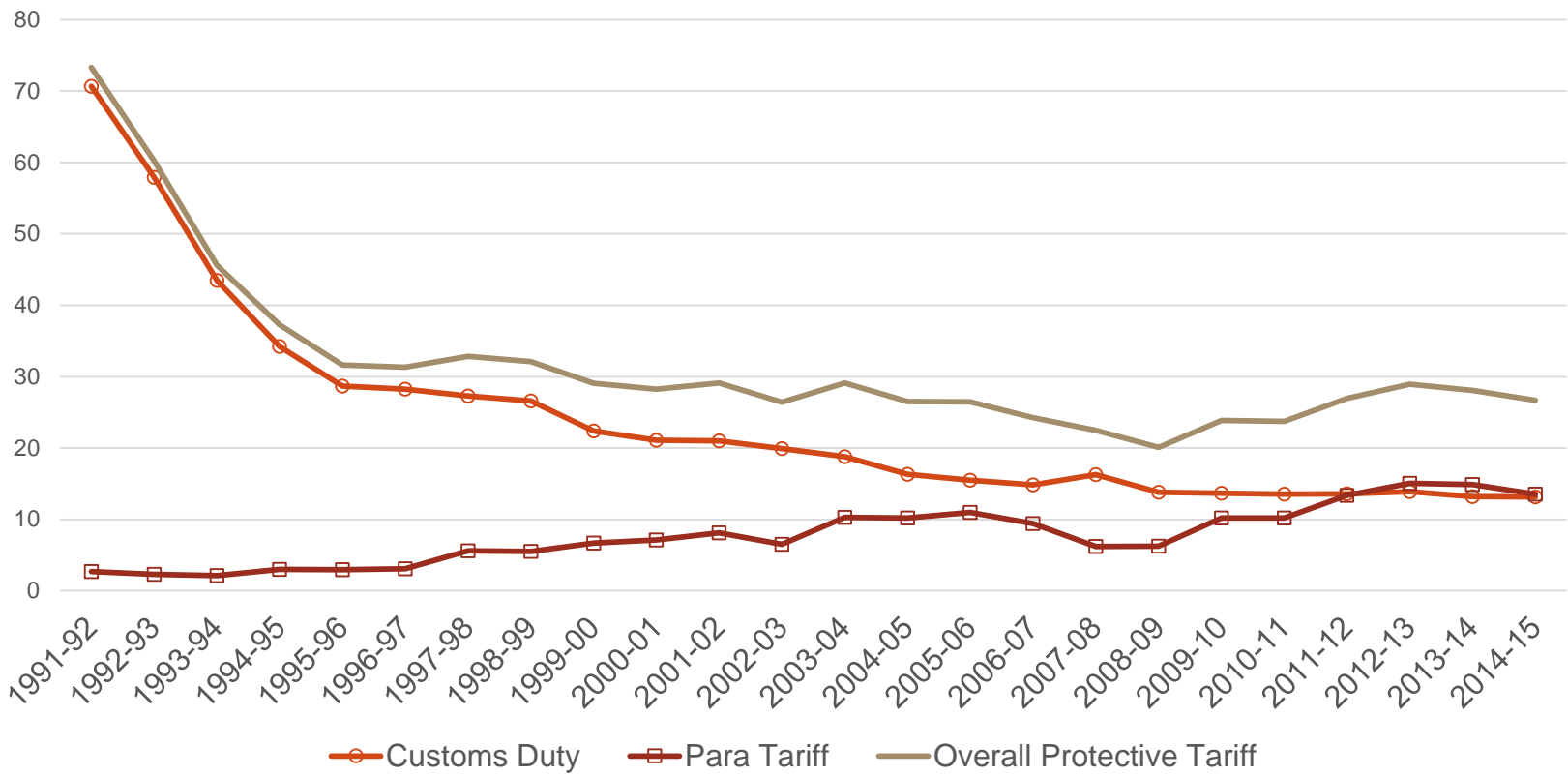
Operationalizing the DTIS: Three priority reform areas

- WBG discussing a comprehensive program to support GOB's 7FYP objectives of export-led growth
- Three core reform priorities:
 - Rationalizing the trade regime for enhancing exports
 - Reducing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system, focusing on regional and global trade with South Asia

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Overall tariffs have become more complex and less transparent



Source: Bangladesh DTIS, World Bank (2014)

domestic oriented production: limited discourse in BD

- Lower CDs but higher, ad-hoc and non-transparent para-tariffs
 - Average tariff of 13.2% in FY15 increases to 26.9% with para-tariffs: but this is slowly changing, and new VAT Law can bring bigger changes
- Trade policy distorts sectoral incentives, tariffs and para-tariffs vary across and within sectors. Anti-export bias arising from:
 - High and abnormal profits from domestic production
 - Exports face high cost inputs
 - Para-tariffs are non-trade neutral
- Tariff escalation leading to high Effective Rate of Protection, especially for consumer goods
 - ERPs are high in consumer goods produced locally like footwear (214-342%), some agrifood products (381% for chira/muri; 187% average), bicycles (117-386%), jute textiles (220%-425%), newspapers (100-2000%)

Comparing Vietnam and Bangladesh

Indicator	Bangladesh	Vietnam
GDP, in USD billion	150	171.4
Population, millions	156.60	89.71
GNI per capita, PPP dollars	3,190	5,070
Total exports, in million USD	30,199	143,039
Total imports, in million USD	45,610	144,558
Trade openness (X+M/GDP) in percentage	45	170
HH Market concentration index	0.08	0.06
Index of export market penetration	0.08	11.07
Trade weighted tariff	9.69	3.54

- Per capita exports: Vietnam 8X Bangladesh
- Over 1986-2015, export to GDP in Bangladesh 5 to 17 percent, Vietnam 7 to 90 percent.
- 35% of Vietnam exports today are machines
- Most competitive countries in the world have low and transparent tariffs with minimal dispersion: China, Germany, Vietnam, Korea...

Reducing the anti-export bias arising from tariff policy

- **First step:** Develop a roadmap for an export-competitive tariff structure, with WBG support, building on FY16 budget: TRIST analysis, building scenarios with different simulations
 - Vision: clear end goal, and sunset
 - Implementation: gradual, but firm phase-out, with timelines, mindful of impact on revenue and domestic production
- **Second step:** Prioritization plan for tariff rationalization, beginning with key potential exports that could benefit from an improved tariff structure
 - Plastic toys? Foam mattresses? Others?

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Duty suspension scheme not widely available to eligible exporters

- With protective tariffs, domestic input availability impedes growth of exports, especially new products that need world class inputs at competitive prices
- Garments done very well with bonded warehouses, but scheme is restrictive in practice, although open de jure
 - 90% of bond licenses issued to garments and accessories
- Duty refund scheme has few takers
- NBR worried about leakages, hence strict control of bonded warehouse licenses: issues sector-specific administrative guidelines to enable access

Expanding duty free access to inputs

- Goal is to expand access of scheme to all eligible exporters
- WBG can provide capacity building support, sector-specific diagnosis to determine areas that are important for export growth (similar to tariff analysis)
- Key measures to expand scheme:
 - Enact Customs Act, followed by implementation
 - Develop robust audit capacity by - boosting skills through training, augmenting staff strength, and using technology
 - Adopt risk-based management systems (enabled by above)
 - Develop administrative guidelines for other sectors
 - Streamline procedures, including through extension of ASYCUDA to bond license transactions
 - Implement IT-enabled solutions

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Strengthening Capacity in key trade-related agencies

- Ministry of Commerce is nodal agency for trade: develop in-house capacity to manage and ask the right economic questions (Economic Advisor model?)
- Three related agencies:
 - BFTI: build capacity for training and focused research, supplementing outsourced research
 - EPB: increase private sector participation in Board, and improve statistical capacity
 - BTC: develop capacity for tariff policy formulation

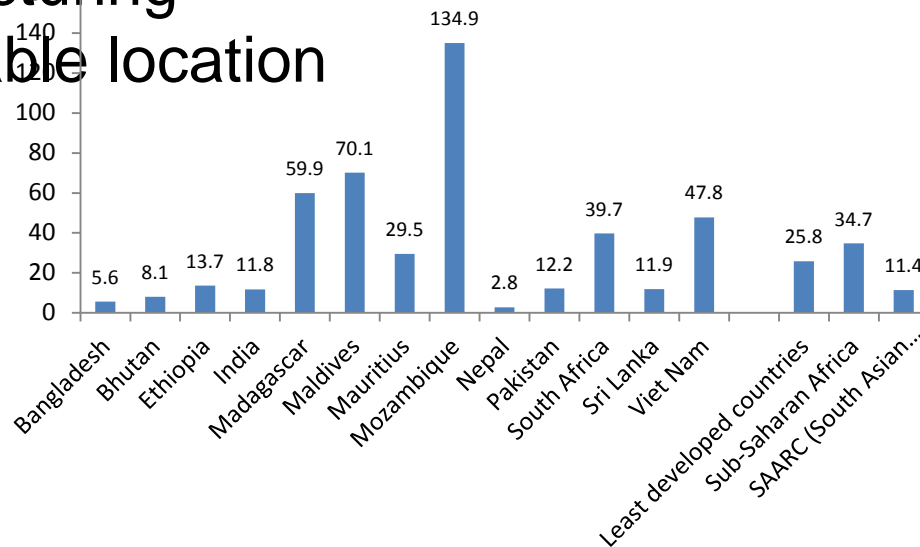
Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Huge unfulfilled FDI potential in Bangladesh

It can position itself as a competitive center for labor-intensive manufacturing, and attract efficiency-seeking FDI.

- abundant labor supply,
- a mastery of large-scale labor-intensive manufacturing
- a favorable location



FDI Stock as a share of GDP in Bangladesh and Selected Developing Countries, 2013

A Vision and Policy that recognizes FDI's role

- Critical role for FDI in product diversification
- While the FDI regime does not seem to be overly restrictive, in practice it could be considered unfriendly for foreign investors: ambiguity towards FDI; discretionary decision making; sector specific, non-transparent regulations
- Potential resistance from some parts of the private sector
- To improve FDI inflows, address issue of serviceable land, power availability, post-entry investor care-- including through the economic zones model, targeting anchor investors, and reform of investment promotion institutions

Attracting high quality FDI in goods and services

- BIDA to formulate a policy for allocation of 12,000 acres of unencumbered and developed land for potential investors
- BIDA to begin process of creation of a land bank, starting by issuing a call for listing all available land by potential sellers on voluntary basis
- BIDA to design a strategy and overall structure for OSS (one stop shop) that enables empowered delivery of inter-agency services
- Assessment of critical services where there are restrictions on FDI that affect performance and therefore exports eg., logistics, shipping
- Consolidation of all relevant investment policies e.g., licensing, incentives, zoning, etc (TBD after diagnostics completed by WBG)
- Support for a corporate plan for BIDA, which will also help define its priorities

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system
- Conclusions

Managing Technical Regulation and Standards: Regional Trade and Beyond

- A diversifying economy needs a strong NQI, serving the needs for exports and imports of fresh products, raw materials, manufactures, etc.
- Key government bodies involved are BSTI and Plant Quarantine; private quality insurance firms very strong in garments
- Plant Quarantine capacity and infrastructure important for raw products, seeds, fruits and vegetables
- Non-tariff Barriers: often issue of information, or testing and certification, accreditation, majority of complaints in these areas

Enhancing infrastructure and capacity for quality and standards

- Regional trade
 - TA to help BSTI conduct mutual recognition agreement with India but may take time. Focus on specific products to start.
- High potential exports
 - Fresh produce: Mutual recognition agreement with India, capacity building at Plant Protection
 - Seafood: Liberalization of testing market to allow private laboratories to test for regulatory requirements
- Domestic regulations with trade implications
 - Review of mandatory standards and technical requirements in the Import Policy
 - Increased automation at BSTI to cover standards catalogue and standards development

Presentation Outline

- Opportunity, context and emerging questions
- Operationalizing the DTIS: Critical Reforms
 - Rationalizing the trade regime for enhancing exports
 - Removing the anti-export bias of tariff policy
 - Expanding duty suspension scheme to all eligible exporters
 - Strengthening capacity in key trade-related agencies
 - Attracting high quality FDI in goods and services
 - Enhancing the national quality system

- Conclusions

Power of the International Market

- If Bangladesh captures 20% of Chinese garment exports, its own exports would double
- Create 5.4 million new jobs and 13.5 million indirect jobs
- Almost enough jobs for next decade's needs

Conclusion: Seizing the Moment

1. To achieve its development objectives, Bangladesh will need a **fundamental policy shift** that is geared towards international competitiveness and is neutral between the interests of the domestic producer, exporter, and consumer
2. Garments exports growth can continue, but Government needs to level the playing field so as not discourage diversification
3. Need to overcome potential resistance to reforms, and build a deepening coalition in favor: based on counter-factual of huge possibilities. Who will be the champions?
4. Urgency– the bus has left China, but is it stopping in Bangladesh?
5. The World Bank Group has started discussions with Government on the above parameters. BIDA is coordinating a multi-agency PSD agenda with a delivery timetable for critical reforms.