

From Headwinds to Opportunities: Charting A Path to Export Success through Global Turbulence

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Too frequent global economic shocks affecting international trade and economic landscapes.

Global trade has lost momentum: Merchandise exports are \$9 trillion lower because of various shocks

U.S.-China trade war prior to Covid-19 adversely affected Bangladesh's exports.

Bangladesh was one of the very countries that managed to maintain positive economic growth in the aftermath of Covid-19 (in 2020)

Dollar prices against various currencies

Global growth is projected to fall from 3.6% of 2022 to 2.9% in 2023, mostly driven by advanced economies.

Headwinds: Five economic challenges in 2023

- Global economic downturn and trade slowdown
- Volatile prices: stubborn inflation
- Energy crisis
- Geopolitical tensions (including technology war between U.S. and China)
- Weakening multilateralism (including trade cooperation)

Preparing for graduation will be important for medium to long-term export prospects.

- 75% of BGD exports receive LDC tariff preferences.
- Tariff preference and market share
- Loss of policy space (providing export subsidies will not be possible)

Tariffs on BGD exports will rise significantly after LDC graduation

COUNTRIES	CURRENT TARIFFS ON LDC APPAREL PRODUCTS	POST-GRADUATION TARIFF RATES
EU	0%	12%
Canada	0%	17%
China	0% (in 99 percent products)	16.2%
India	0%	8.61%
Japan	0% (in more than 90% products)	8.71%

LDC tariff preference has been critical for BGD in raising its clothing export market share.

Capturing market shares in the EU and US

Notwithstanding the challenging landscape, export success will be vital for sustaining economic growth and macroeconomic stability.

- Exports are critical for maintaining sustainable external balance
- Exporting helps with improved productivity of other sectors (spillover effects)

Despite RMG growth, the overall export size of Bangladesh is relatively small.

Given the current context, the role of EPZ in promoting exports cannot be overemphasized.

Export expansion: Role of EPZs

- EPZs can attract FDI
- FDI flows are integrated into global value chains
- Without value chain participation larger scale export expansion is not possible
- EPZs and ECI firms are generally more profitable
- Development, Social and Governance (DSG) factors are increasingly becoming prerequisites for export success
- ECI firms can help with technological adaptation
- Slow and steady adaptation will underwrite export competitiveness
- Attracting firms that are relocating
- Decoupling and shifting technological supply chain linkages could provide opportunities

Decoupling of U.S.-China Production and trade linkages

- China's global market share could fall significantly—opportunities?
- Failing global trade governance and weak multilateralism
- Trade and investment cooperation with countries could be subject to scrutiny by third
- If world trade slows as a result of geopolitical tensions—rise good for most countries
- Vulnerability of key countries' geo-economic battles

Opportunities: Bangladesh's share in global apparel market is 5% in cotton apparel, our share is 10% but in MMF-based apparel is less than 5%. A 20% share in cotton- and 12% in MMF-apparel will make \$100 billion.

Promoting exports: A few other selected issues for consideration

- Large economy and inherent bias towards the domestic market
 - Policies have deepened the incentives for domestic sales
 - Fee items for exports—policy factors and differential standards exacerbate the problem
- LDC graduation does not mean end of trade preferences
 - Engaging with partners to look for other options including FTA and FTA (domestic prohibition of trade agreements is a massive challenge)
- Export expansion and export diversification
 - Both are important for Bangladesh
- Export diversification opportunities within RMG
 - Explore opportunities for MMF-based garment products
- Significance of FDI and global supply chains
 - Export diversification will be difficult to achieve without FDI

Way forward: the export sector is at a critical juncture facing global uncertainty and competitiveness challenges emanating from the impending LDC graduation. But there are opportunities for Bangladesh.

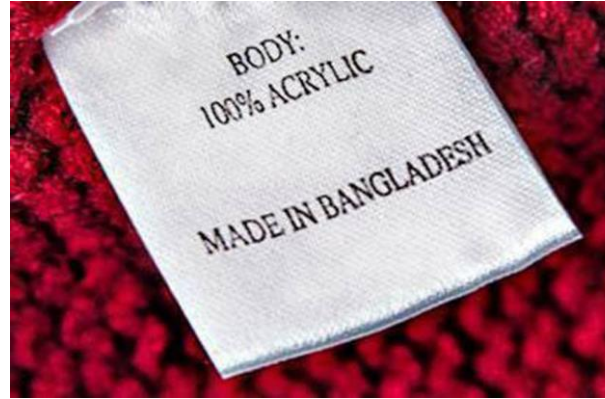
- Unfavourable global trade and economic landscape in 2023
 - For medium-term export prospects responses to LDC graduation from LDC dependent
- Export success is crucial
 - An Enhanced role of EPZs especially in attracting more FDI must be explored
- A transformed trade and investment policy regime
 - with its implementation backed by government engagement

Thank you.

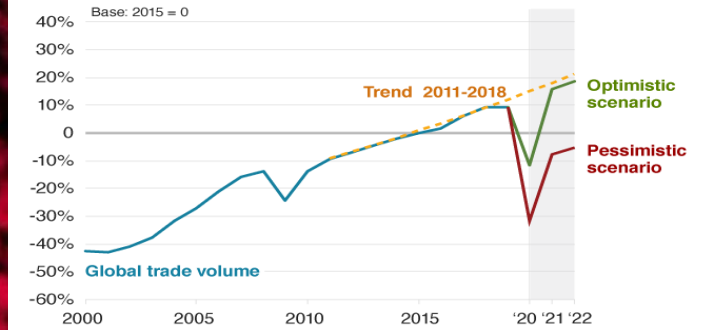
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 9 February 2023

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World Trade set to plunge
Growth rate for global trade and WTO scenarios

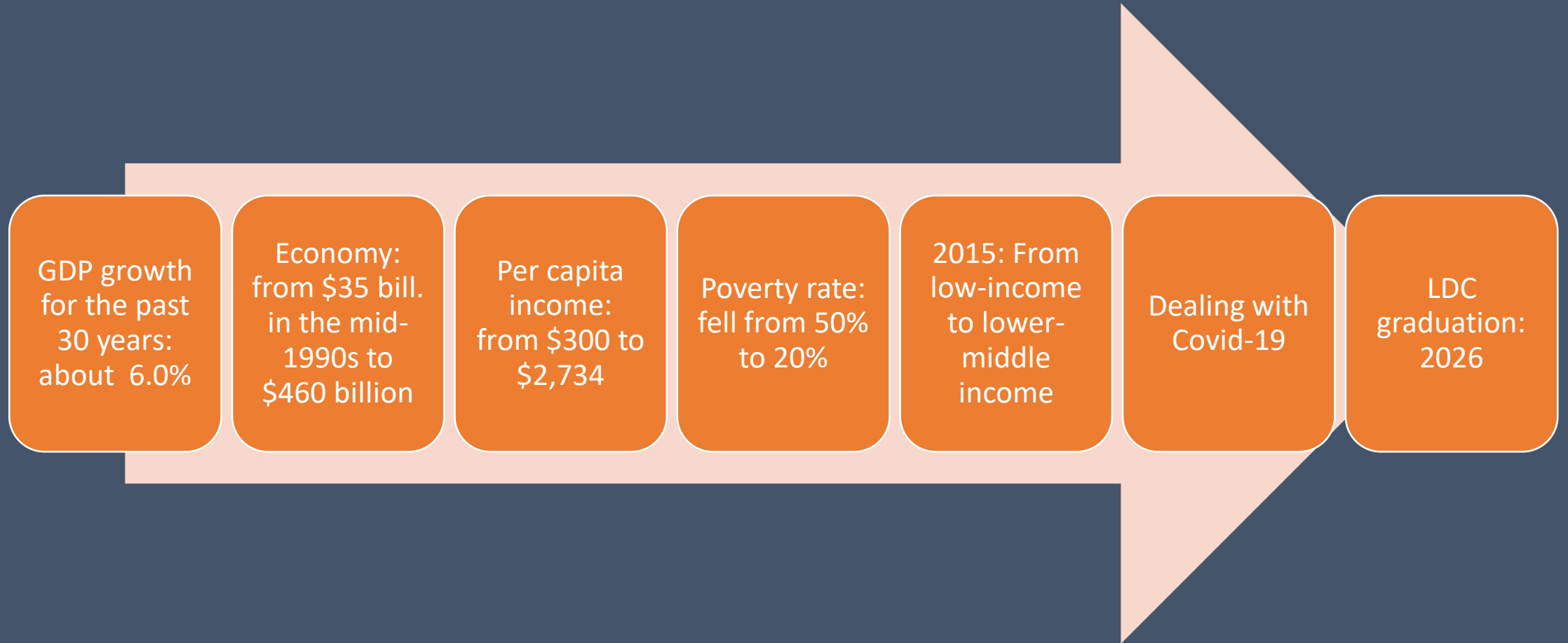




Structure of this keynote presentation

- **Bangladesh's tremendous progress in its economic development**
 - From a fragile socio-economic set up to LDC graduation
- **But external shocks and unfavourable global trade environment pose major threats to economic stability**
 - LDC graduation related export competitiveness issues
- **Significance of exports is now more important than ever given the recent macroeconomic developments**
 - Here comes the role of EPZs
- **Despite the headwinds, there are opportunities as well**
 - Several factors for consideration
 - An enhanced role of the EPZ model

Bangladesh: Headline socio-economic progress Indicators



Too frequent global economic shocks affecting international trade and economic landscapes.



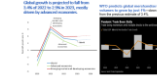
2015-2016—
Global trade
turmoil



2020-21
Covid-19



2022—
Rising dollar
prices



2023—weak
growth and
trade
prospects

2019—
U.S.-China
trade war

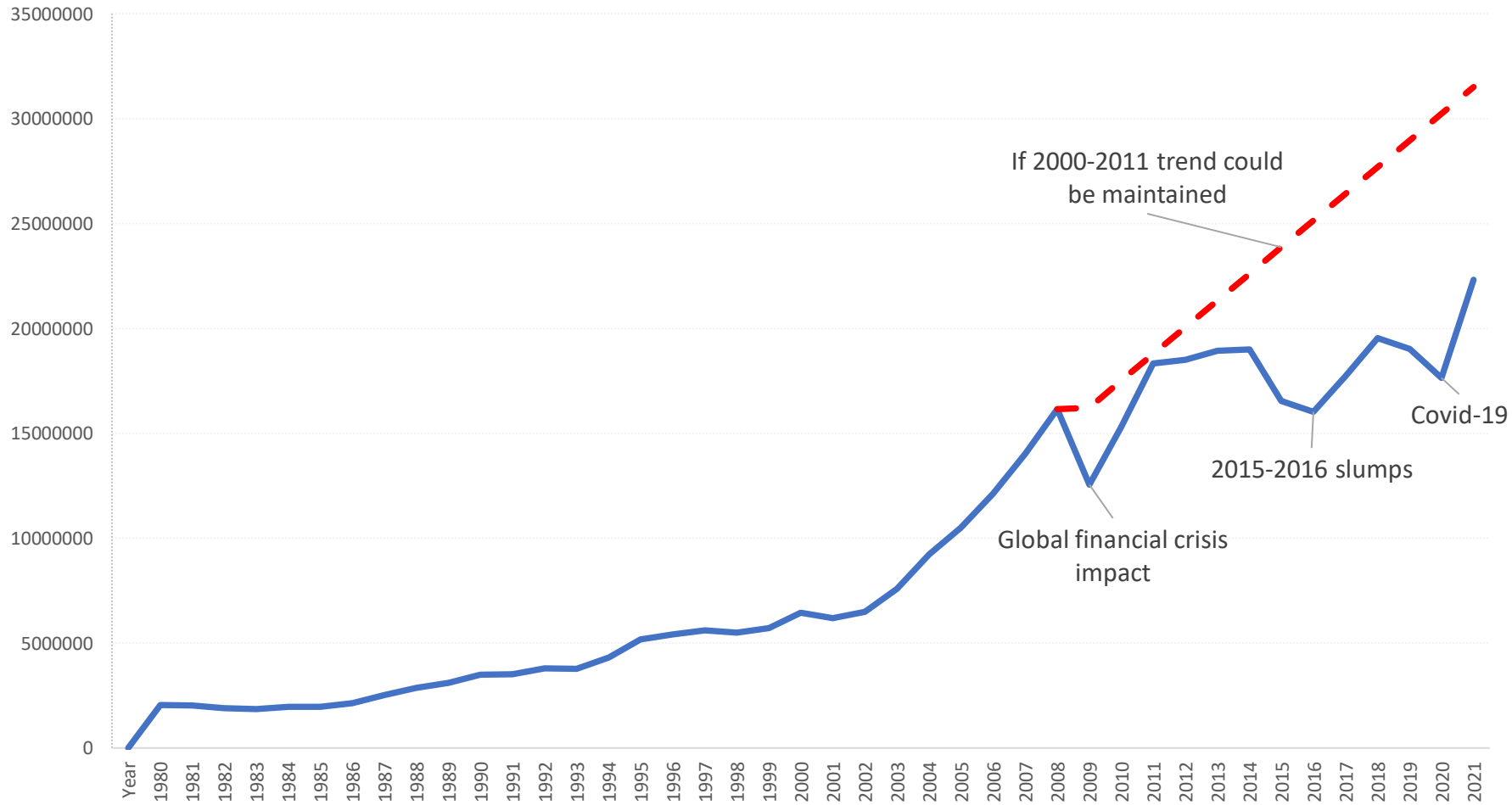


2021—
Global
supply chain
disruptions

2022—Ukraine
war: food and
energy supply
shocks

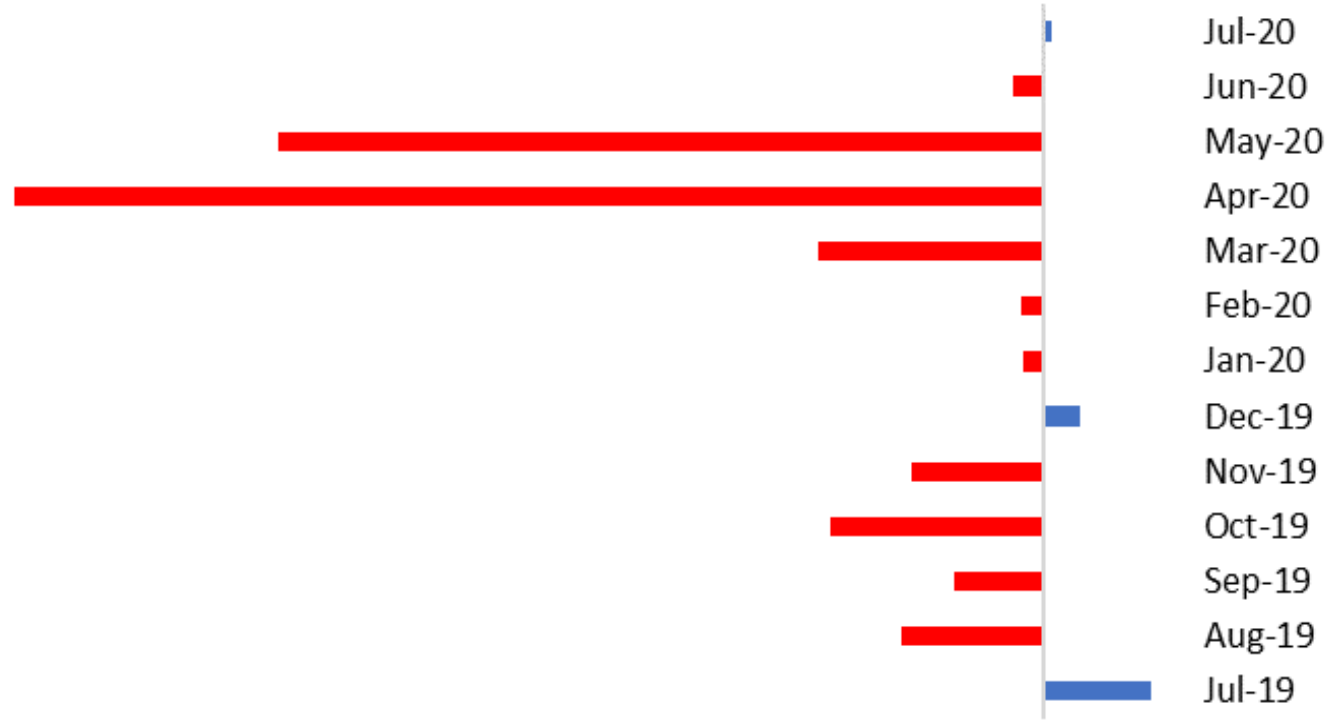
Global trade has lost momentum: Merchandise exports are \$9 trillion lower because of various shocks

World merchandise exports (\$ trillion)



U.S.-China trade war prior to Covid-19 adversely affected Bangladesh's exports.

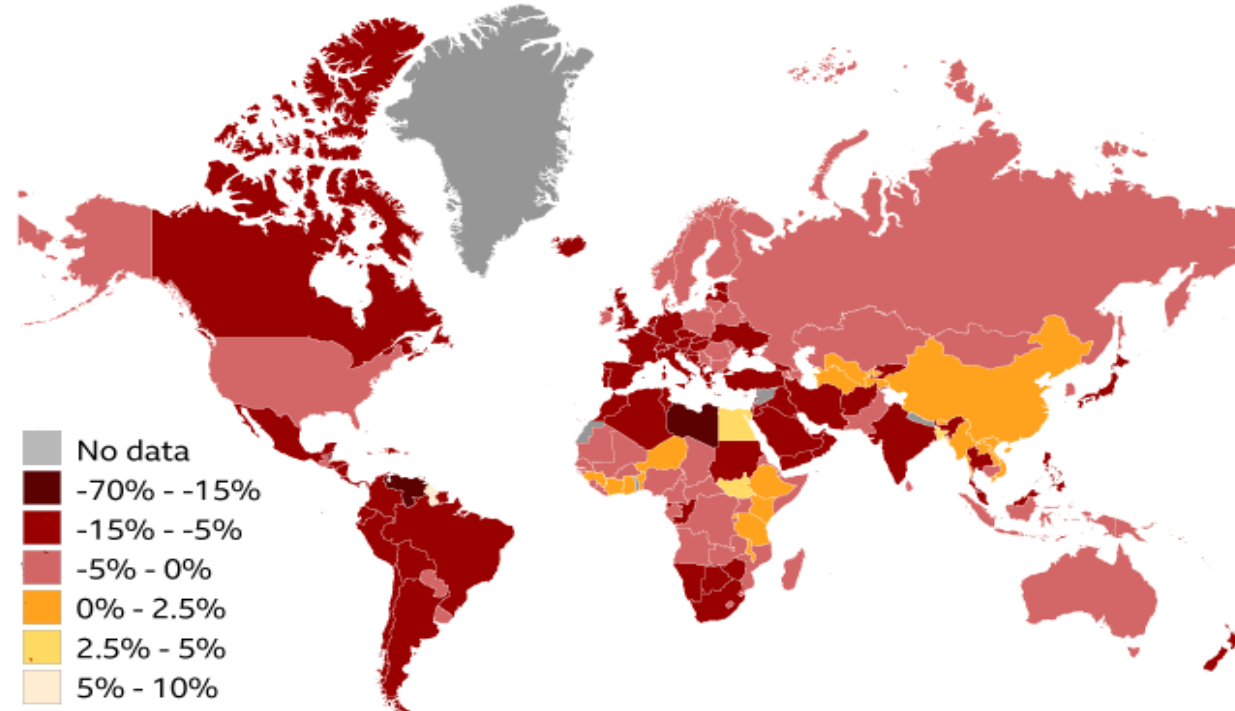
Monthly export growth (%)



Bangladesh was one of the very countries that managed to maintain positive economic growth in the aftermath of Covid-19 (in 2020)

Majority of countries in recession

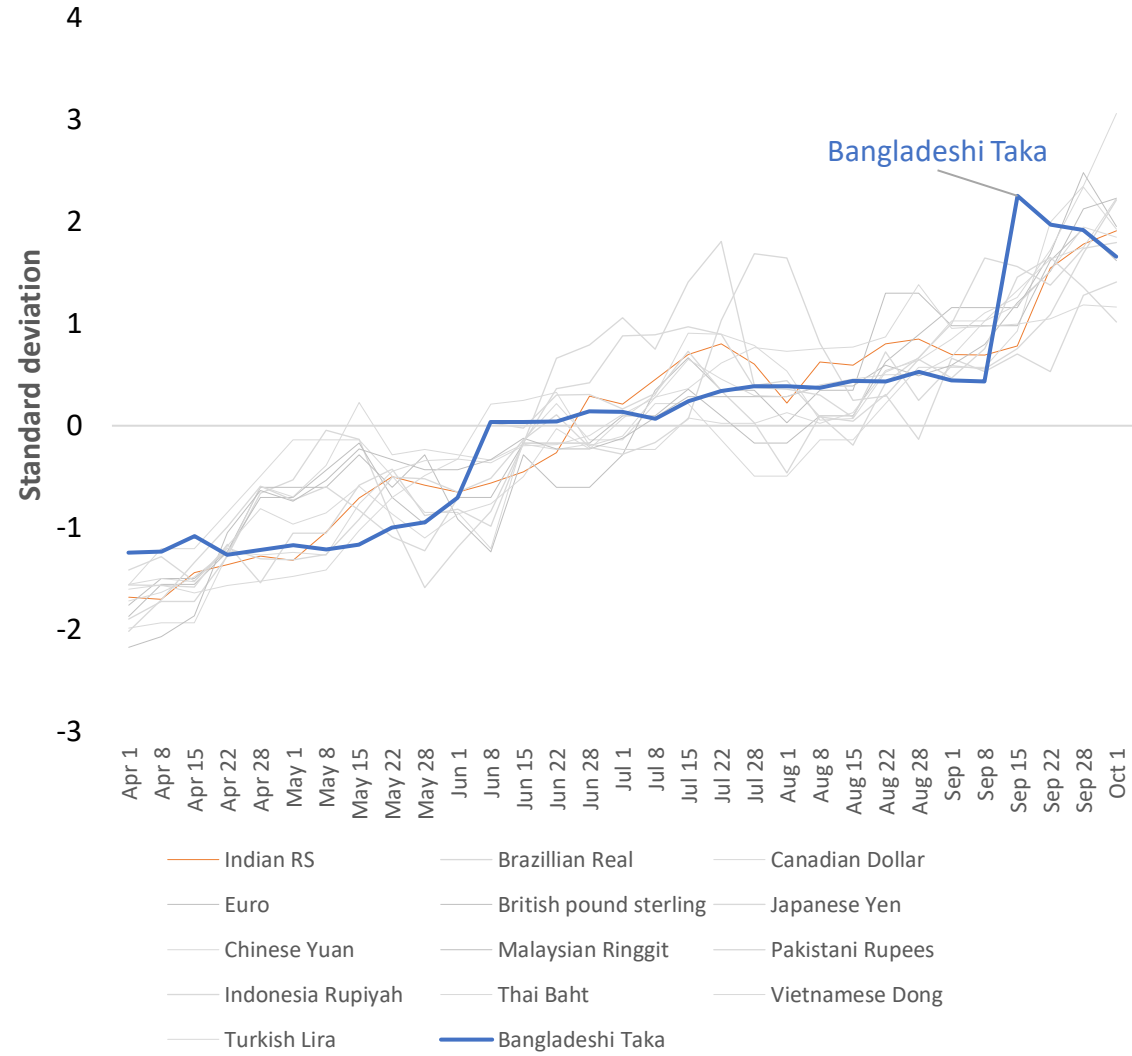
Real GDP growth



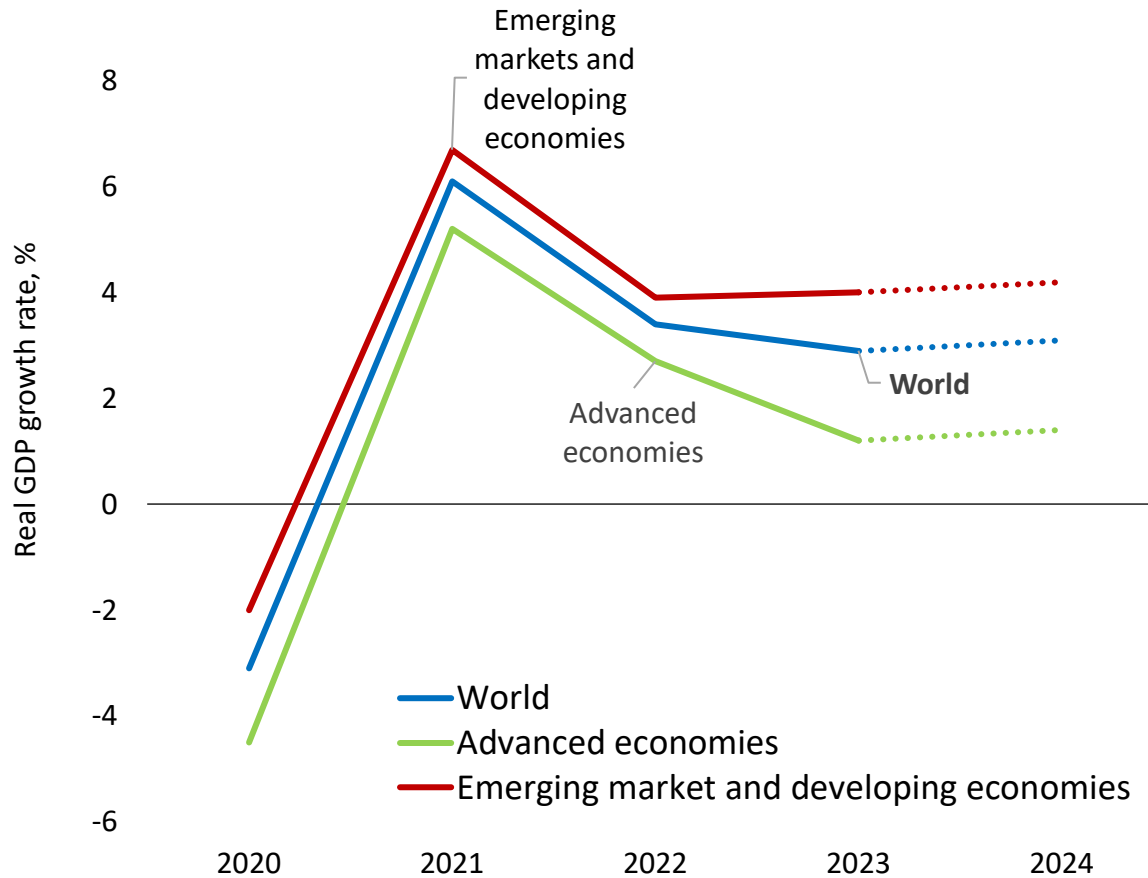
Source: International Monetary Fund

BBC

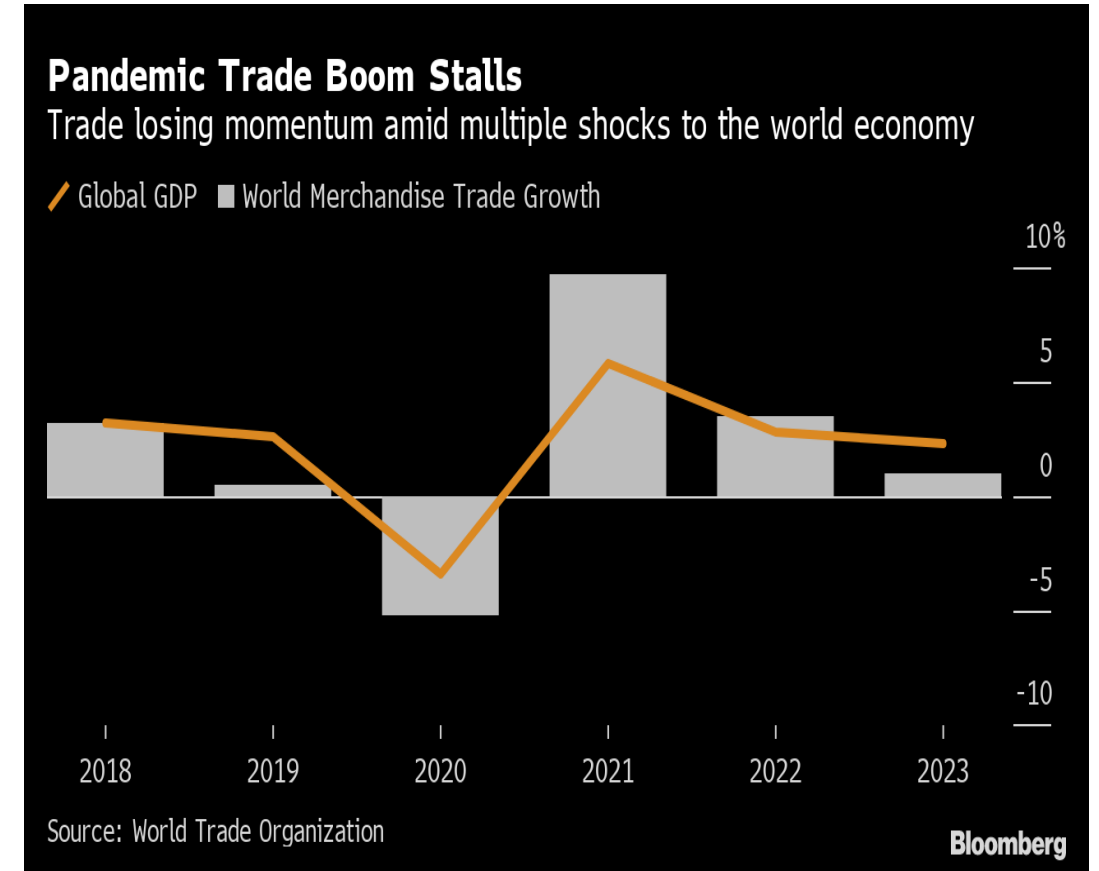
Dollar prices against various currencies



Global growth is projected to fall from 3.4% of 2022 to 2.9% in 2023, mostly driven by advanced economies.



WTO predicts global merchandise trade volumes to grow by just 1%—down sharply from the previous estimate of 3.4%.





Headwinds: Five economic challenges in 2023

- Global economic downturn and trade slowdown
- Volatile prices: stubborn inflation
- Energy crisis
- Geopolitical tensions (including technology war between U.S. and China)
- Weakening multilateralism (including trade cooperation)



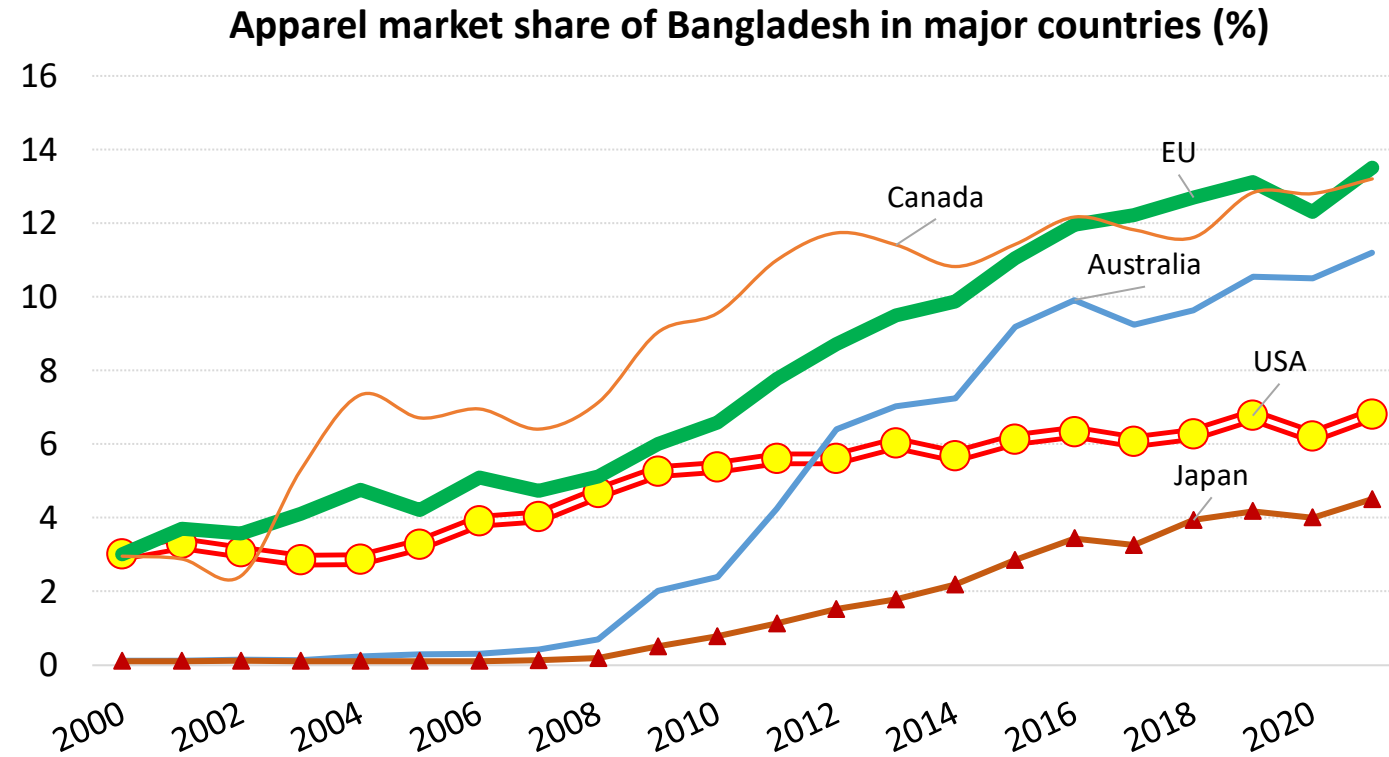
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- Tariff preference and market share 
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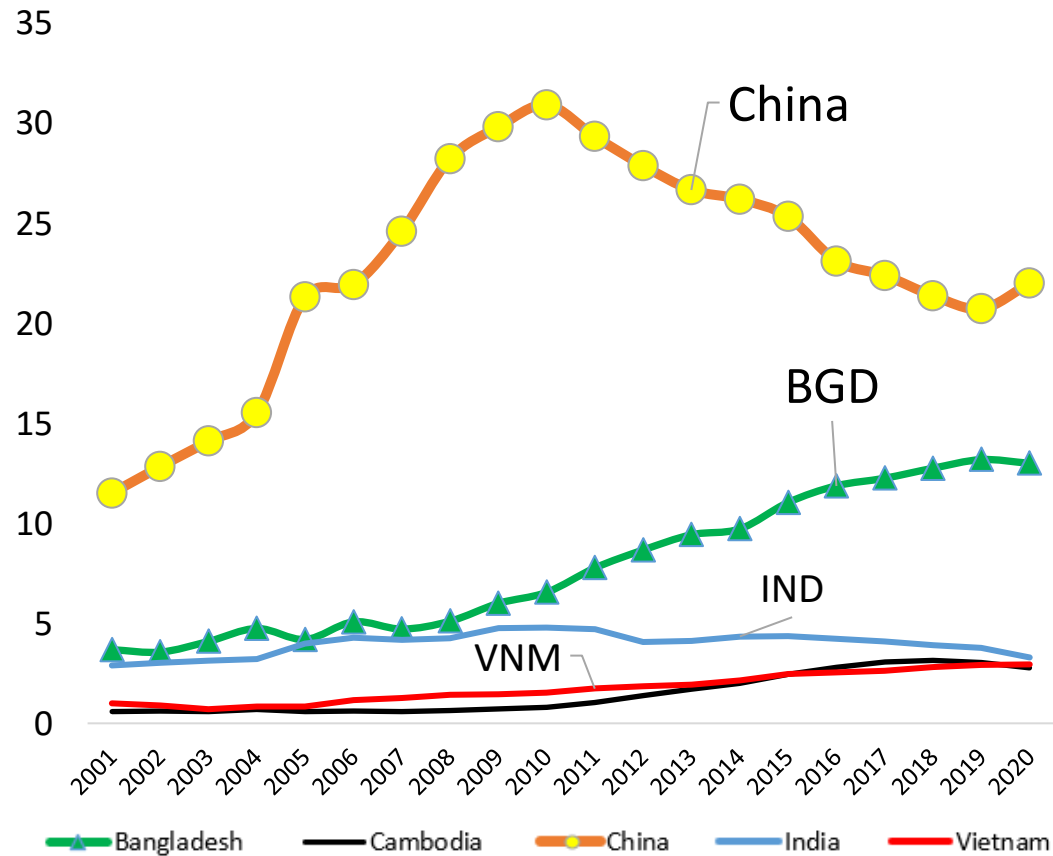
LDC tariff preference has been critical for BGD in raising its clothing export market share.



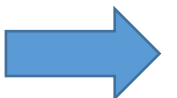
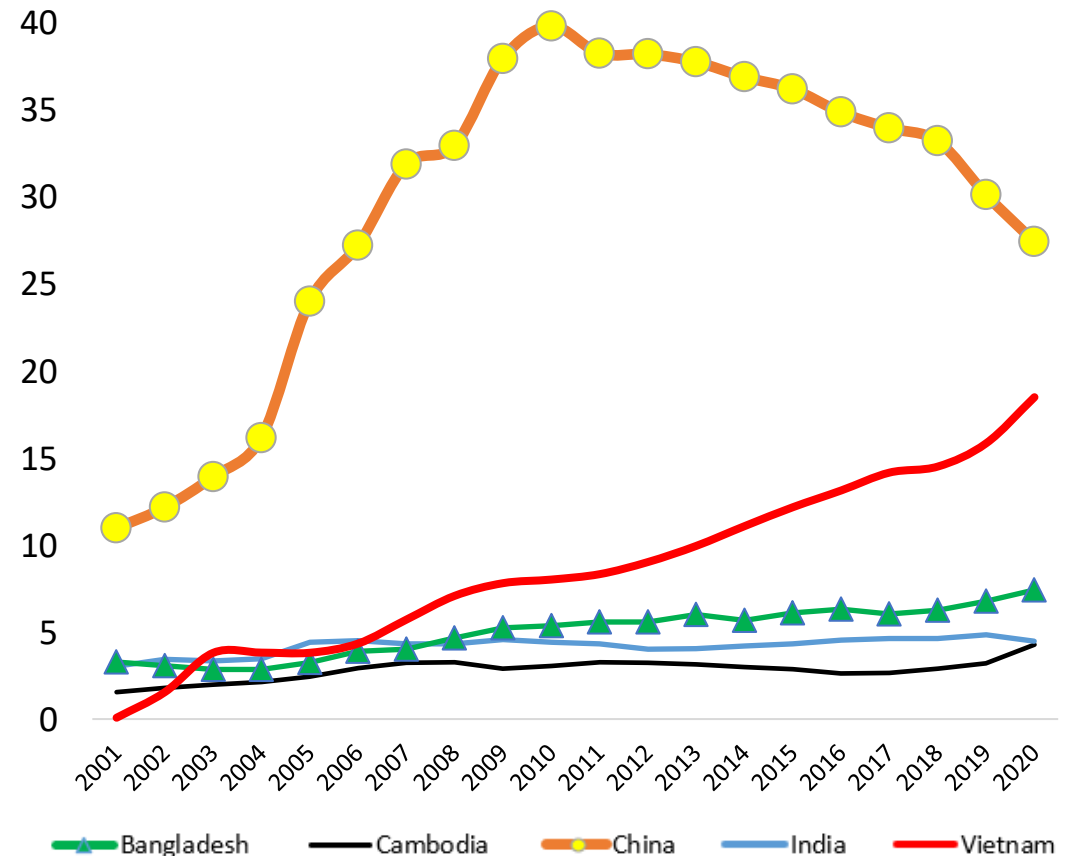
Source: Razzaque et al (2020a)

Capturing market shares in the EU and US

EU+UK apparel market shares by selected suppliers (%)

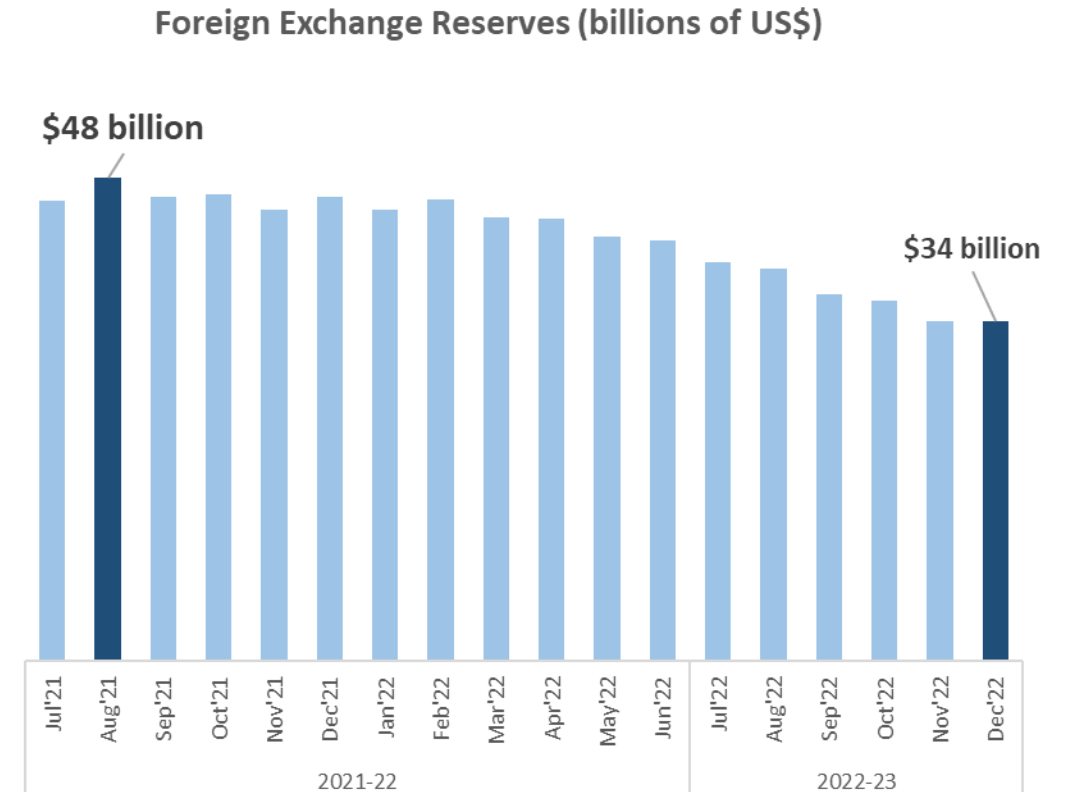


US apparel market shares by selected suppliers (%)

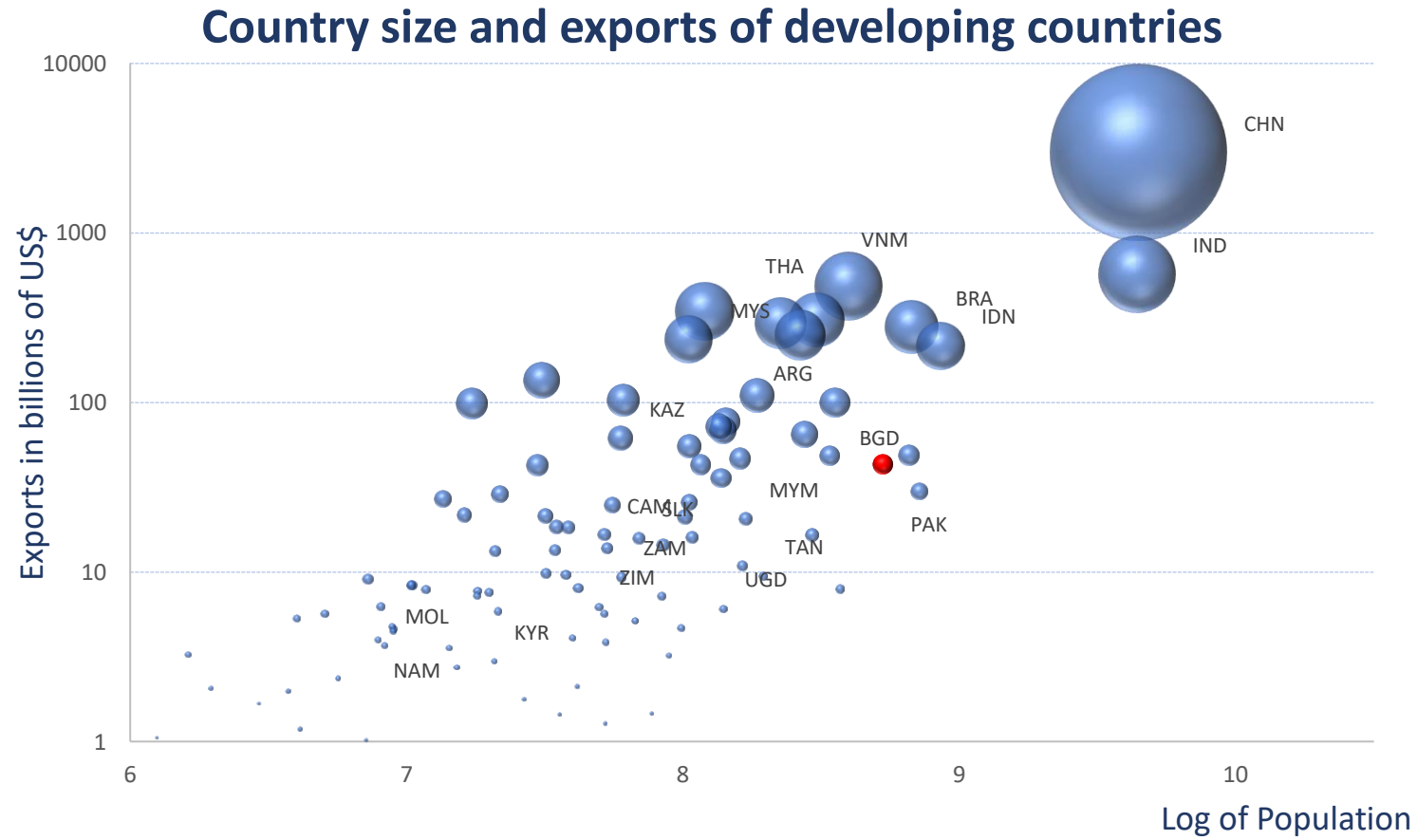


Notwithstanding the challenging landscape, export success will be vital for sustaining economic growth and macroeconomic stability.

- Exports are critical for maintaining sustainable external balance
- Exporting helps with improved productivity of other sectors (spillover effects)



Despite RMG growth, the overall export size of Bangladesh is relatively small.



Given the current context, the role of EPZ in promoting exports cannot be overemphasised.

Exports from EPZs

- from \$2.1 billion in FY10 to \$8.6 billion in FY22

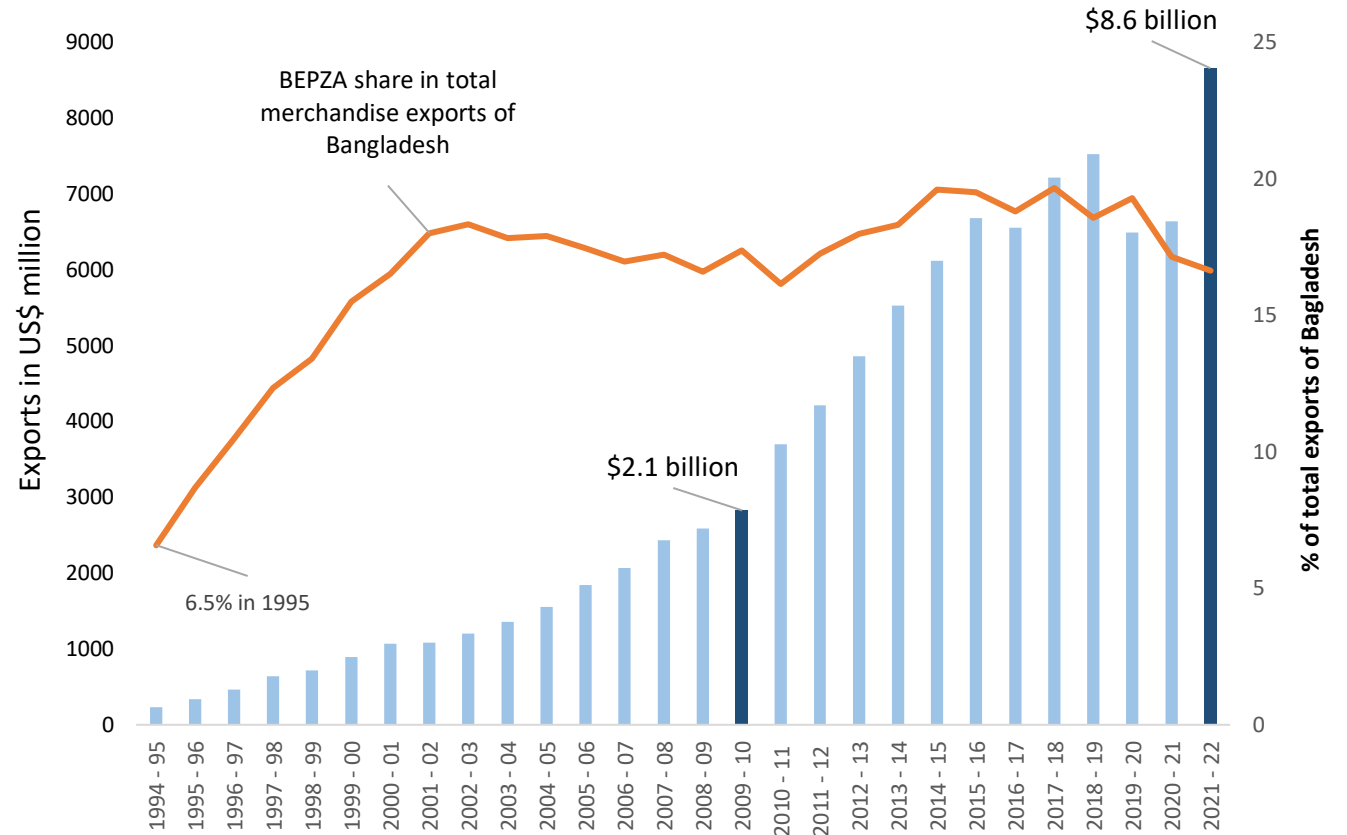
Employment

- from 0.27 million to 0.5 million

FDI

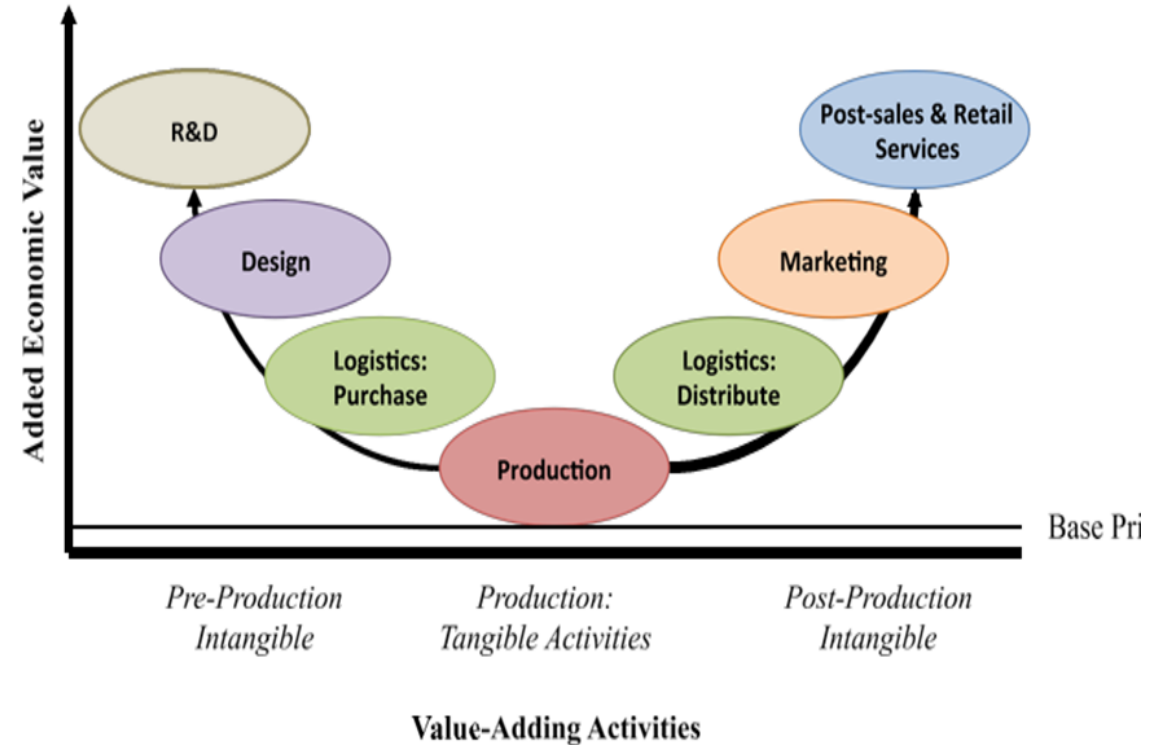
- about \$400 million in FY21

Exports by Export Processing Zones (million USD)



Export expansion: Role of EPZs

- **EPZs can attract FDI**
 - FDI firms are integrated into global value chains
 - Without value chain participation large-scale export expansion is not possible
- **EPZs and FDI firms are generally more compliant**
 - Environment, Social and Governance (ESG) factors are increasingly becoming preconditions for export success
- **FDI firms can help with technological adaptation**
 - Slow and weak adaptation will undermine export competitiveness
- **Attracting firms that are relocating**
 - Decoupling and shifting international supply chain networks could provide opportunities



Decoupling of U.S.-China Production and trade linkages

Chimerica = China + America

- International system: China as the global workshop and the US as the tech headquarters

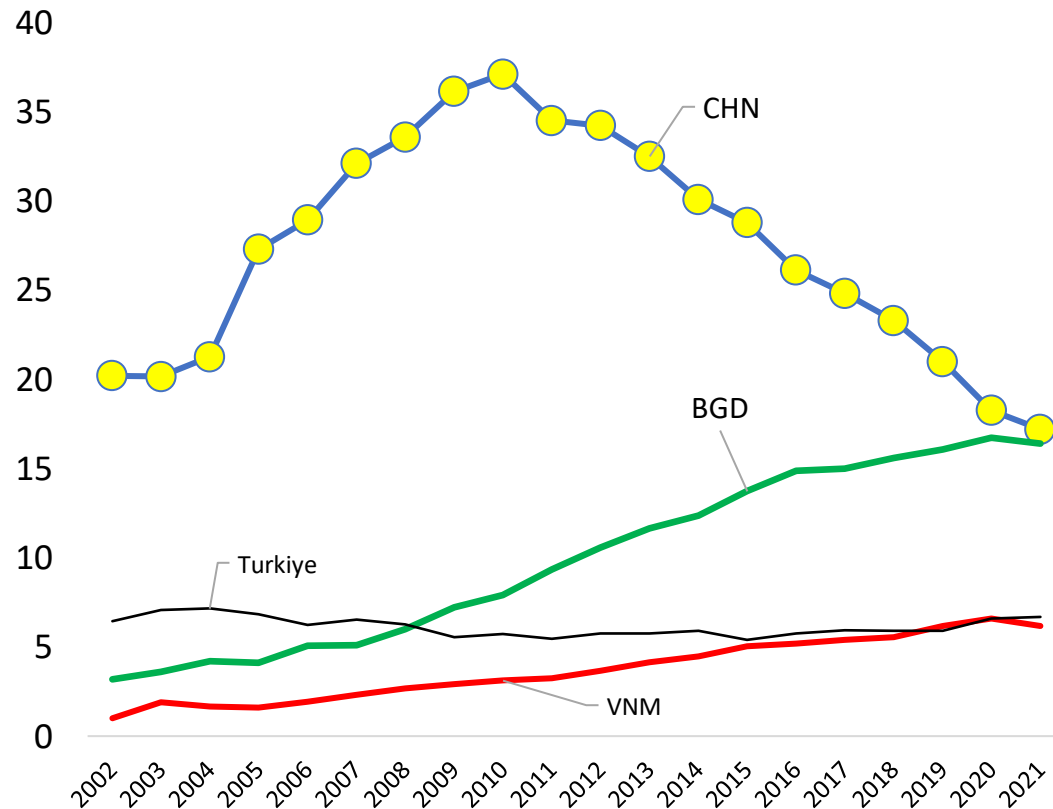
Shifting supply chains

- Off-shoring, on-shoring, friendly-shoring
- Trade and technology wars

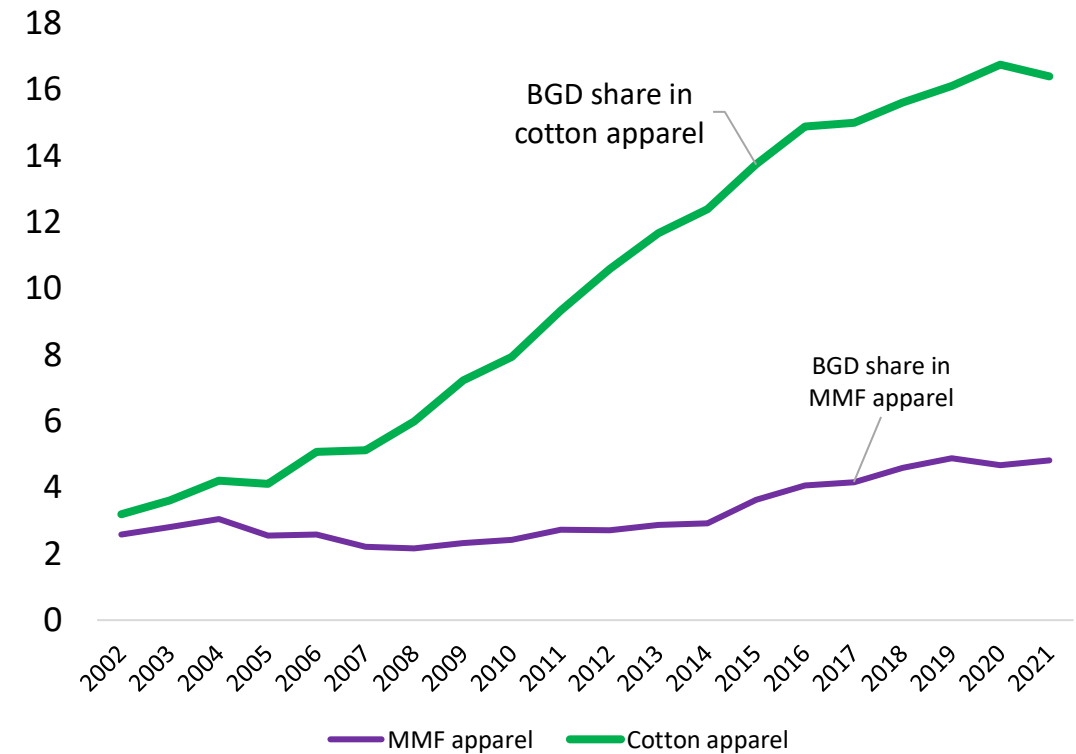
- China's global market share could fall significantly – **opportunities?**
- Faltering Global trade governance and **weak multilateralism**
- Trade and investment cooperation with countries could be **subject to scrutiny** by rivals
- **If world trade slows** as a result of geopolitical rivalry – not good for most countries
- Victim of rival countries **geo-economic battles**

Opportunities: Bangladesh's share in global apparel market is 9%. In cotton apparel, our share is 16% but in MMF-based apparel is less than 5%. A 20% share in cotton- and 12% in MMF-apparel will make \$100 billion.

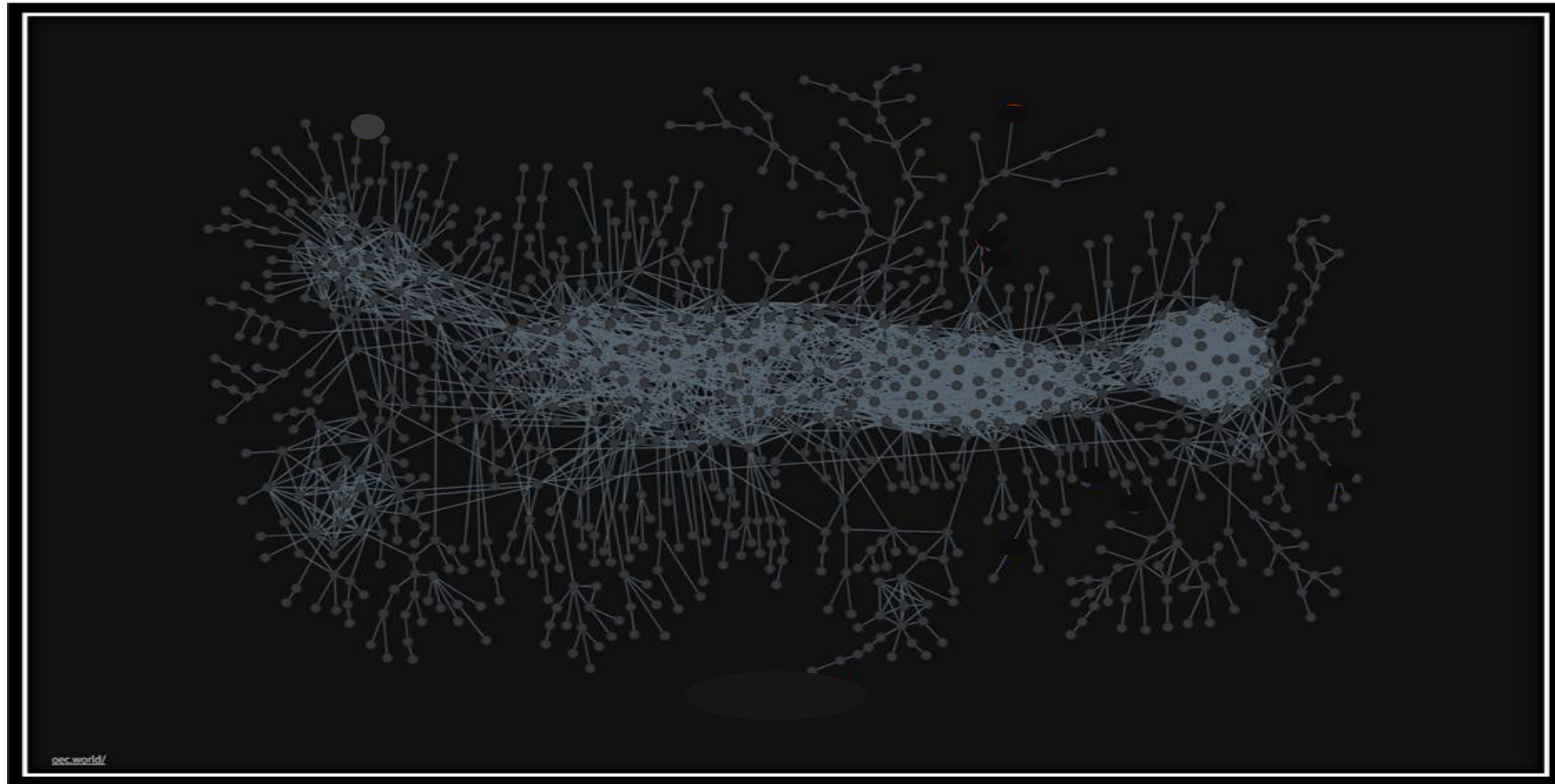
Global cotton apparel market shares (%)



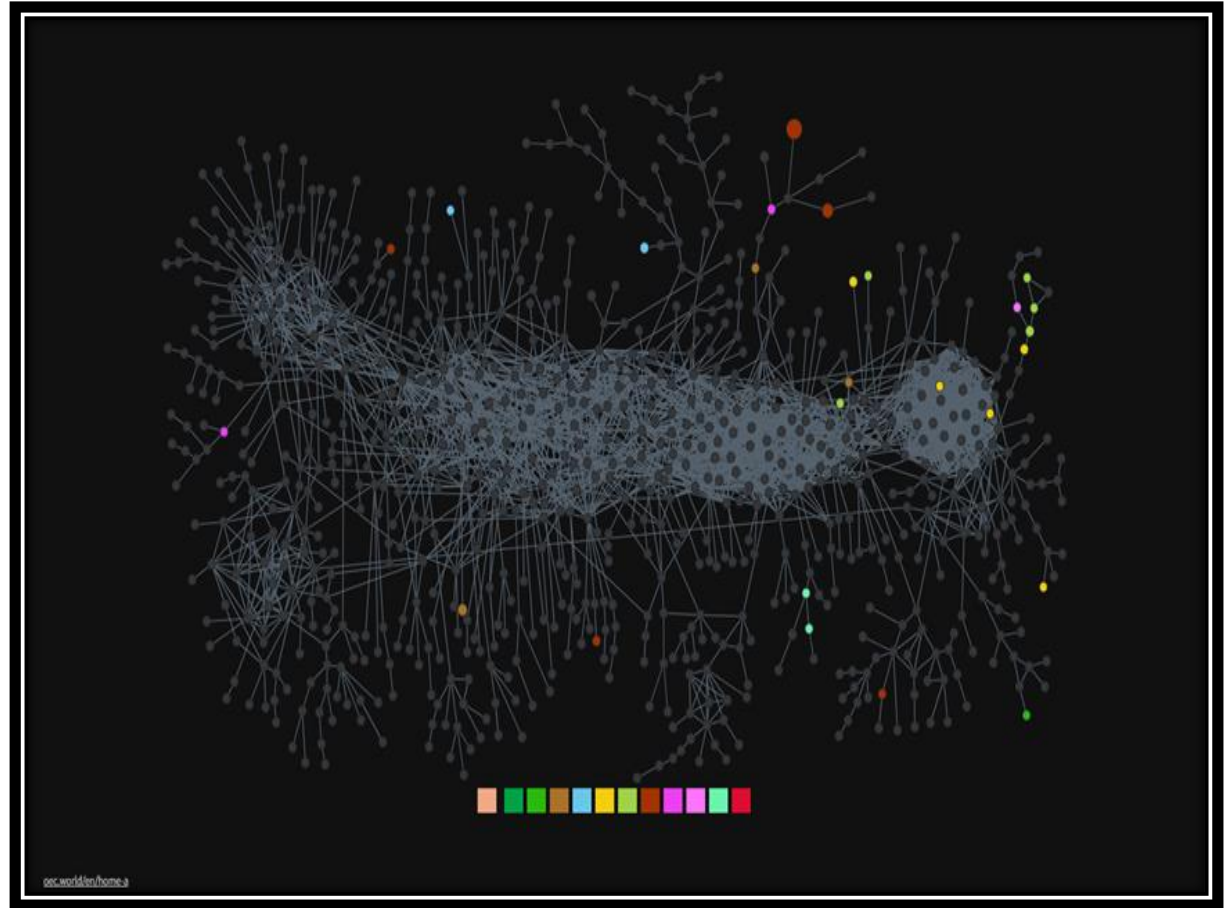
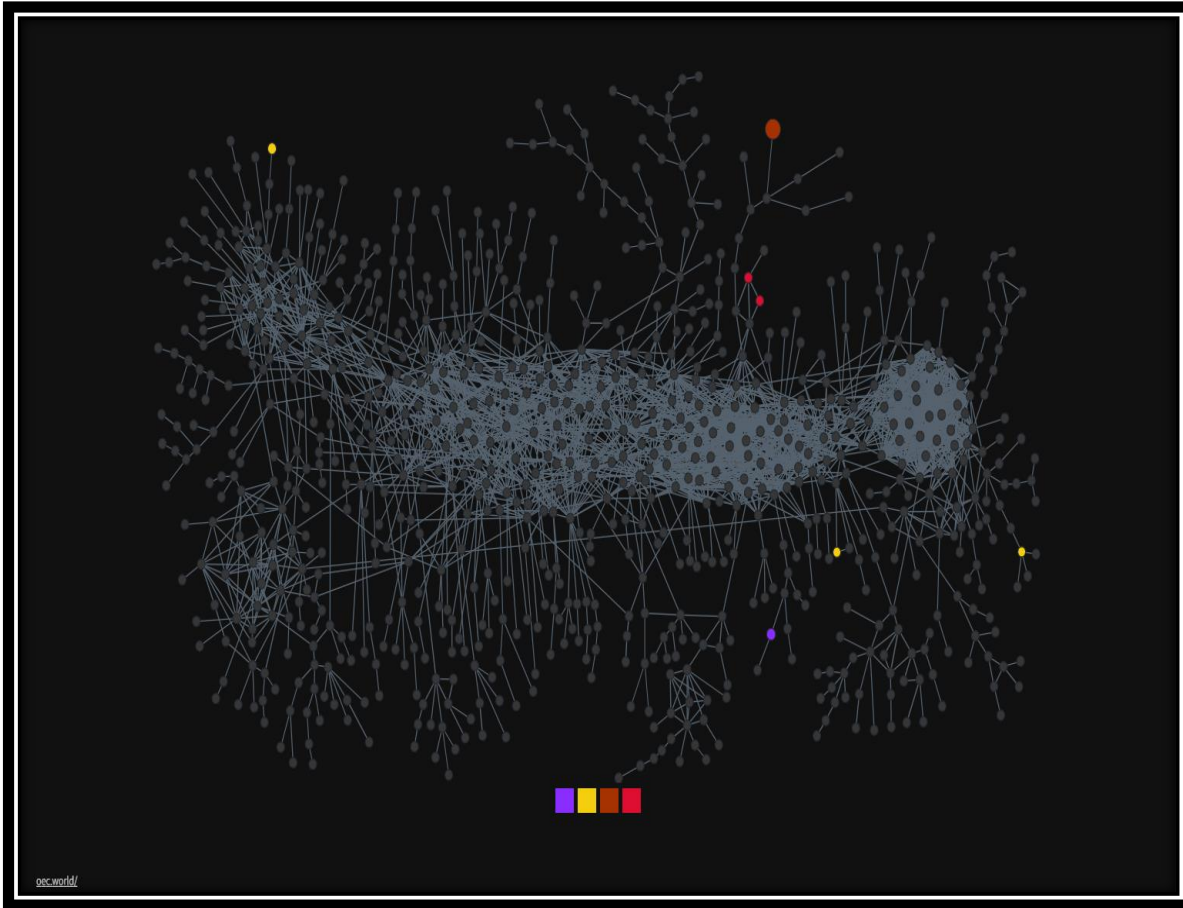
Bangladesh's share in global MMF and cotton apparel exports (%)

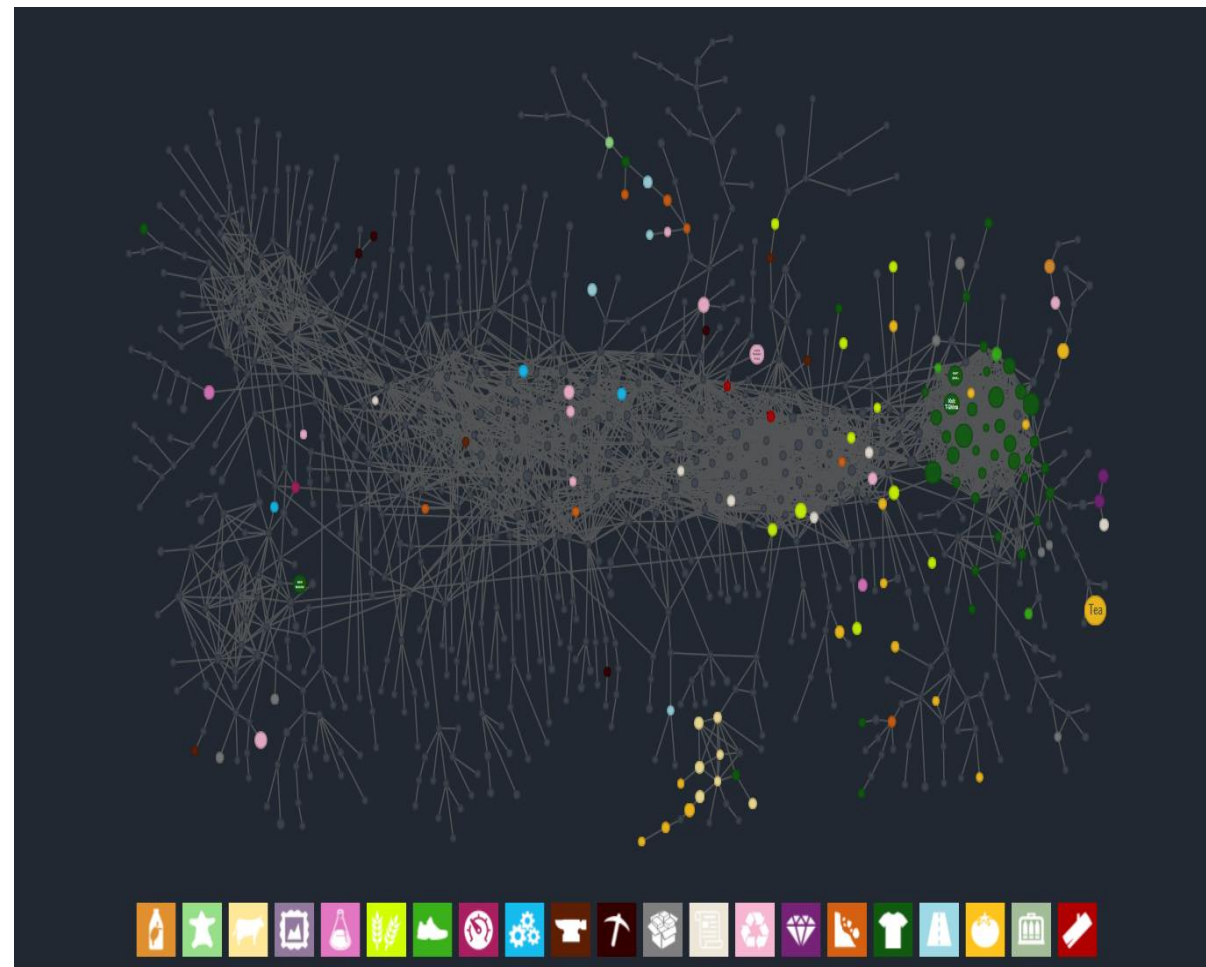
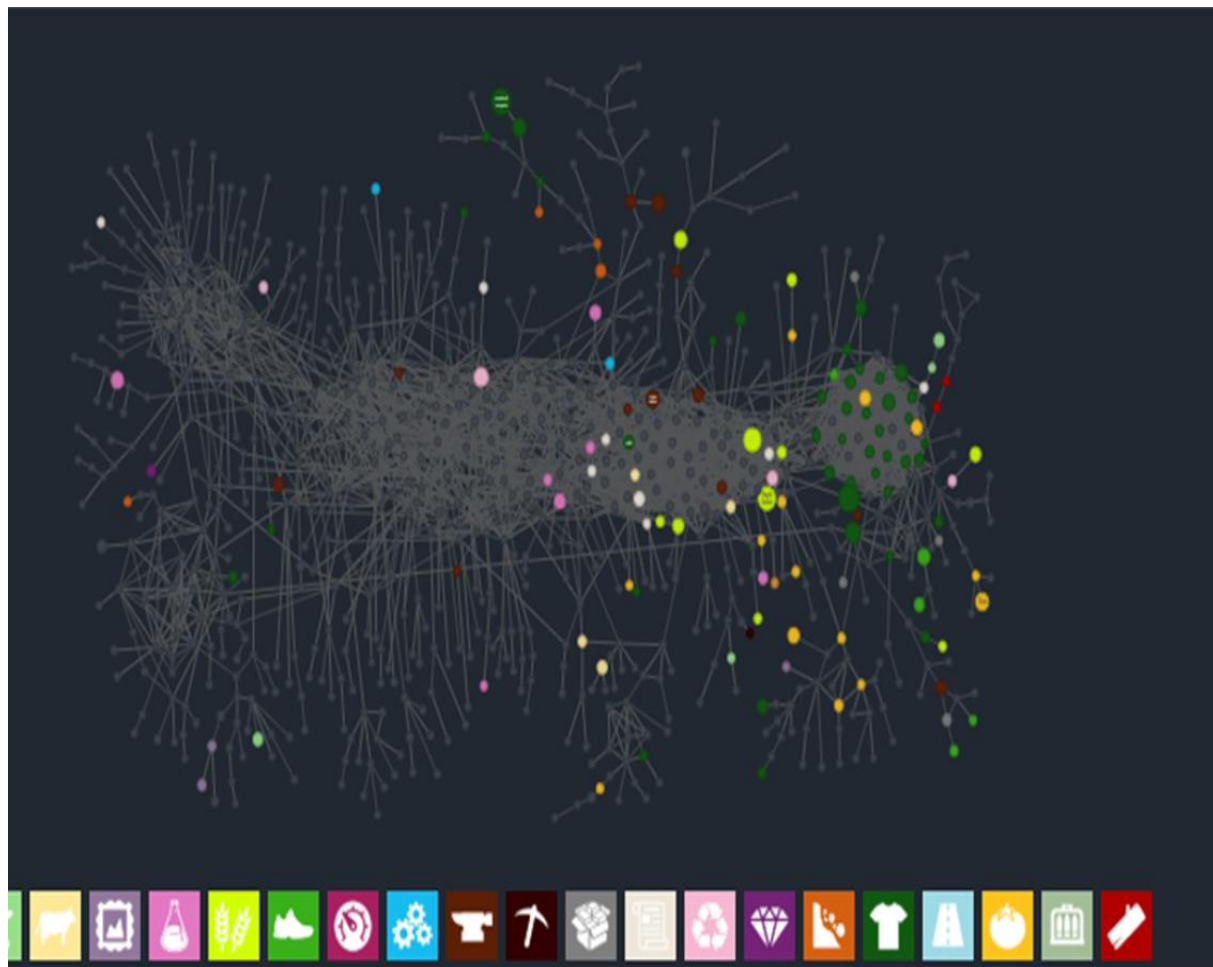


In the vast export product space, there are opportunities for diversification: How various export products are related to one another is the product space.



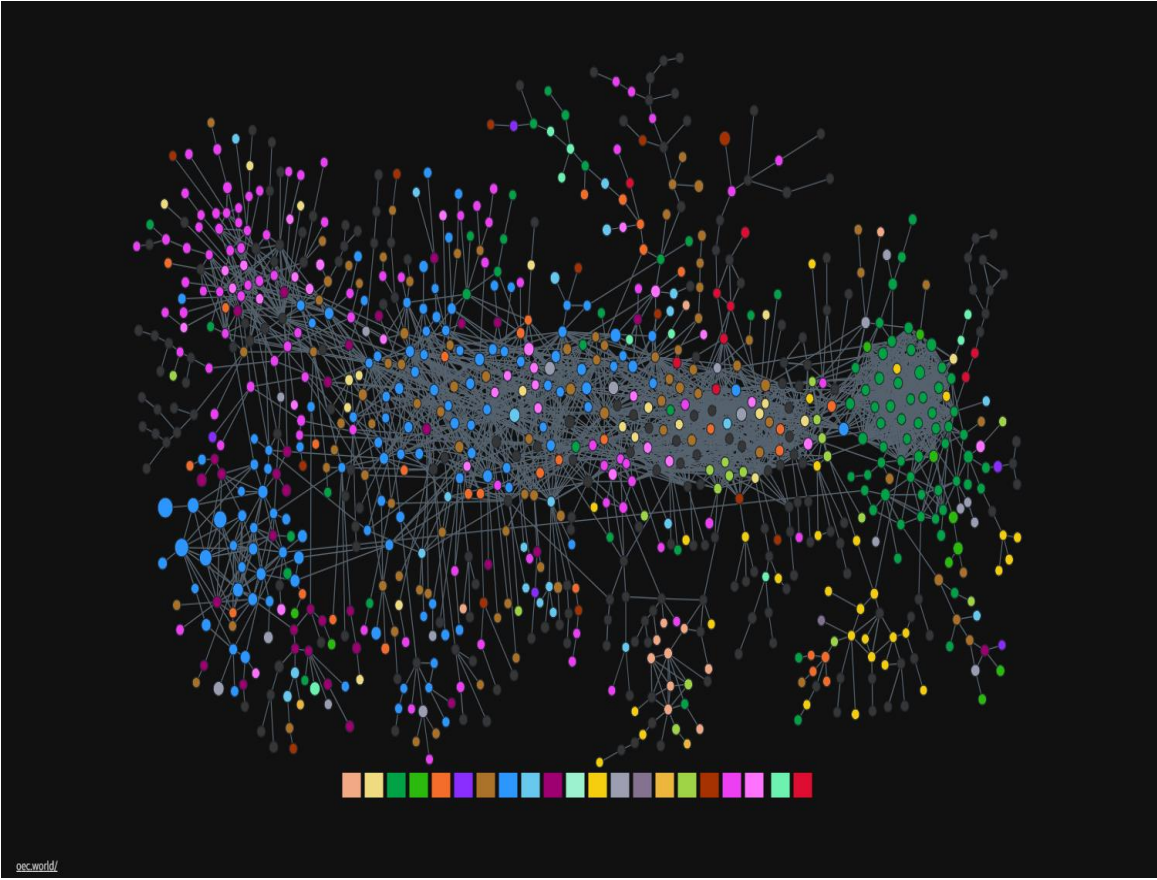
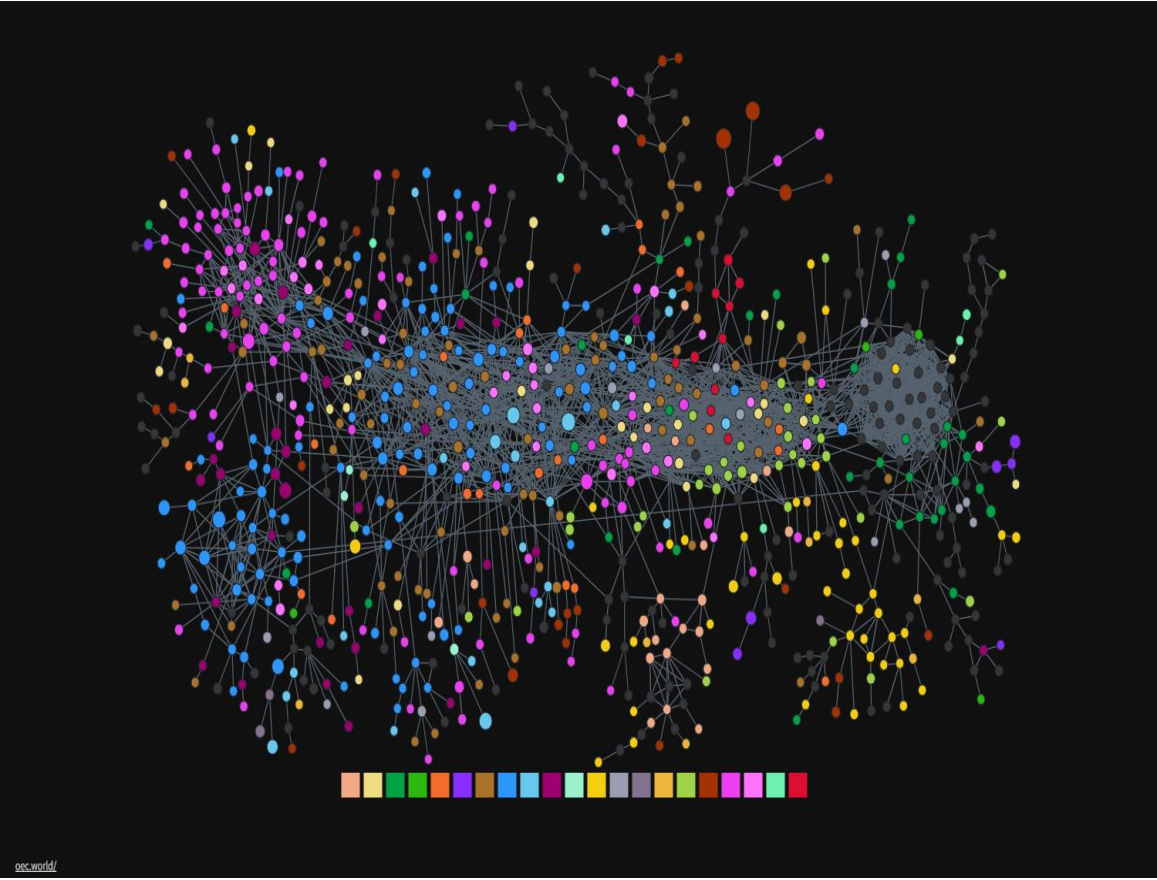
Product space: South Sudan (left) and Nigeria



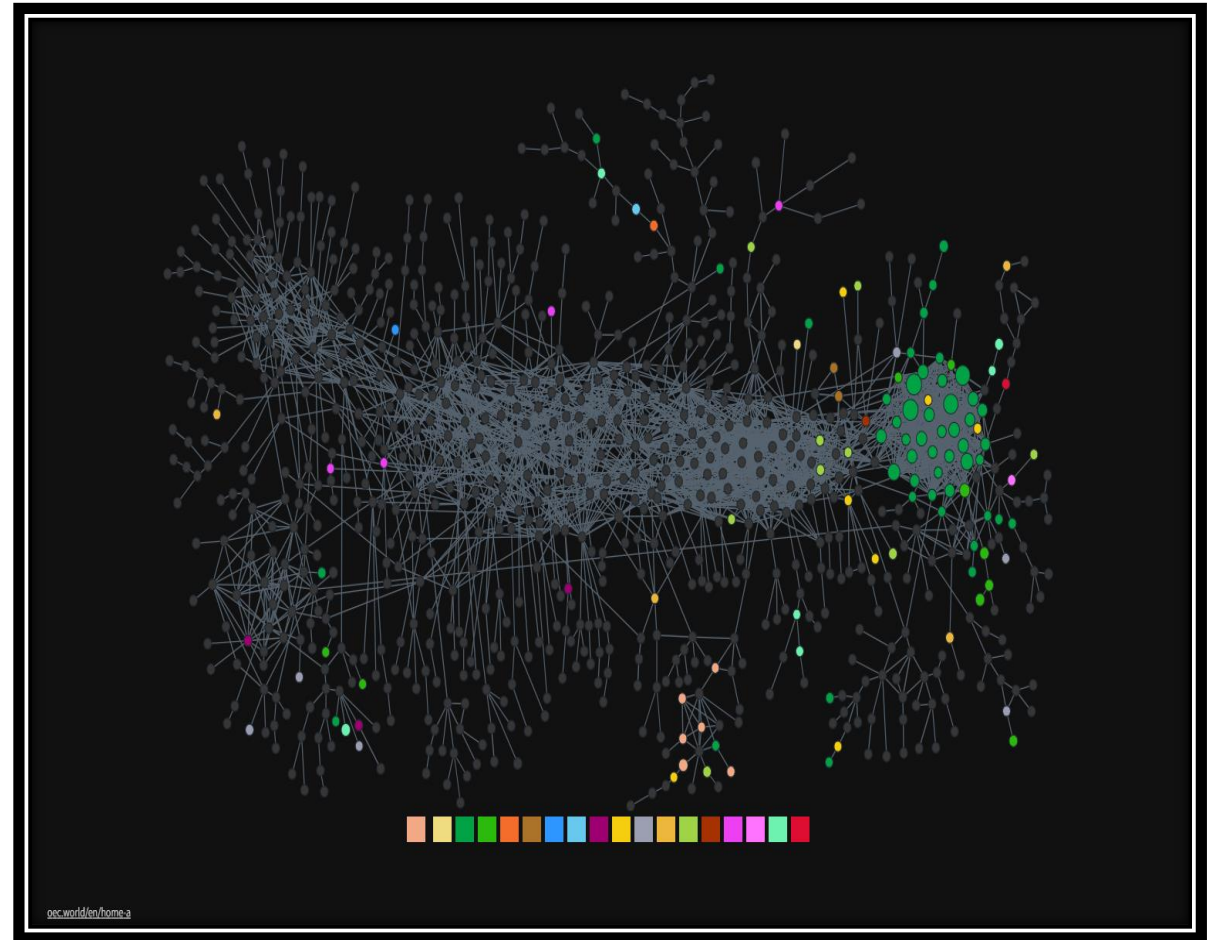
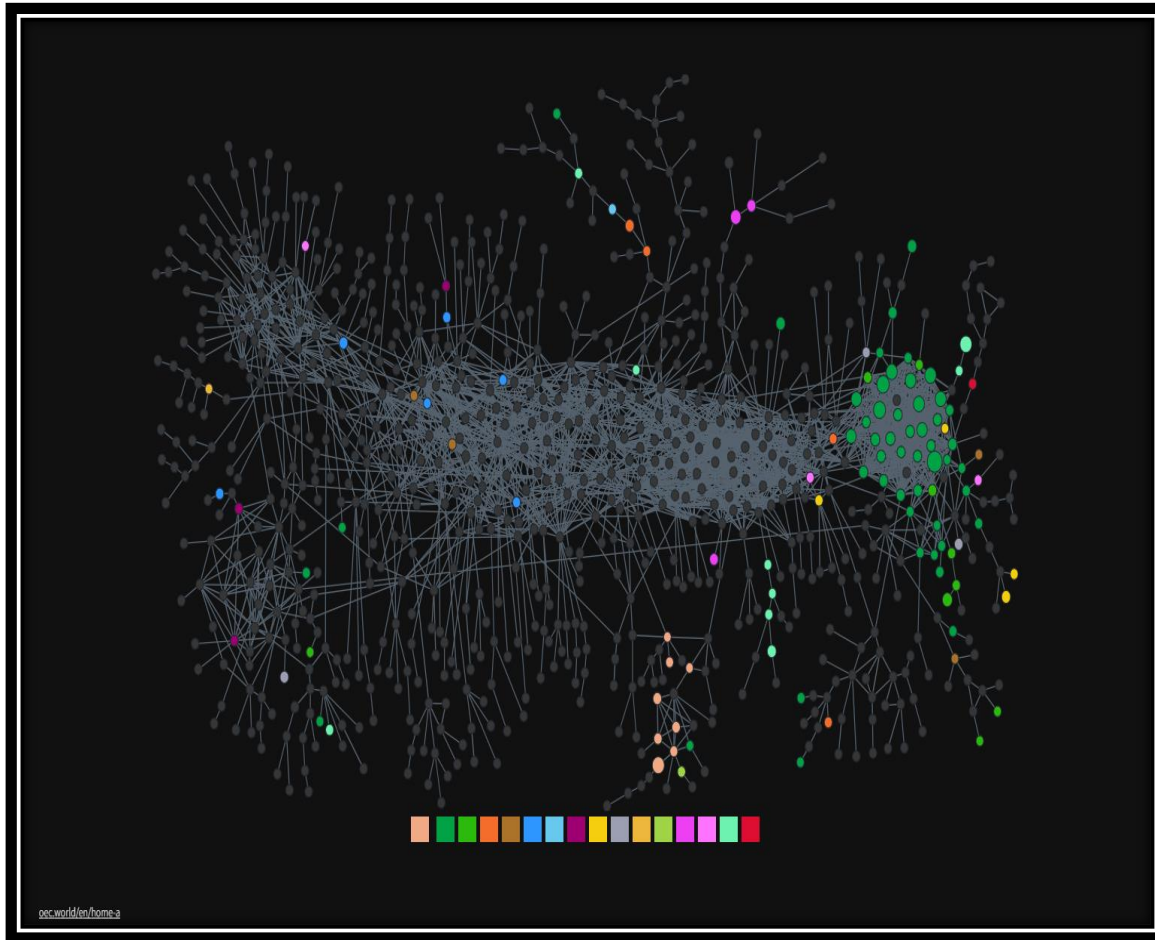


Nepal and Sri Lanka

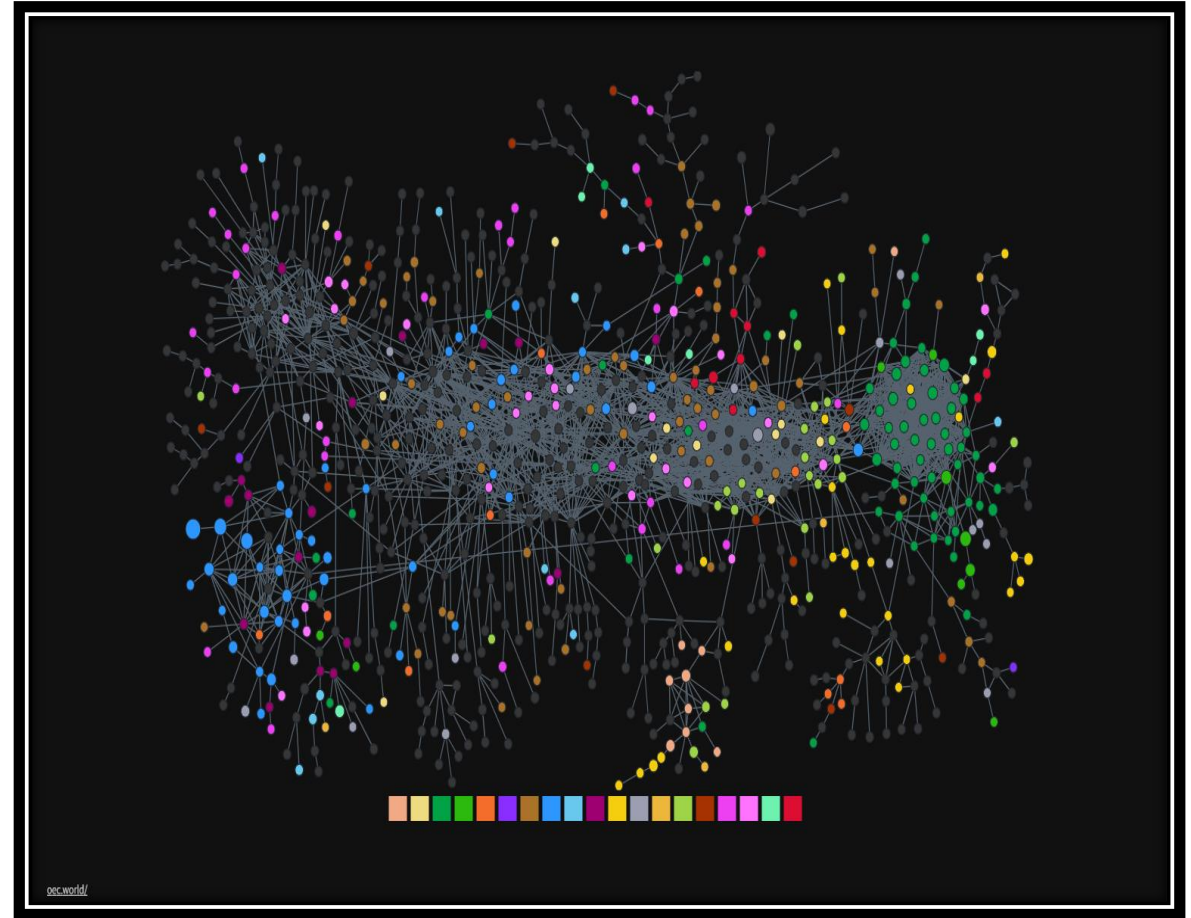
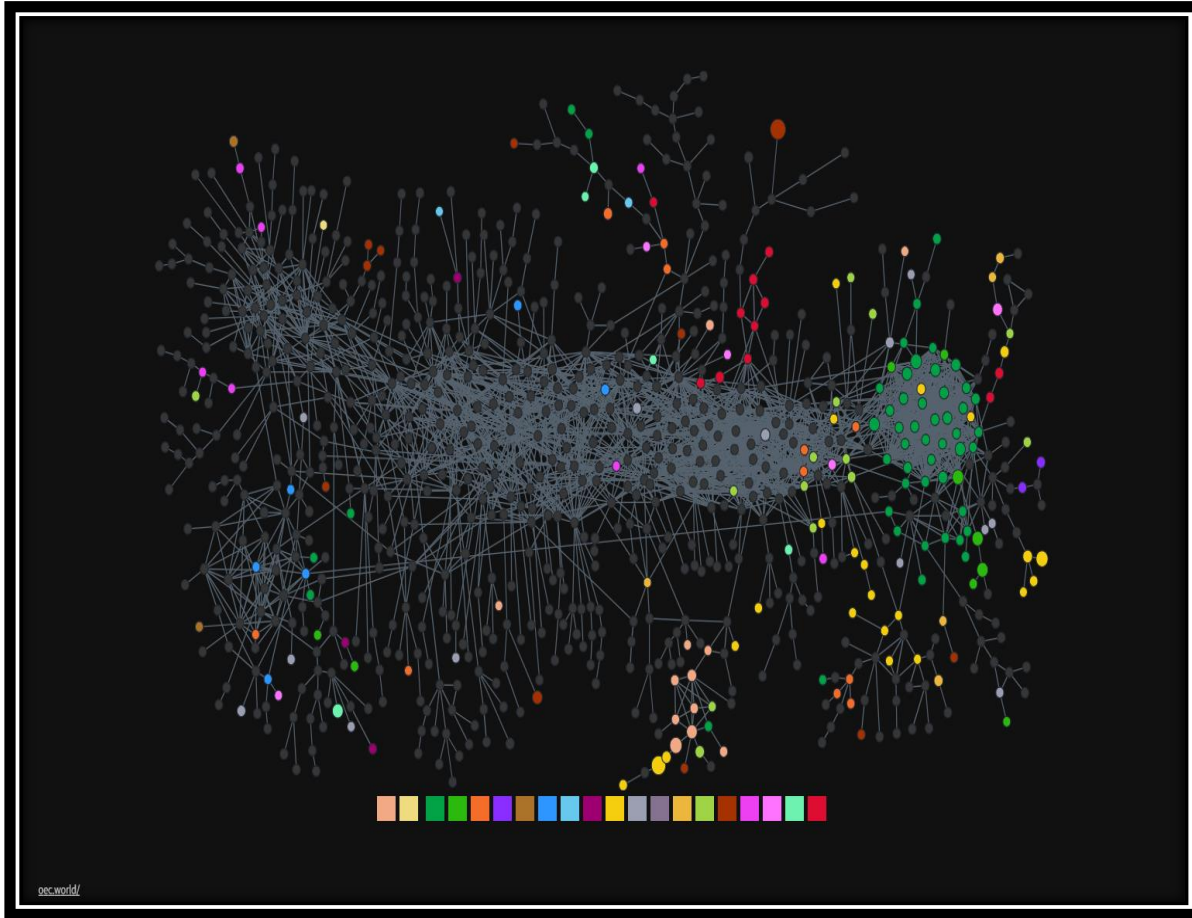
Product space: USA (left) and China (right):
(Any striking difference?)



Bangladesh export product space: 1995 (left) and 2020



Vietnam in 1995 (left) and in 2020 (right)



Promoting exports: A few other selected issues for consideration

- Large economy and inherent bias towards the domestic market
 - Policies have deepened the incentives for domestic sales
 - Few items for exports—policy factors and differential standards exacerbate the problem
- LDC graduation does not mean end of trade preferences
 - Engaging with partners to look for other options including PTAs and FTAs (domestic preparedness of trade agreements is a massive challenge)
- Export expansion and export diversification
 - Both are important for Bangladesh
- Export diversification opportunities within RMG
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Promoting exports: A few major selected issues for consideration

- Geo-political developments and consequent challenges and opportunities
 - Shifting supply chains and new opportunities amid global uncertainty
- 4IR, Technological advancement and employment
 - Including efficient services. Impact on employment
- Investing in Environment, Social and Governance Standards
 - Global consumers and investors are becoming more aware and concerned about ESG factors
- Building competitiveness
 - Various factors: domestic policies; preferential market access; physical, social and technological infrastructure, easing administrative bottlenecks, tackling excessive costs of doing business

Way Forward: the export sector is at a critical juncture facing global uncertainty and competitiveness challenges emanating from the impending LDC graduation. But there are opportunities for Bangladesh.

- Unfavourable global trade and economic landscape in 2023
but Bangladesh has been doing much better than anticipated.
- For medium-term export prospects
preparation for a smooth graduation from LDC is important.
- Export success is crucial
for sustainable external balance and to support robust economic performance
- **An Enhanced role of EPZs**
especially in attracting more FDI must be explored.
- A transformed trade and investment policy regime
and its implementation must be given utmost importance.



Thank you.