

The Competitiveness and Future Challenges of Bangladesh in International Trade

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Abstract:

Bangladesh's steady growth for the past two decades and the average annual GDP growth more than 6 percent over the last five years and drop of almost 10 percent in the poverty rate - are both very respectable. The past decade's boom in exports – particularly the apparel sector is very significant to country's economic growth. This report gauges Bangladesh's trade competitiveness and future challenges. This report uses the Prof. Michael Porter's data base of Harvard Business School for cluster map and bubble for competitiveness analysis, the world trade Indicator (WDI) database, International Trade Centre (ITC)'s trade map and competitiveness and World Economic Forum (WEF) website for data and graphical presentation for competitiveness analysis. To make the most of its export opportunities on the changing international playing field, Bangladesh needs to follow a strategic game plan, invest in infrastructure, technology and skills, streamline policies, and improve quality and safety standards.

Key words: Bangladesh; Trade competitiveness

1. Trade Competitiveness: Essential Issue

1.1 Introduction:

The determinants of competitiveness are many and complex. For hundreds of years, economists have tried to understand what determines the wealth of nations. This attempt has ranged from Adam Smith's focus on specialization and the division of labor to neoclassical economists' emphasis on investment in physical capital and infrastructure, and, more recently, to interest in other mechanisms such as education and training, technological progress, macroeconomic stability, good governance, the rule of law, transparent and well-functioning institutions, firm sophistication, demand conditions, market size, and many others. (The Global competitiveness report 2008). The World Economic Forum calculated the Global Competitiveness Index (GCI) for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness. The Global Economic Forum (GEF) defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. The GEF group all these components into 12 pillars of economic competitiveness. These are as Institutions, Infrastructure, Macroeconomic stability, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market sophistication, Technological readiness, Market size, Business sophistication, and Innovation.

At micro level, a firm is said to be competitive if it is profitable and maintains or gains market share in a world of fair and free markets with intense domestic and international competition. The IMF defines the competitiveness as an appropriate level of competitiveness in the short run is typically associated with the value of the real exchange rate, which, in conjunction with other domestic policies ensures both internal and external balance. In the long run competitiveness is more generally defined in terms of an economy's ability to support increases in living standards. According to the OECD countries, the degree to which a country can, under free trade and free market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term. The European Commission defines competitiveness as the ability of an economy to provide its people with high and rising standards of living and high rates of employment on a sustainable basis.

1.2 The Drivers of Competitiveness

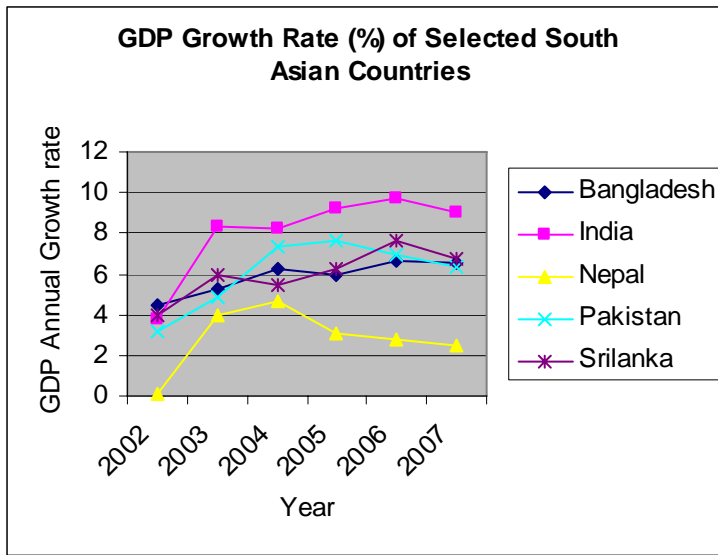
Productivity, which measures efficiency of resources used to produce goods and services, is the long-term driver of competitiveness. Only growth in productivity will allow firms to compete internationally and maintain and improve real income. The new investments in education and skills, machinery and equipment, physical and technological infrastructure and innovation (including commercialization) will all contribute to improvements in productivity, competitiveness and prosperity. A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, but is not sufficient. Movements in exchange rates also will impact the cost structure and relative output price in the short to medium-term. According to Michael Porter there are three Stages of Competitive Development, Factor driven economy that is macro economy, political, and legal stability with efficient basic

infrastructure and lowering the regulatory costs of doing business. The investment driven economy should be local competition, market openness and incentives and rules encouraging productivity as well as cluster development and then finally Innovation driven economy would be with advanced skills, advanced infrastructure, incentives and rules encouraging innovation and cluster upgrading.

2. Bangladesh Trade Overview

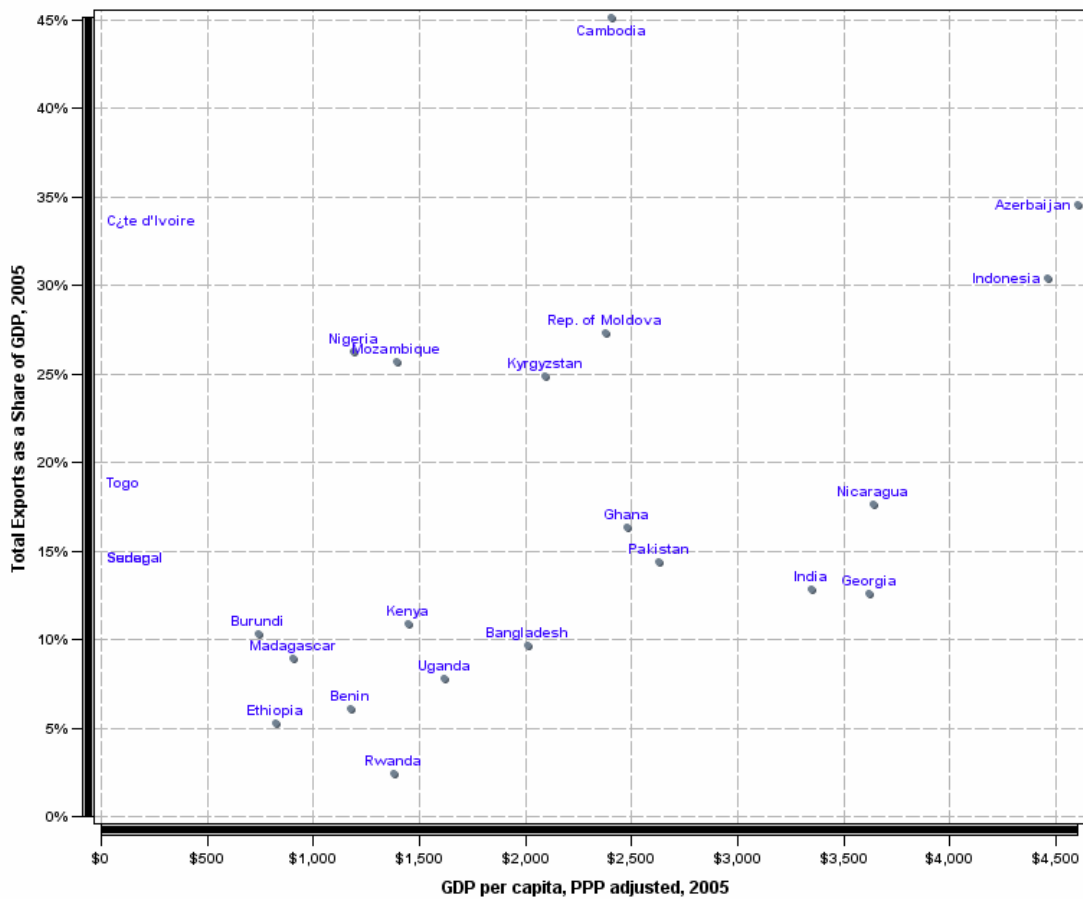
Bangladesh economic growth over the last half decade is more than 6 percentages and fastest real trade growth country rank 13th out of 152 countries (WTI 2008) is emerging economy in South Asia. The real export growth is more than 9 percent higher than all other south Asian countries except India (WTI 2008). Bangladesh export share to GDP was 10 percent in 2004 which was the lower than India, Pakistan, Sri Lanka, even Cambodia just higher than some least developed Countries in Africa. The export share to GDP has been increasing over the year but not very significant. The export share to GDP in 2007 is 17 percent (Export Promotion Bureau 2008). However, Bangladesh launched comprehensive trade reforms in the early 1990s that included substantial reduction of tariffs, removal of quantitative restrictions, and moves from multiple to a unified exchange rate and from a fixed to freely floating exchange rate system to increase its export performance. Nonetheless, the economy is still saddled with one of the least liberal trade policy regimes in the world, reflected in its rank near the bottom (140th out of 152 countries) on the latest Trade (MFN) Tariff Restrictiveness Index (TTRI) (WTI 2008). The MFN applied simple tariff average of 14.14 percent in 2007 is lower than its late 1990s average of 21.8 percent and similar to the regional mean, which however is lower compared to India. The garments export industry is allowed duty free import of raw materials. The maximum tariff rate (inclusive of ad valorem equivalents of specific tariffs) has declined from a high of 300 percent in the late 1990s to just 25 percent in 2007 (WTI 2008). The country has liberalized its banking and telecommunication sectors. Although, Bangladesh did not make any commitment in financial sector under GATS but the rate of liberalization in the financial sector has been quite rapid. This is a sector where Bangladesh has limited export but very crucial for country's economic development. However, the low overall GATS commitment suggests ample room for greater future multilateral commitments to services liberalization.

Chart 1. GDP Growth Rate of South Asian Countries



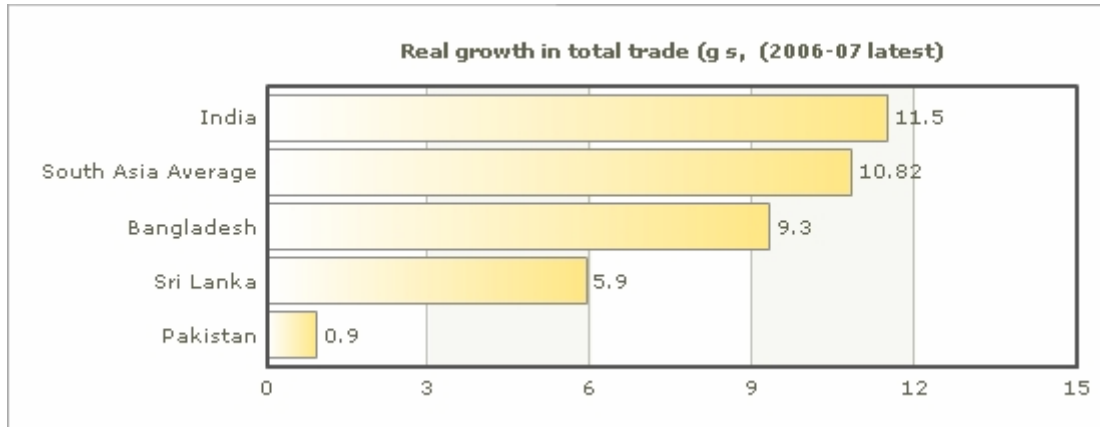
Source: World Development Indicators, 2008

Chart 2: Export Performance of GDP of low Income Countries in 2005



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, <https://secure.hbs.edu>

Chart 3: Real Trade Growth of South Asian Countries

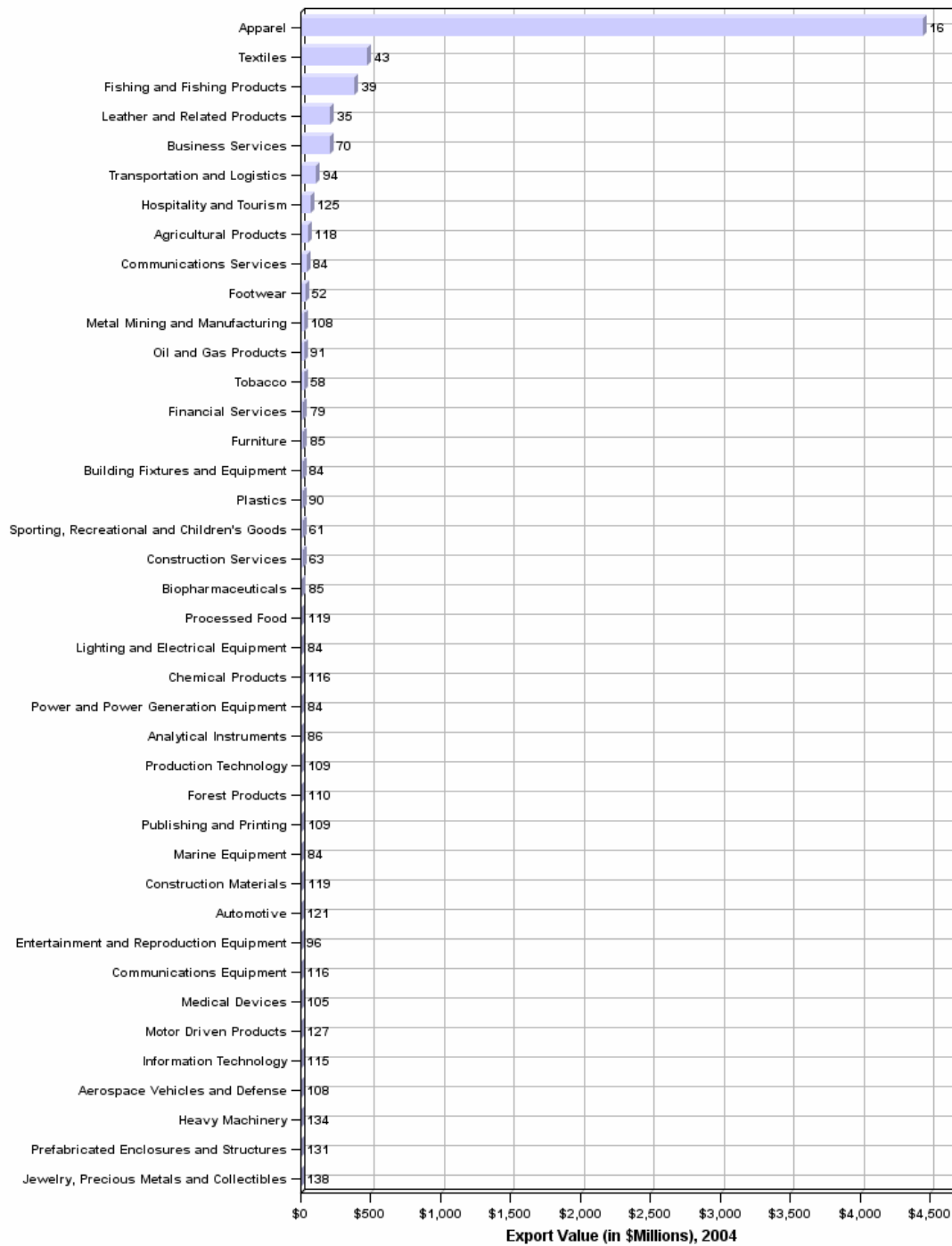


Source: World Trade Indicators 2008

3. Bangladesh Export Performance

Bangladesh's export boom for in the 1990s particularly the rapid expansion of the readymade garment (RMG) exports under the umbrella of the Multi-Fibre Arrangement (MFA) and under the WTO Agreement on Textiles and Clothing (ATC). The RMG sector contributes 10.5 percent to GDP and more than 78 percent of the country's export earnings and directly employing around 4.5 million workers and most of them are women (UNESCAP 2008). Chart 4 shows Bangladesh export portfolio cluster. The apparel sector is 16 positions in world ranking and Bangladesh number one exporting sector. In the apparel cluster Bangladesh's men shirts export is world 7th position and hosiery and other garments is 10th position of world export ranking (chart 5). Bangladesh's share of world export in clothing is 2.3 percent in 2005 and 4th position in Asia just after China, Hong Kong and India (table 1). Bangladesh also exports hats and it is 14th position of world ranking. The main destination of Bangladesh export is USA, Germany, England, France and Canada, Belgium, Japan, Hong Kong, China and Korea (chart 6). However, Bangladesh has increased considerably trade openness in recent years the ratio of total trade (exports plus imports) to GDP has increased from 17.6 percent in 1990 to around 42.0 percent in 2007 where Indian 'trade openness is 39 percent in 2007 (WTIR2008). It also exports textiles which rank is 43 in the world. Bangladesh also exports significantly in fishing and fishing product and its world ranking 39. Bangladesh leather and leather product exporting rank is 35 in the world.

Chart 4: Bangladesh's export Portfolio, Export by Cluster



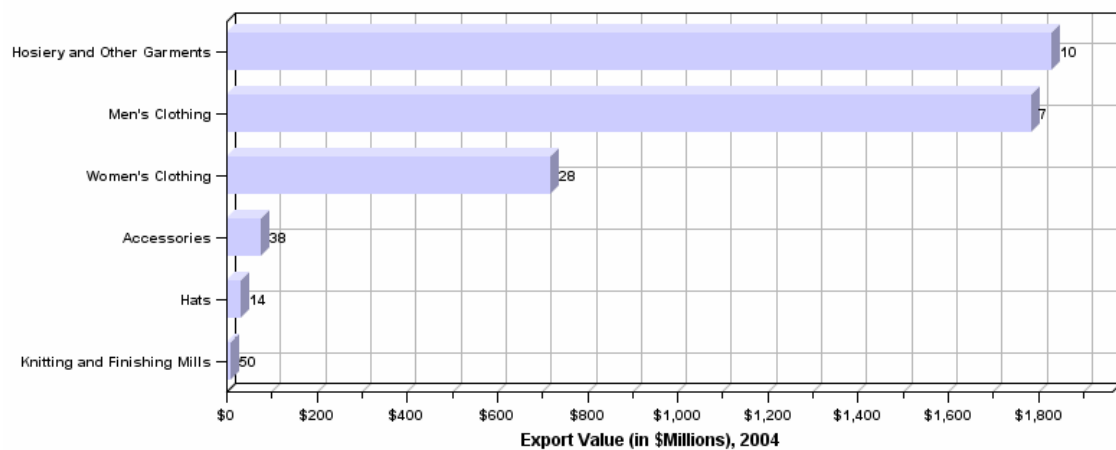
Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, <https://secure.hbs.edu>

Table 1: Clothing Exports of Selected Economics

Region/Economics (ranked by value in 2004)	Value (USD million)			Share of World Exports 2005
	1990	2004	2005	
World	108129	259147	275639	
Asia				
China	9669	61856	74163	26.9
Hong Kong, China	15406	25097	27292	9.9
India	2530	6632	8290	3.0
Bangladesh	643	5686	6418	2.3
Indonesia	1646	4464	5106	1.9
Vietnam		4441	4805	1.7
Other regions				
EU 25		76887	80354	29.2
Mexico	587	7490	7271	2.6
USA	2565	5059	4998	1.8
Turkey	3331	11193	11818	4.3

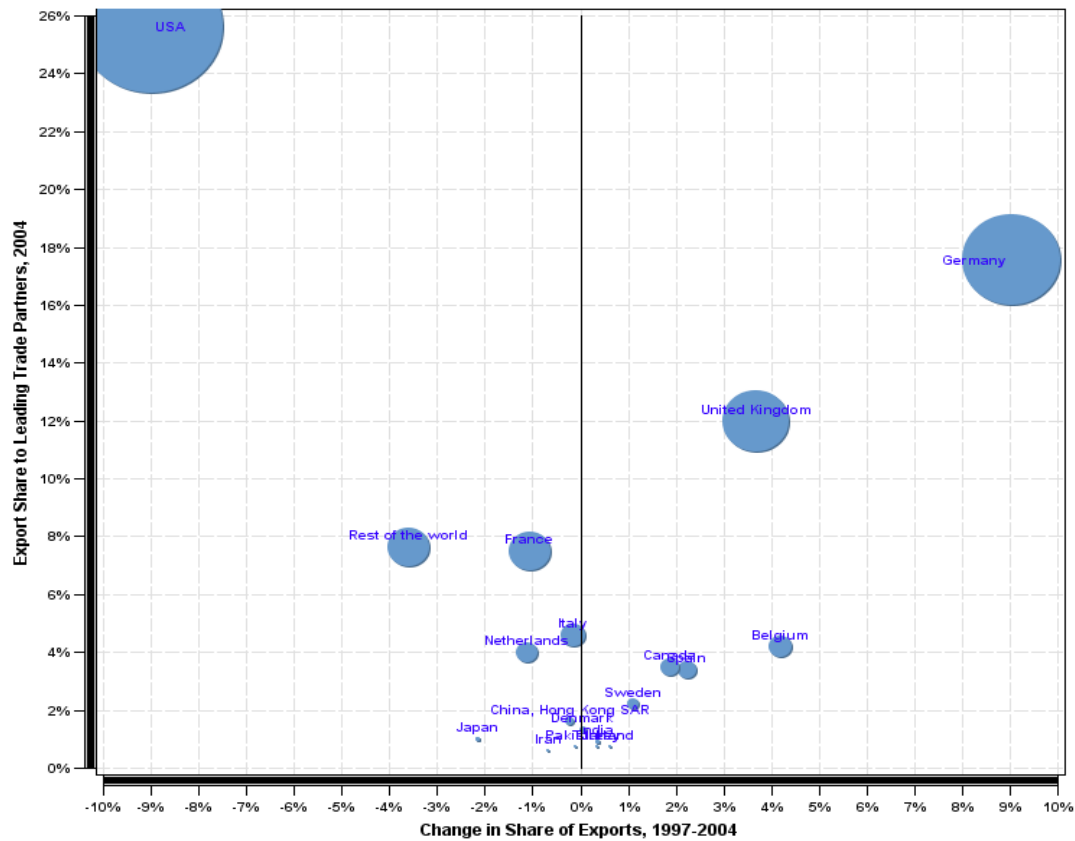
Source: Adhikari and Yamamoto (2008)

Chart 5: Apparel Sector's Cluster



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, <https://secure.hbs.edu>

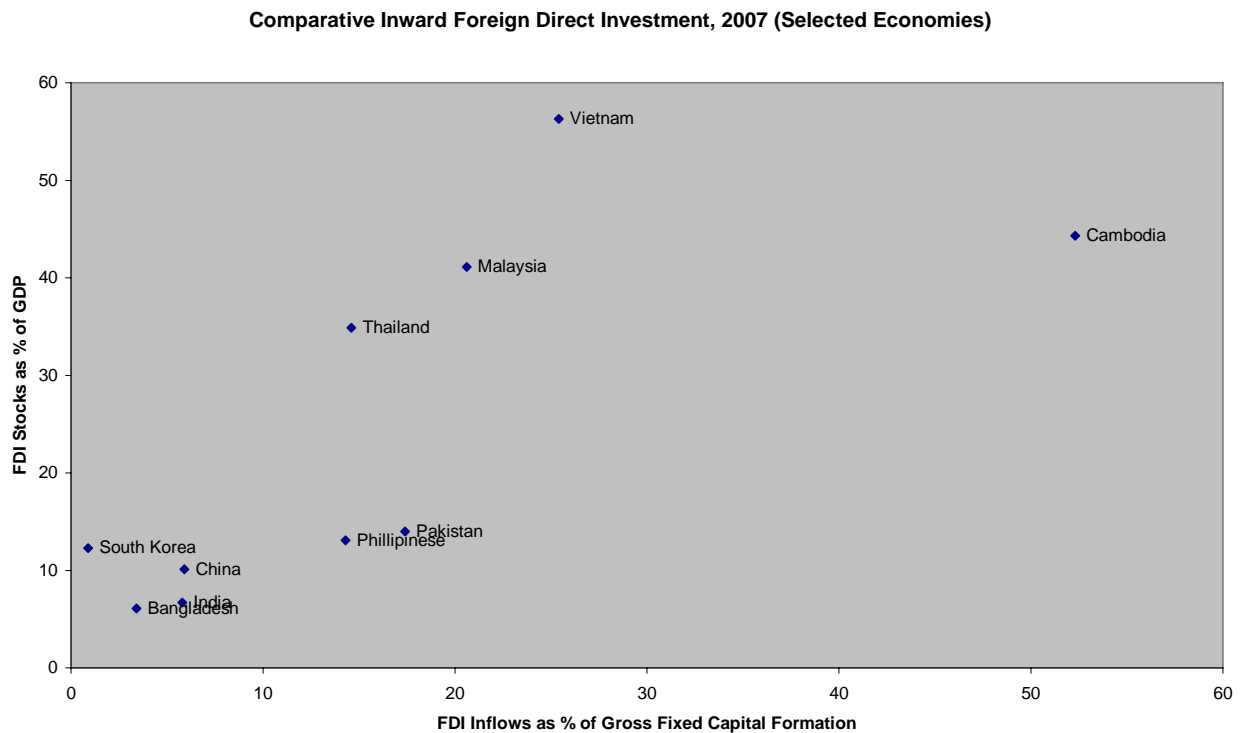
Chart 6: Goods Export Share to Leading Trade Partner of Bangladesh, 1997-2004



Source: Prof. Michael E. Porter, International Cluster Competitiveness Project,

Chart 6 shows the share and change in share of a Bangladesh's total goods exports according to their destination and main Export destination is USA and other European countries. The chart shows 25.63 (USD 91485.91 Million) percent of Bangladesh's goods exports to USA, and share have changed over the year -8.99 percent. Bangladesh exports share to Garment 17.57 percent (91018.90 million USD) and share changed +9.05 percent over the year and 12 percent (USD 9695.83 million) to England and share change +3.66 percent. Bangladesh also export France is 7.5 percent, Italy 4.6 percent, Belgium 4.18 percent, Canada 3.5 percent. Bangladesh's export in Asia and neighboring countries are not very significant. Bangladesh has trade tremendous potential with Asian neighboring countries.

Chart 7: FDI Inflows of Some Selected Economies



Source: World Investment Indicator, 2008

4. National Competitiveness Assessment

Bangladesh's business environment generally compares favourably with other Asian countries and USA, Canada as well as some European countries particularly England, Germany and France. It's rank 108th on the 2008-2009 Global Competitiveness Index which is very ominous feature for Bangladesh. However, according to the World Bank Ease of Doing Business ranking Bangladesh rank is 107th behind the Pakistan (76), Sri Lanka (101), Vietnam (92), China (83), Malaysia (20) but ahead of India (122), Nepal (111) Cambodia (135), Indonesia (129) and Philippines (140). Among the South Asian Bangladesh position is better than India and Nepal but behind the Pakistan and Sri Lanka (table 3 and chart 8).

There are 115 competitiveness indicators of 12 pillars of the World Economic Forum and Bangladesh has only 10 comparative advantage indicators and some of them are presented of the following tables 2. Bangladesh has some advantage in financing through local equity market, Number of procedures required to start Business, Domestic market size, Strength of investor protection, Non-wage labor cost etc. But performance in these areas is also very far behind standard. Bangladesh has significant weakness and most important issue are follows, Quality of port infrastructure, Nature of competitive Advantage, Public trust of politician, Efficiency of legal framework, Burden of customs procedures, Time requires starting business etc. However, Bangladesh labour productivity is higher than Pakistan, Nepal, Cambodia, but lower than India and Vietnam (Michael Porter 2008).

As we have seen, GDP growth has been impressive over the decade, and could have been even higher but for policy and institutional weaknesses in important investment

areas that have been identified as main barriers for economic growth. In addition, the CPI inflation has touched around 10 percent recently, and food price has been concern the number one priority for government agenda. However, Bangladesh's exposure to external shocks has also been limited, though mainly due to a low trade base. The most binding policy and institutional constraints associated with insufficient global integration, economic governance, physical infrastructure, human capital and innovation, lack of access to finance as well.

In terms of openness to FDI, Bangladesh ranks 137 among the 141 countries in the WDI database on gross FDI inflows to GDP ratio during the 1997-2007. The Inward FDI is very low compare to India, China, Pakistan and Vietnam and higher than only Nepal, Iran, Republic of Congo and Samoa (World Bank 2008). This is despite the fact that Bangladesh has a relatively liberal FDI regime. Clearly, foreign investors are deterred by the licensing requirements for private activity in the energy and the telecom sectors, as well as other investment climate problems. The perception of widespread corruption is also likely to have dampened FDI inflows, as has been shown for other countries as well.

Table 2: Business Competitiveness Index Rankings for Bangladesh (Out of 186 Countries)

Relatives Strength	Rank	Relative weakness	Rank
Financing through local equity market	46	Public trust of politician	128
Number of procedures required to start Business	44	Efficiency of legal framework	122
Non-wage labor cost	1	Quality of port infrastructure	121
Hiring and Firing practices	29	Quality of Air infrastructure	118
Strength of investor protection	15	Inflation	104
Domestic market size	43	Interest rate spread	86
National savings rate	42	Nature of competitive Advantage	134
Extent and Effect Taxation	50	Internet users	132
		Personal computers	97
		FDI and technology Transfer	116
		Soundness of banks	115
		Ease of access to loans	110
		Burden of customs procedures	132
		Time requires to start business	116

Source: WEF 2008

The ease of doing business database 2009 shows, on average, 7 procedures are involved in starting a business in Bangladesh. This compares favorably relative to other benchmark countries. On average, it takes about 30 days to clear these procedures in Bangladesh, which again is relatively low in South Asian (EDB 2009). The rank of ease of doing business Bangladesh position is higher than India and Nepal but lower than Pakistan and Sri Lanka. However, the cost of even these relatively few procedures are extremely high in Bangladesh. Despite having fewer procedures, the cost of starting a business is higher in Bangladesh than in China, India, Indonesia, Sri Lanka, Thailand, and Vietnam. Bangladesh ranking is not encouraging. Among the

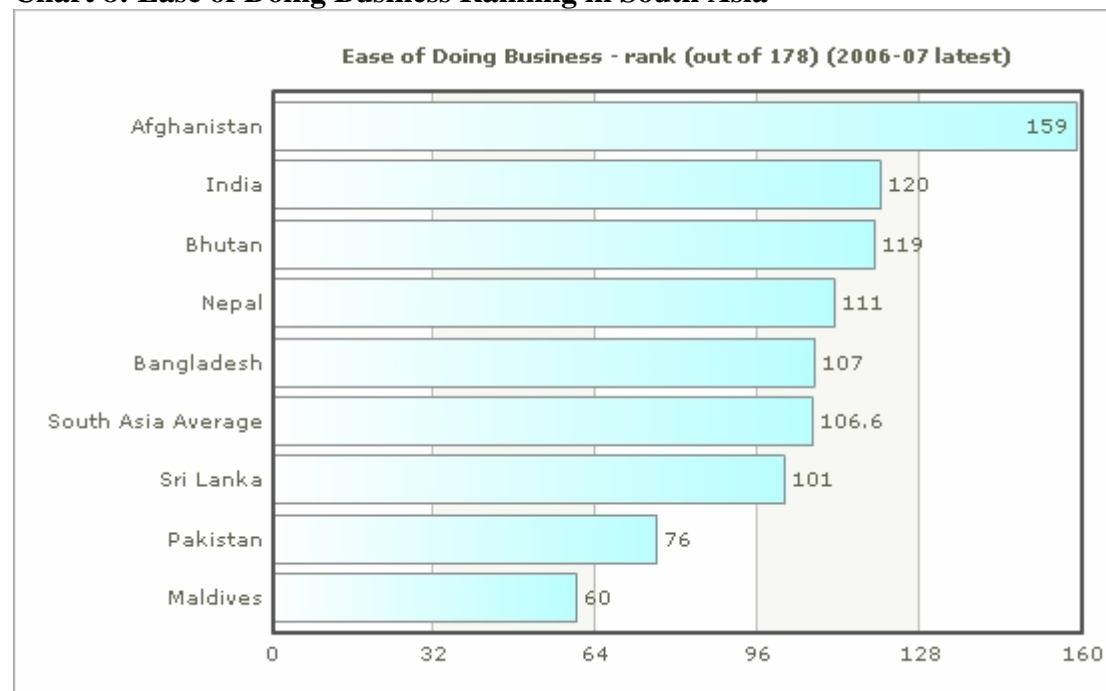
SAARC countries it is below India, Pakistan even Srilanka. The time and requirments documents is also higher in Bangladesh compare in other South Asian Countries except Nepal and Bhutan. The logistic performace index is higher than Srilanka but lowe r than Paistan and India. Corruption, inadequate infrastructure, inefficient bureaucracy, policy instability and access to financing are the major problems for business in Bangladesh. It scored better in market size, labour market efficiency, macroeconomic stability and goods markey efficiency. But performance in these areas is also far behind standard.

Table 3: Ease of Doing Business Ranking

Economy	Pakistan	China	Viet nam	Sri Lanka	Bangladesh	Nepal	India	Cambodia
Ease of Doing Business Rank	76	83	92	101	107	121	122	135
Starting a Business	77	151	108	29	90	73	121	169
Dealing with Construction Permits	93	176	67	161	114	129	136	147
Employing Workers	136	111	90	110	132	150	89	134
Registering Property	97	30	37	141	175	28	105	108
Getting Credit	59	59	43	68	59	109	28	68
Protecting Investors	24	88	170	70	18	70	38	70
Paying Taxes	124	132	140	164	90	107	169	24
Trading Across Borders	71	48	67	66	105	157	90	122
Enforcing Contracts	154	18	42	135	178	121	180	136

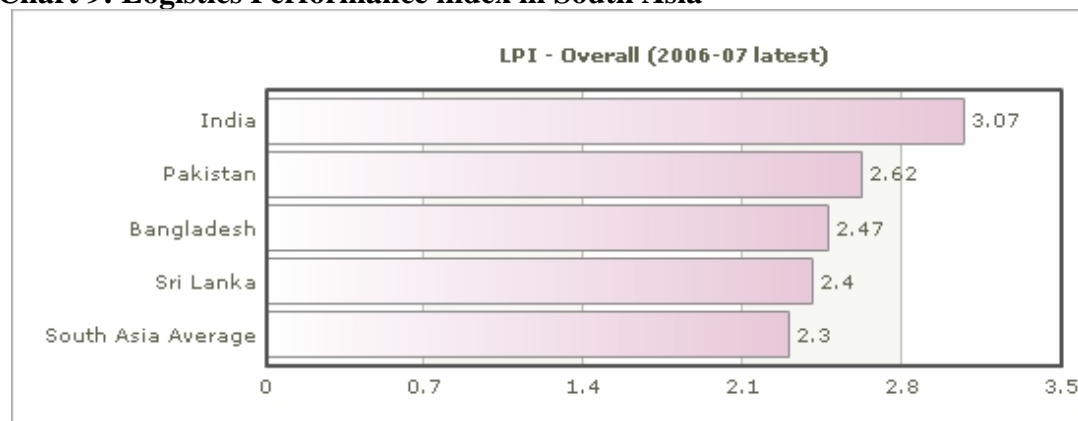
Source: World Trade Indicators 2008

Chart 8: Ease of Doing Business Ranking in South Asia



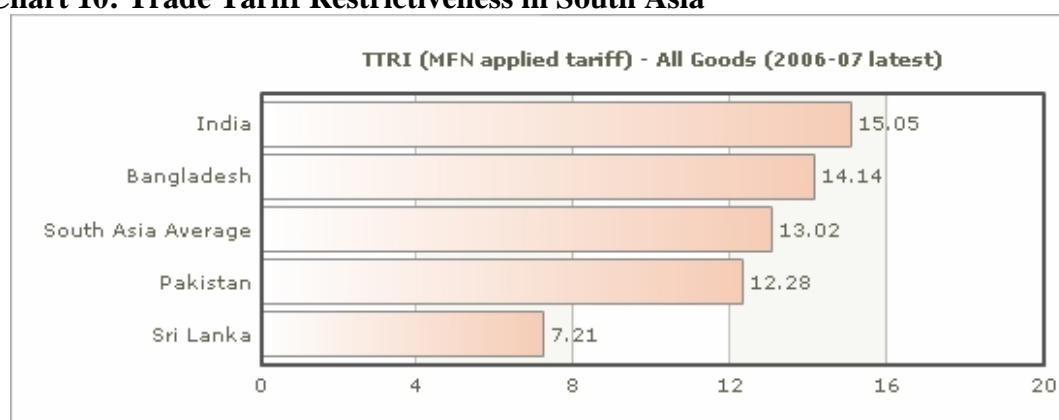
Source: World Trade Indicators 2008

Chart 9: Logistics Performance index in South Asia



Source: World Trade Indicators 2008

Chart 10: Trade Tariff Restrictiveness in South Asia



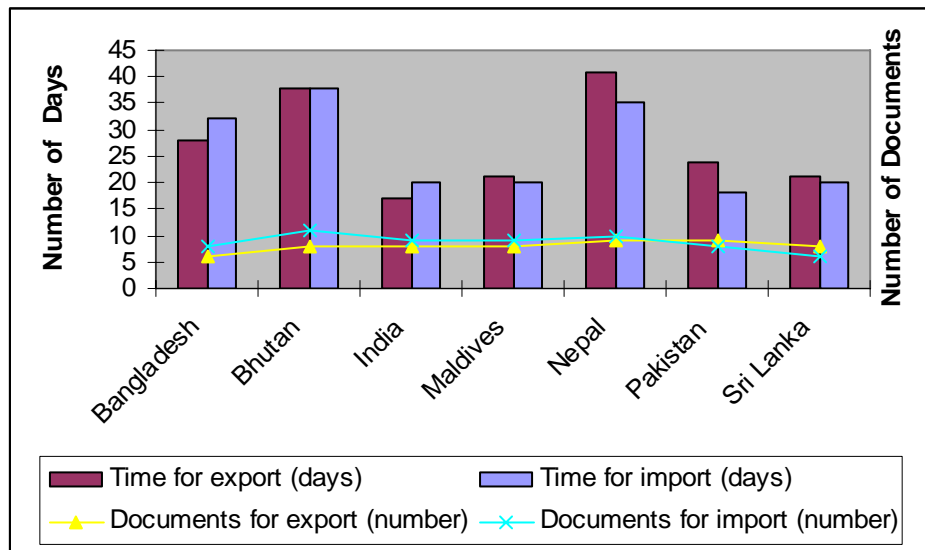
Source: World Trade Indicators 2008

Table 4: Fastest Real Growth of Trade and Lowest Trade Openness Countries

Fastest 15 Real Growth of Total Trade			Lowest 15 Trade Openness Ratio		
Country	Real Trade Growth (2005-06)	Rank (1-152)	Country	Trade/GDP (2005-06)	Rank (1-152)
Mauritania	36.0	1	Central African Rep.	27.3	152
Iran	27.9	2	United States	27.7	151
Azerbaijan	25.1	3	Brazil	28.1	150
Egypt	20.6	4	Japan	29.3	149
Sierra Leone	20.4	5	Burkina Faso	31.6	148
China	19.6	6	Pakistan	37.1	147
Vietnam	19.6	7	Comoros	39.4	146
Angola	19.6	8	Colombia	39.4	145
Pakistan	18.5	9	India	39.7	144
Estonia	18.4	10	Uganda	40.6	143
Cambodia	16.0	11	Burundi	40.7	142
Nigeria	16.0	12	Niger	41.3	141
Bangladesh	15.9	13	Bangladesh	41.9	140
Lithuania	15.90	14	Benin	42.5	139
Singapore	15.88	15	Australia	43.1	138

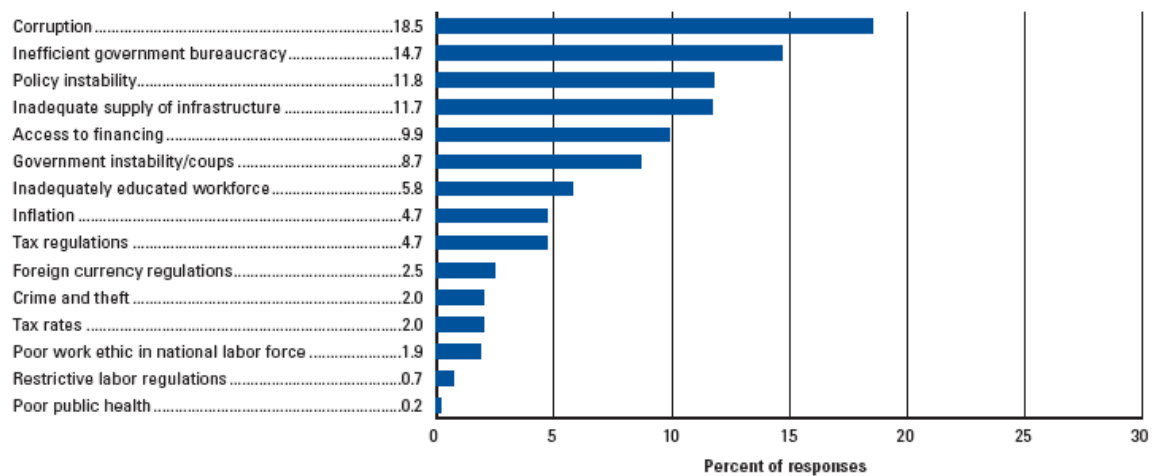
Source: World Trade Indicators 2009

Chart 11: Time & Documentary Requirement for Export and Import in South Asia



Source: Ease of Doing Database (2009)

Chart 12: The Most Problematic Factors for Doing Business in Bangladesh



Source: The Global Competitiveness Report 2008-2009 (WEF)

5. Challenging Issues for Bangladesh

The past decade's boom in exports –particularly the apparel sector is very significant to country's economic growth, but the recent GDP growth has not led to significant improvements in the living standards of most people and the social factors are still challenging. Despite impressive economic growth and some reforms over the two decades Bangladesh's business environment is still challenging. The key issues are:

- ◇ Poor quality infrastructure particularly road networks and electricity supply
- ◇ The economy is not diversified and is highly dependent on the agricultural sector; services and apparel only make up a small percentage of the economy.
- ◇ High cost of finance and limited access to long term finance options
- ◇ Largely unskilled labor force: limited spending on education has led to a decline in attendance and in the quality of education
- ◇ Political instability and safety risks, political, ethnic threaten to undermine stability.
- ◇ Slow pace of reform due to government bureaucracy and lack of alignment of policies at the various levels of government
- ◇ High levels of corruption, even within the judiciary, undermines investor confidence

6. Strategy issues for Policy Recommendations

According to the Michael Porter definition of competitiveness Bangladesh is still under the factor driven economy. Bangladesh should go for the comprehensive and pragmatic policy to become a more competitive trading country such as-

Broaden the country's sources of economic activity, including by diversifying exports particularly the agricultural commodities, to reduce external vulnerabilities and promote growth.

The government should provide supportive conditions that would facilitate the expansion and diversification of exports.

The government should continue to support the growth of domestic demand and private-sector led investment through a reduction in government activity, which crowds out private investment.

Significantly higher FDI inflows would be needed to support a higher growth environment in Bangladesh to compensate for domestic resource constraints and to enable Bangladesh to benefit from associated knowledge and technological spillover effects. The current ban on FDI inflows into the RMG sector also needs to be removed in order to bolster Bangladesh's prospect for the post-ATC quota era.

Surrounded by increasingly competitive countries, Bangladesh must avoid discriminating against foreign investment or ownership. In this context, the investment environment would become more attractive by reducing restrictions on foreign ownership both in manufacturing and service sector.

Improving governance is crucial in every sector and to achieve for that requires a clear long-term vision as well as pragmatism in exploiting opportunities to strengthen the overall framework of public accountability.

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