Policy Note: PN2201

Export Performance of Bangladesh during the Pandemic: the Impact of Export Concentration

March 2022

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Export Performance of Bangladesh during the Pandemic: the Impact of Export Concentration[1]

Abstract

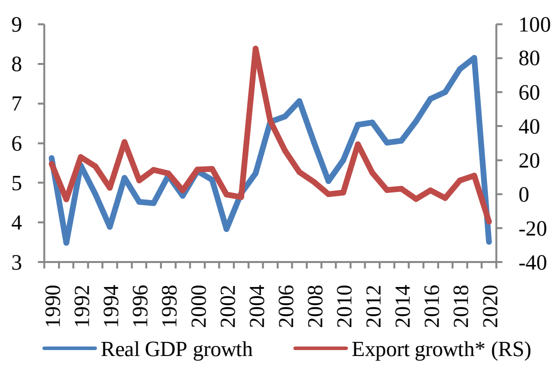
Growing by 10.25 percent annually on average over the past two decades, export earnings of Bangladesh reached USD 46.36 billion in 2019, which was 15.32 percent of GDP. However, the outbreak of COVID-19 pandemic slashed the country's export by 16.23 percent in 2020, while total global export shrank by 8.98 percent. The sharper fall in Bangladesh's export implies that there might have been some country specific factors, in addition to the pandemic-driven global economic slowdown that played a role to intensify the fall in exports. Given this backdrop, this note examines main features of Bangladesh's exports and identifies the key sources of export vulnerability. The note finds that highly concentrated export basket and export destinations contributed to heighten the negative impacts of the pandemic on Bangladesh's exports. This result has an implication for formulating appropriate policy for sustainable export growth of Bangladesh.

I. Introduction

A sustained, strong economic growth since the beginning of last decade helped Bangladesh to qualify lower-middle income status in 2015 and to remain on the course to graduate from the UN's Least Developed Countries (LDCs) group in 2026. The impetus to this economic growth emerged mainly from liberalization of trade and financial sector, favorable demographic factors, financial inclusion, and macroeconomic stability. Alongside, a stride in labor-intensive manufacturing exports, led by readymade garment (RMG) also contributed to achieving country's remarkable economic growth, creating employment, and reducing poverty. Over the last two decades, registering 10.25 percent average annual growth rate, Bangladesh's export earnings stood at USD 46.36 billion in 2019 which was 15.32 percent of GDP[2].

However, COVID-19 driven economic slowdown inflicted damage on global export demand. According to World Bank data, world export decline by 8.98 percent in 2020. The pandemic, which also hit hard Bangladesh economy, slashed real GDP growth to 3.51 percent in FY20 from 8.15 percent in FY19 and reduced export sharply by 16.23 percent to 12.18 percent of GDP. This faster fall in export in Bangladesh than global average suggests a presence of some country specific factors, in addition to the pandemic driven global economic slowdown that played a crucial role in determining export

Chart 1 : Export and GDP growth of Bangladesh



* in constant 2015 USD
Source: World Development Indicators (WDI)

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[1] This note is prepared by Syeda Ishrat Jahan, Deputy General Manager, Chief Economist's Unit. Views Expressed in this note are author's own and do not necessarily reflect official views of Bangladesh Bank

[2] Based on data from World Development Indicators.

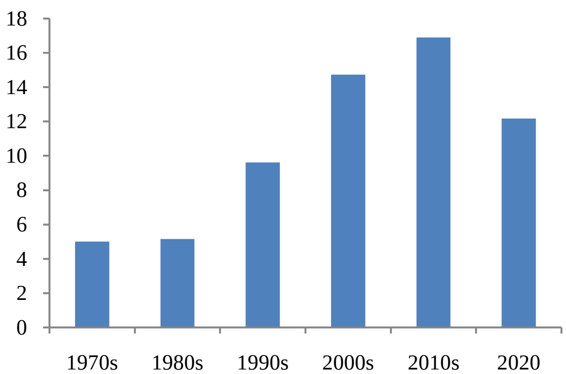
performance during this period.

The 8th five year plan envisages Bangladesh to be an upper-middle income country by 2031 and underscores the importance of sustained strong export growth for achieving this target. However, graduation from LDC group poses some challenges to Bangladesh economy, particularly to the export sector. LDC graduation would relinquish a number of trade preferences and privileges that Bangladesh currently enjoying in its major export destinations, creating a risk of losing a significant amount of export in the post-graduation period. Therefore, Bangladesh would require devising appropriate policy to overcome these challenges in the post-graduation period. Given this backdrop, this note describes key features of current exports and identifies the potential source of export vulnerability to help appropriate policy formulation for sustainable export growth.

II. Progress of the Export Sector: A Brief History

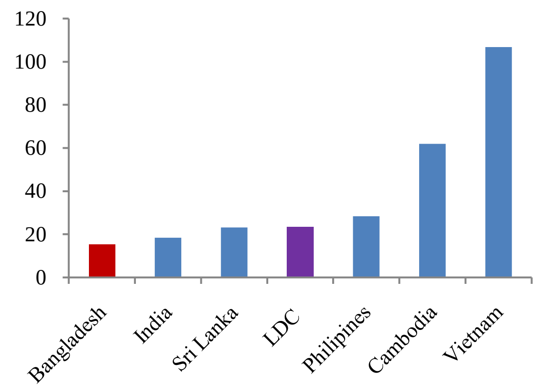
In the early period of its independence in 1971, Bangladesh followed a highly-restricted trade regime and an inward-looking import substitution industrialization strategy characterized by high tariff and non-tariff barriers and an overvalued exchange rate regime to protect the domestic manufacturing industries from foreign competition. These policies were biased against exports, and export earnings therefore remained relatively low in this period (Sattar and Ahmed, 2012). In 1970s, total export earning was at around 5 percent of GDP on average (Chart 2), and the export basket was highly dominated by agricultural goods. Raw jute and jute goods composed around 87 percent of merchandize exports during this period (Khan and Hossain, 1989). Although exports in the 1980s remained broadly stagnant at around 5.15 percent of GDP on average, the share of jute and jute goods in total merchandize exports declined to 51 percent by FY86 on account of falling demand for and price of jute in the global market with the emergence of alternatives to jute.

Chart 2 :Bangladesh's Export-GDP Ratio



Source: Author's calculation based on data from World Development Indicators

Chart 3:Export-GDP Ratio (%) in 2019



Source: World Development Indicators

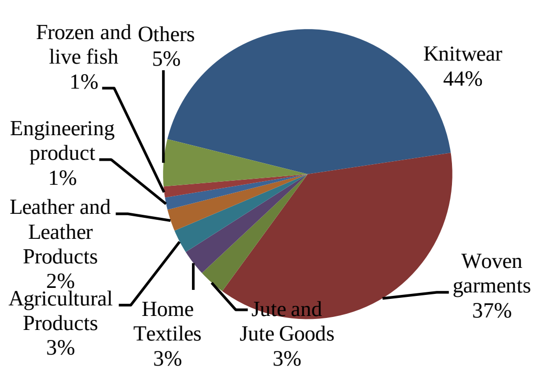
Since the early 1990s, the industrialization policy of Bangladesh started shifting toward export-led industrialization strategy, favored mainly by foreign trade and financial sector liberalization, exchange rates rationalization, and private investment promotion policies. With these policy supports, Bangladesh's exports continued shifting toward a labor-intensive manufacturing goods and export earnings started rising at a faster pace. The export-GDP ratio picked up to 20.16 percent in 2012, led by a stride in labor-intensive readymade garment (RMG) export[3]. However, the export-GDP ratio started declining and came down to 12.18 percent in 2020 during the COVID pandemic.

Although export-GDP ratio has been growing over time, it is still lower than its peer countries. Remaining at 15.32 percent of GDP in 2019, the size of Bangladesh's export was far lower than the LDCs average of 23.38percent (Chart 3). In 2019, among the SARRC countries, the export-GD ratios of India (18.43 percent) and Sri-Lanka (23.13 percent) in 2019 were higher than Bangladesh's one. Among the closest rival for RMG exports, Vietnam and Cambodia's export-GDP ratio were 106.80 percent and 61.09 percent, respectively in 2019, remarkably higher than that of Bangladesh.

III. Pattern and Structure of Export of Bangladesh

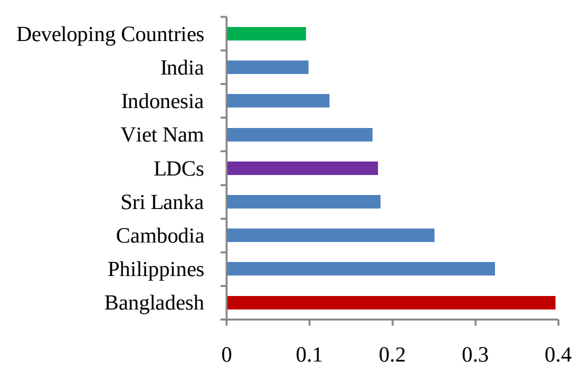
Historically, Bangladesh has been heavily dependent on a narrow range of products for most of its export earnings. In the early 1980s, jute and jute goods accounted for around 70 percent of its total merchandise exports. With the gradual transformation of the economy into a labor-intensive manufacturing base from an agrarian base, the share of RMG products in total export started rising since the mid-1980s. RMG products have constituted more than four-fifth of total export earnings since 2015. In FY21, RMG constituted 81 percent of total export of Bangladesh of which 44 percent of total export came from knitwear and 37 percent came from oven garments (Chart 4). Although Bangladesh exports many other goods (total 98 categories of product at the two digit level of the HS code), their share in total export earnings remained relatively small. The third largest export item was jute and jute goods (3.0 percent) followed by home textiles (2.9 percent), agricultural product (2.7 percent), and leather and leather product (2.4 percent).

Chart 4: Composition of Exports of Bangladesh in FY21



Source: Export Promotion Bureau

Chart 5:Export Concentration Ratio in 2020

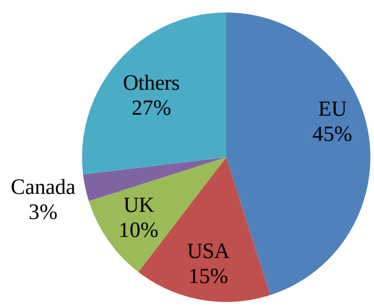


Source: United Nation's Commodity Trade Statistics(UNCTAD)

[3] Liberalization of trade, reforms in the financial sector, availability of cheap labor, and a shift in global trade regime, among others, contributed to RMG exports of Bangladesh quickly (Razzaque 2017). The Multi-Fiber Agreement, relaxation of rules of origin and duty-free and quota-free access under the Generalized System of Preference facility in the EU markets helped boost Bangladesh's RMG export.

An extra-ordinary large share of RMG in total export has made Bangladesh's export basket highly concentrated compared to that of other developing and low-income countries, implying lack of comparative advantage in most of its products. According to the export concentration index[4] data published by United Nation's Commodity Trade Statistics (UNCTAD), the concentration ratio of Bangladesh's export was 0.40 in 2020, which was more than double compared to 0.18 of LDCs and more than four times concentrated than developing country average (0.09). The export baskets of Bangladesh's peer countries and main competitors in RMG export markets, such as India, Vietnam, Cambodia, and Indonesia, were much less concentrated than Bangladesh (see Chart 5).

Chart 6 : Destination of Bangladesh's Exports in FY21



Source: Export Promotion Bureau

Although Bangladesh sells goods to nearly 200 countries, its exports are highly concentrated in few destinations. In FY21, around 70 percent of the country's total export earnings came from three markers, such as the European Union (EU), the United States (US), and UK (Chart 6). Facilitated by the duty-free and quota-free access, the EU became the largest destination of Bangladeshi exports, mainly RMG, accounting for around 45 percent (excluding UK) of total export in the past few years. However, the US is the single largest export destination that accounted for around 15 percent of Bangladesh's exports.

IV. Disadvantages of Export Concentration

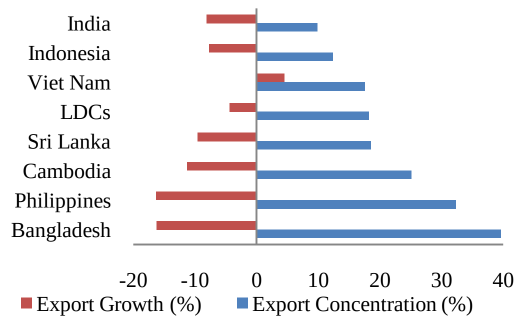
As export of an economy largely depends on external demand, the vulnerability in exports and thereby economic growth of a country may emerge from economic shock originated in its export destinations. The impact of this external shock largely depends on the degree of concentration of the country's export portfolio. Concentrated export basket and export market amplifies the vulnerability of an economy to external shocks. Therefore, to strengthen resilience to external shocks and to achieve a higher sustainable rate of economic growth, an open economy should pursue policies to diversify their economies and to reduce their dependence on a narrow range of exports (IMF, 2014). Diversification helps countries to hedge against

[4]The export concentration index shows to which degree exports of a country is concentrated on a few products rather than being distributed in a more homogeneous manner among several products. Data on concentration are retrieved from UNCTAD database (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=120) on November 18, 2021.

adverse terms of trade shocks by stabilizing export earnings and domestic output (McIntyre et al 2018; Haddad et al 2012).

The concern about vulnerability to external shock with concentrated export structure comes true for Bangladesh during the COVID-19 pandemic. The outbreak of pandemic caused a notable global economic downturn, and global export declined considerably due to weak external demand. During the pandemic, world export shrunk by 8.98 percent in 2020, while Bangladesh's export earnings witnessed a sharper decline of 16.23 percent. Bangladesh's export loss was much higher than the average export loss of LDCs (4.32 percent) and some other comparable countries (Chart 7) during the pandemic.

Chart 7 : Export Concentration and Export Growth during Covid-19



Source: UNCTAD; WDI

Chart 7 shows a gross positive association between export concentration and export loss for the comparable countries, except Vietnam, during COVID-19 pandemic. Export concentration for India was lower than other comparable countries followed by Indonesia, Vietnam, Sri Lanka, Cambodia, Philippine, and then Bangladesh. Bangladesh and Philippine experienced a larger decline in export with higher concentrated export basket. With a relatively less concentrated export basket, India registered a smaller decline in export, while Vietnam registered a positive export growth. In addition to low concentration, a well-diversified export basket along with efficient control of the transmission of *coronavirus* might have a role to increase Vietnam's exports during the pandemic.

V. Conclusion

Bangladesh has emerged as a high growth country in 2010s which helped the country to qualify lower-middle income status in 2015 and to fulfill the prerequisites for LDC graduation involving income per capita, human assets, and economic and environmental vulnerability. The country will gain status of a developing country in 2026. The export sector, led by RMG, has played a crucial role in achieving this remarkable progress by creating employment and reducing poverty. Over the last two decades, registering 10.25 percent average annual growth rate, export earnings of the country stood at USD 46.36 billion in 2019 which was 15.32 percent of GDP. However, the outbreak of COVID pandemic caused a decline in export of Bangladesh by 16.23 percent to 12.18 percent of GDP in 2020, while world export shrunk by 8.98 percent. The sharper fall of Bangladesh's export implies a role of country specific factors, in addition to the pandemic driven global economic slowdown. Given this backdrop, this note describes key features of current exports and identifies the potential source of export vulnerability to help appropriate policy formulation for sustainable export growth. This note finds that highly concentrated export basket and export market exaggerated the negative impact of the pandemic on Bangladesh's export. This result has an implication for formulating appropriate policy measures to prepare for post-LDC graduation export challenges and to attain a sustained strong export growth for achieving the target of being an upper-middle income country by 2031.

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