

Informal institutions, the RMG sector, and the present challenge of export diversification in Bangladesh

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OUTLINE

- Genesis: Success.....and clouds on the horizon

Bangladesh in landscape of 'received wisdom' on role of institutions

- Initial conditions
- Trade and macro policies
- Institutions (a puzzle?)
- Supply chain trade
- GVC Participation: Bangladesh and Comparators

Genesis: Success....

- Old-fashioned success story: Endowments matter
- Acquisition & mastery of technology in RMG via stay of trainees in SK in 1978
- Long list of export incentives(table 1) well beyond neoclassical neutral incentives squares well with an active government à la “Asian miracle”
- Role of institutions: RMG operating in a ‘deals’ rather than ‘rules’ space. (deals inevitable in low-educational environment?)
- If any surprise it is that deals initially open-access and ordered remained so for so long before progressively closing, i.e. incentives intended for all were captured by RMG sector

...and clouds on the horizon

- Domestic front
 - Strengthening of real exchange rate appreciation
 - Capture of policy by the RMG sector (preventing diversification in e.g. leather)
- Foreign front
 - Competition from low-cost suppliers (Cambodia, Ethiopia, Vietnam have higher GVC participation than Bangladesh in garments...see fig. 2)
 - Stricter compliance in destination markets (purchasers of high-fashion want 'made in Europe' labels....)
- ...and shifting to higher value-added sectors like leather, let alone upgrading in RMG

Initial conditions

- Anecdotal conjectures (countries with ‘better institutions grow faster’; countries that ‘trade more grow faster’) still in quest of evidence.
⇒ Usefulness of careful cases studies à la EDI project
- Initial conditions matter: Contrast development paths
 - North vs. South America (slower spread of education and political participation in South America)
 - Bangladesh and South Korea (both resource-poor post-conflict but SK higher human capital more favorable to development of formal institutions enabling spectacular transition out of RMG and footwear into heavy manufacturing)

Trade and macro policies

- Stellar performance of RMG is indicator of outward-looking outcome, yet only shares some of policies of outward-looking successes
- Still high average protection (15% in 2015) + NTBs.
- Chapter does not give indicator incentives for export sales vs. domestic sales across activities (in Korea uniform across all exporting activities)
- In Korea 'infant' industries only received non-neutral incentives temporarily. In Bangladesh capture with 'raising the cost of rivals'
- Informal institutions worked well to capture rents in RMG under MFA.
- ...but sound macro policies via a competitive real exchange rate

An institution puzzle?

- Raihan that RMG stands out against poor ranking on various institutional indicators. Puzzle a red herring?
- These multi-dimensional indicators mix policy stances and outcomes
- Intercountry comparisons come at cost of not capturing multi-faceted way in which governance affects development (see examples on Bangladesh in my comments)
- ...but indicators of formal institutions could contribute to explain patterns of revealed comparative in manufacturing.

Supply chain trade under 'RMG-centric' model

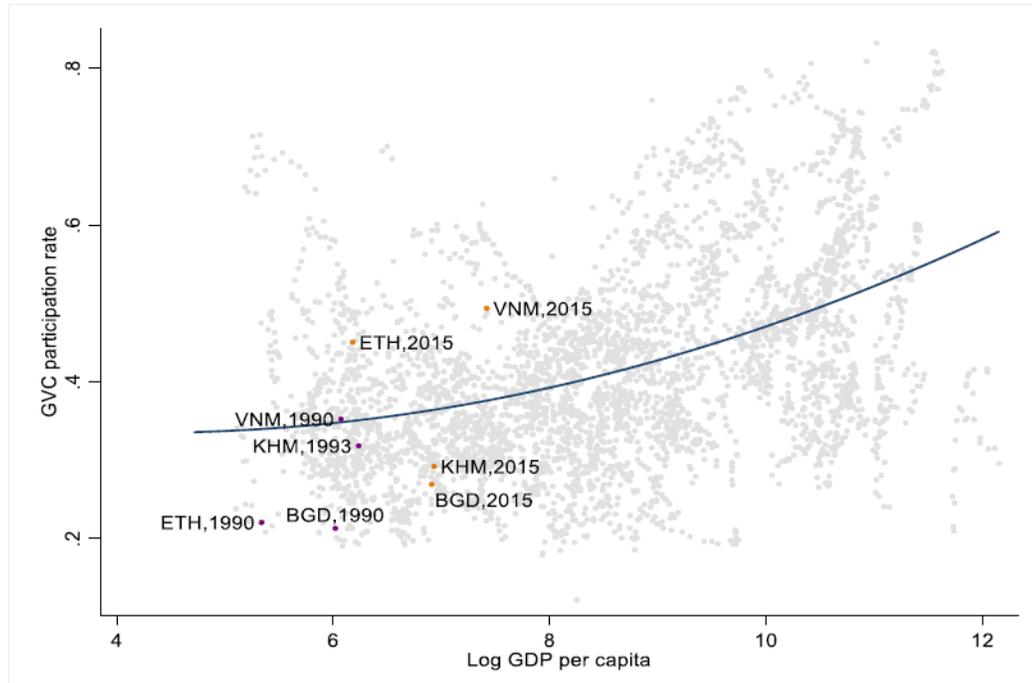
Adage: 'You get rich by producing the goods the rich consume'

- Fragmentation of production allows entering a product chain without having to produce all stages of production → more rapid lift out of labor-intensive activities with more diversified export baskets.
- Bangladesh has most concentrated exports in T&A relative to comparators.
- Participation in supply chain trade (GVCs or RVCs) very low for Bangladesh relative to comparators (see next page)
- Measures: total participation : backward + forward
- Backward (or upstream) is when imports are a high share of exports
- Forward (or downstream) is when high share of gross exports enter into other countries' exports.

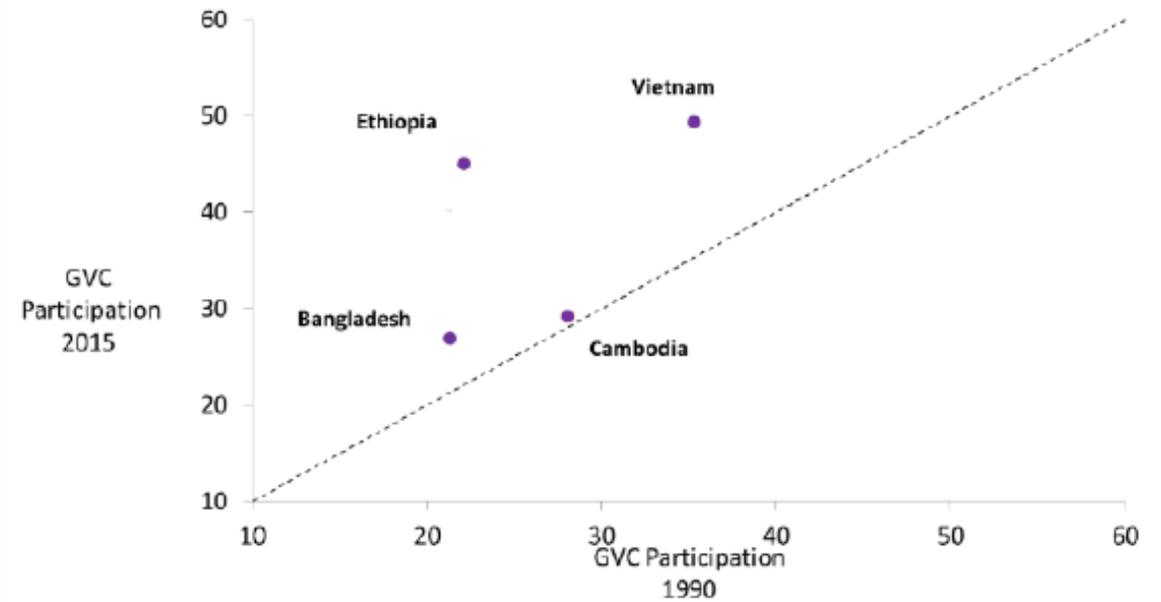
GVC Participation: Bangladesh and Comparators (1)

Figure 1: GVC participation: Bangladesh and comparators

1a) Participation in 2015



1b) Participation: 1990 and 2015



GVC Participation: Bangladesh and Comparators (2)

c) Backward and forward participation: 1990 and 2015

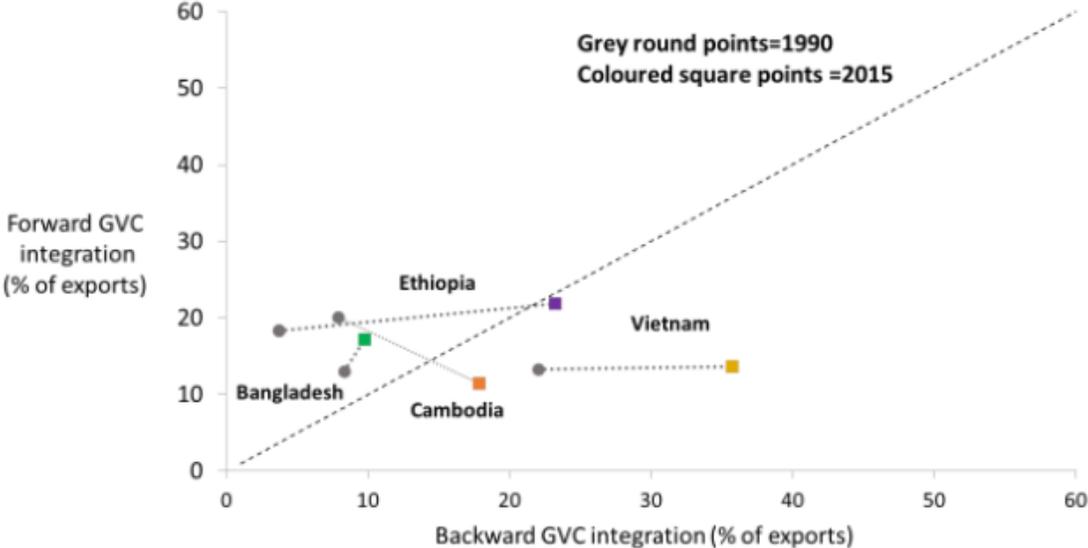


Figure 2: GVC participation in Textiles and apparel, and wood and paper

