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CONTENTS

From The Editor	
Syed Saad Andaleeb	vi
Fractured Nation, Fractured Identities: Quest for a National Reconciliation in Bangladesh	
Sayeed Iftekhar Ahmed	1
Aid Effectiveness: Research versus Practice: <i>Never the Twain shall Meet?</i>	
M. G. Quibria	9
Can Bangladesh Grow Faster than India?	
Biru Paksha Paul	15
A Note on the Export Performance of Bangladesh During the Recent European Recession	
M. A. Taslim and Amzad Hossain	28
Public Perceptions of Television News in Bangladesh: A Benchmark Study	
Syed Saad Andaleeb, Sabiha Gulshan, Mehdi Rajeb, Nasrin Akhter, and Anis Rahman	35
Dynamics of Survival Strategies: Perspectives from the Indigenous People of the Chittagong Hill Tracts	
Ala Uddin	50
Opportunities and Challenges of the Pharmaceutical Sector in Bangladesh	
Shirin Sharmin.	63
Understanding the Dynamics of the Furniture Sector in Bangladesh	
Mohammad Muaz Jalil and Mohammad Behroz Jalil	71

A Note on the Export Performance of Bangladesh During the Recent European Recession

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Abstract

The recent recession in the European Union (2012–13) adversely affected the export trade of a large number of countries. However, the export performance of Bangladesh was relatively stable. This note provides evidence in support of the hypothesis that one of the main reasons for the good performance is the composition of the export basket of the country that contains mostly manufactured consumer goods.

1 Introduction

A subprime mortgage crisis in the housing sector of the United States in 2006–07 brought about a financial meltdown, which in turn led to a deep recession in the western world during 2008–09. The USA recovered well from that recession, but the European Union (EU) did not fare as well; its recovery was both lukewarm and short-lived.¹ It fell into another recessionary spell toward the beginning of 2012, which is still continuing. However, the depth of the current recession is much less severe than the previous one; its economy shrank by 0.4 percent in 2012 (Figure 1). It is expected to shrink a further 0.2 percent in 2013.²

Import of EU, being strongly related to the health of the economy, decelerated with the decline in the GDP. The growth rate of EU import had jumped from an abysmal 22 percent decline during the previous recession (2009) to a whopping 24 percent growth in 2010. However, the import growth rate decelerated to 13 percent in 2011 and to less than 4 percent in 2012. But import actually fell thereafter, and during the first nine months of 2013 the value of EU import declined by more than 5 percent of what it was during the corresponding period of 2012.³

Since EU is the largest export market of the world, a deceleration of EU income has a significant negative impact on the export earnings of the rest of the world. Forecasts for the EU economy are not encouraging. With unemployment at record high levels and the economy expected to further shrink in 2013, it might take considerable time to recover from the current economic crisis.⁴ Export earnings of many of the major exporters to EU such as Brazil, Canada, China, India, Japan and Australia fell in 2012 at varying rates (Figure 2). Indeed about half of the exporters to EU suffered negative import growth in 2012.

With EU import actually falling, the outlook is not bright for this year.

However, all the countries that export substantially to EU-27 did not suffer equally during the recession. Some countries actually enjoyed fairly robust growth in export earnings from Europe during this period. Bangladesh is a case in point. Its export to EU increased by about 7 percent in 2012. This compares rather well to the large reductions in export suffered by major exporting countries such as those shown above.⁵ A similar situation had also prevailed during the global recession of 2008–09 when import of most developed countries including both USA and EU nosedived. Bangladesh experienced modest growth of export to EU and USA, but the exporting giants of the world experienced a sharp decline in their export revenue.

The reasons behind the relatively good export performance of Bangladesh during the 2008–09 global recession became a subject of much public controversy in Bangladesh. This paper revisits the controversy and examines if the explanation advanced by Taslim (2010) for the stable export performance is supported by the more recent data on its export trade with EU which is currently in a recession.

2 Theoretical Considerations and Empirical Evidence

The surprisingly good export performance of Bangladesh at the beginning of the 2008–09 global recession led some people to hypothesize that consumers are compelled to switch from more expensive to cheaper goods during times of economic difficulties. Since Bangladesh exported mainly cheap basic goods, such as basic apparel

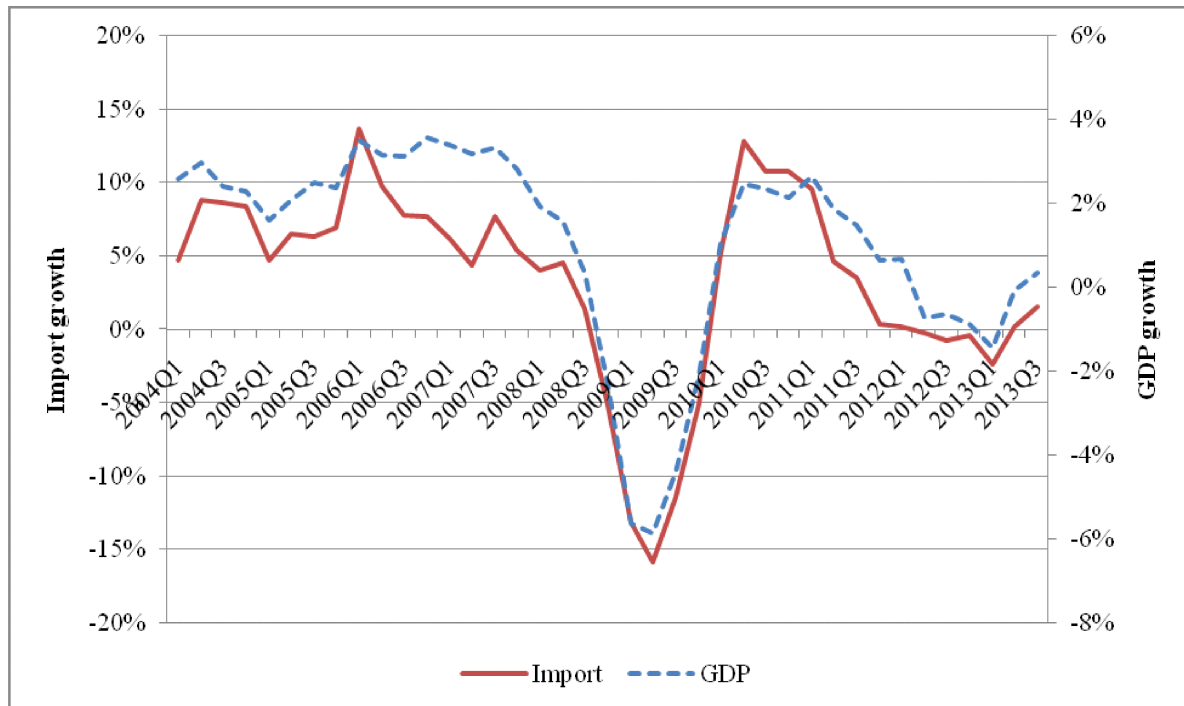


Figure 1: Quarterly growth rates of import and GDP of EU

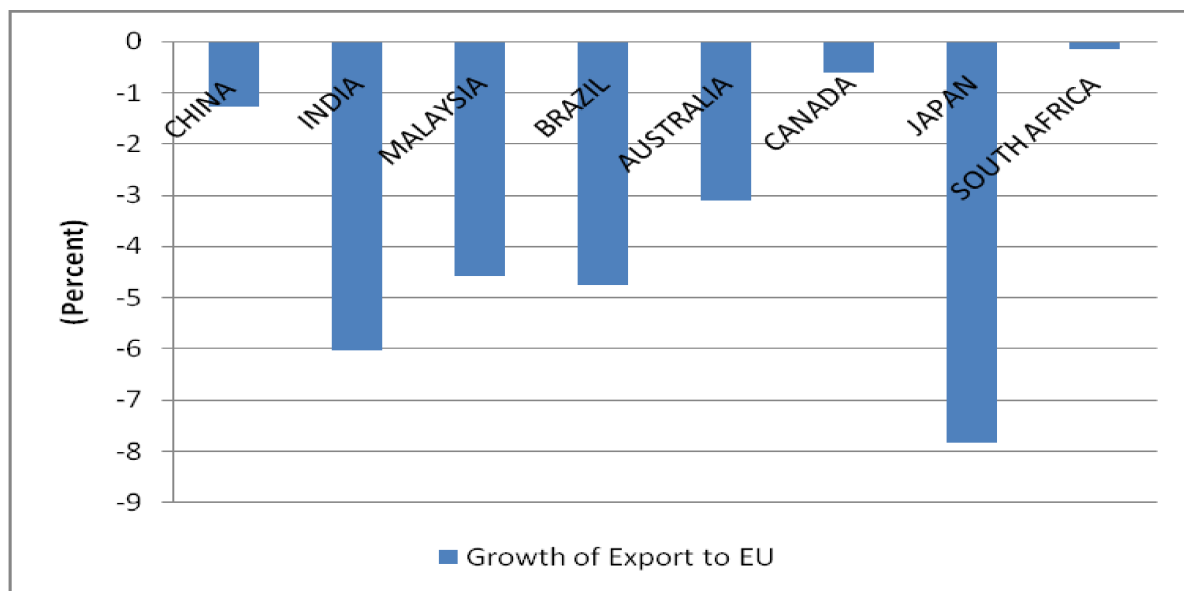


Figure 2: Growth of export to EU of major exporters

items, it gained as the consumers in recession-hit western countries switched to Bangladesh as a source of import of cheaper goods.

Taslim (2010) took a critical view of this hypothesis and attempted an alternative analysis of the reasons behind the relatively stable export performance of Bangladesh in the European and US market (which account for more than 85 percent of its total export) during the global recession of 2008–09. He refuted the cheap goods hypothesis above as being flawed and inconsistent with data. He invoked the well-known theories of consumption to advance the proposition that the secret behind the stable export performance of Bangladesh lay in the composition of its export basket and the nature of the demand for different types of commodities.

The theories of consumption suggest that the demand for consumer goods is determined by permanent or life cycle income rather than the actual income (Ando and Modigliani 1963, Friedman 1957). However, the demand for non-consumer goods such as raw materials, intermediate inputs and capital machinery are more directly related to the current level of consumption, investment and export, and hence, depends on current production or income.

The permanent (or life cycle) income, being in the nature of a trend, is typically less than the actual income during economic booms when income is higher than its normal level and greater than the actual income during slumps when income is lower than normal. This implies that permanent income fluctuates less than the actual income. Consequently, the demand for consumer goods is likely to fluctuate less than the current income, i.e. the elasticity of demand for such goods with respect to observed income will be relatively low. This is clearly borne out by Figure 3 which shows (year-on-year) quarterly real GDP and consumer expenditure growth in EU. The amplitude of fluctuations of growth of consumer spending is far less than the variations in real GDP growth.

If there exists a stable relationship between the imported and domestic components of a tradable good as postulated by Armington (1969), then the import of consumer goods such as apparels should fluctuate less than the import of non-consumer goods such as iron and steel since the demand for the latter, which are producer goods, responds to current production or income.

Figure 4 shows the growth in EU import of goods by broad economic category — consumer goods, intermediate goods and capital goods — during the last several years. It is rather evident that import demand for consumer goods has lower amplitude of fluctuations than that of the non-consumer goods. Thus the pattern of import demand of EU appears to be supportive of the contention above.

This is also borne out by the pattern of EU import in recent years. The Commodities whose imports have declined most during the current recession (2012) are mostly non-consumption goods. Table 1 shows the top-20 commodities (by HS code at 2-digit level) that suffered the largest decline in import growth. It will be seen that only 2–3 of these HS codes could be said to represent consumer goods. Significantly, the import of these commodities had also suffered badly during the previous recession. However, during the intervening two years, when the economy was out of recession, their import had bounced back very robustly.

When the foregoing argument about the nature of the demand for consumer and non-consumer goods holds, we should find countries with a large share of consumption goods in their export basket experiencing less severe fluctuations in their export earnings over the business cycle. Figure 5 below shows the scatter plot of the share of consumption goods in total export basket of 159 countries against the fluctuations of the growth of their exports, as measured by the standard deviations of their export growth during 1999–2012. There is a pronounced negative relationship between the two variables. The slope coefficient of the regression line fitted to the data is negative and highly significant. It suggests that 1 percent increase in the share of consumer goods in the export basket reduces export instability by 0.25 percent.

The analysis above clearly suggests that countries with export baskets dominated by consumer goods will be relatively stable while those comprising mostly non-consumption goods or producer goods will suffer from greater instability. We suggest herein lies the main reason for the relatively stable performance of the export sector of Bangladesh.

The composition of the export basket of Bangladesh is shown in Figure 6. Almost 98 percent of the export of Bangladesh to EU comprises consumer goods. Most of these are manufactured goods such as apparels. This particular characteristic of the composition of the export basket of the country implies, according to the hypothesis mentioned above, that its export will suffer less during a recession than the export of a country that sells overseas mostly non-consumption goods. Thus, the composition of the export basket of Bangladesh can be said to be one of the main driver of its relatively good performance in exporting to EU during the last as well as the current economic slumps in Europe.

A large part of the export products of important trading nations of the world such as China, Australia and Japan etc. are non-consumption goods (see Table 2). As explained above, the demand for such goods tends to fluctuate with the current state of the economy. Hence, the exports of most of these countries to EU suffered relatively

Table 1: EU import growth by 2-Digit HS Code, 2008–2012

HS Code	Product	2009 (%)	2010 (%)	2011 (%)	2012 (%)
79	Tin and articles thereof	–46	87	33	–26
52	Cotton	–21	33	22	–23
72	Iron and steel	–61	58	30	–23
78	Zinc and articles thereof	–37	87	–5	–21
75	Nickel and articles thereof	–54	107	10	–19
18	Cocoa and cocoa preparations	17	14	9	–15
51	Wool, fine or coarse animal hair	–38	49	36	–14
66	Umbrellas, walking-sticks	–12	19	11	–13
88	Ships, boats and Floating structures	9	60	–37	–13
40	Rubber and articles thereof	–28	47	33	–12
77	Lead and articles thereof	–38	56	11	–12
74	Copper and articles thereof	–42	57	22	–11
26	Ores, slag and ash	–46	85	20	–11
55	Man-made staple fibers	–21	30	20	–10
25	Salt; sulphur; earths and stone; lime and cement	–44	32	15	–10
76	Aluminum and articles thereof	–41	56	18	–9
48	Paper and paperboard; Articles of paper pulp	–8	11	2	–9
94	Toys, games and sports requisites; Parts and accessories thereof	–15	4	–1	–9
17	Sugars and sugar confectionery	–13	0	66	–8
63	Other made-up textile articles; sets; worn textile articles; rags	–5	17	10	–8

Source: *Eurostat***Table 2:** The share of consumer goods in total export to EU

Country	2009	2010	2011	2012
Bangladesh	98	97	97	98
Japan	8	7	7	7
China	39	34	34	34
India	39	33	31	30
Australia	16	12	10	10
Brazil	17	13	12	12
Canada	10	9	8	8

Source: *Eurostat*

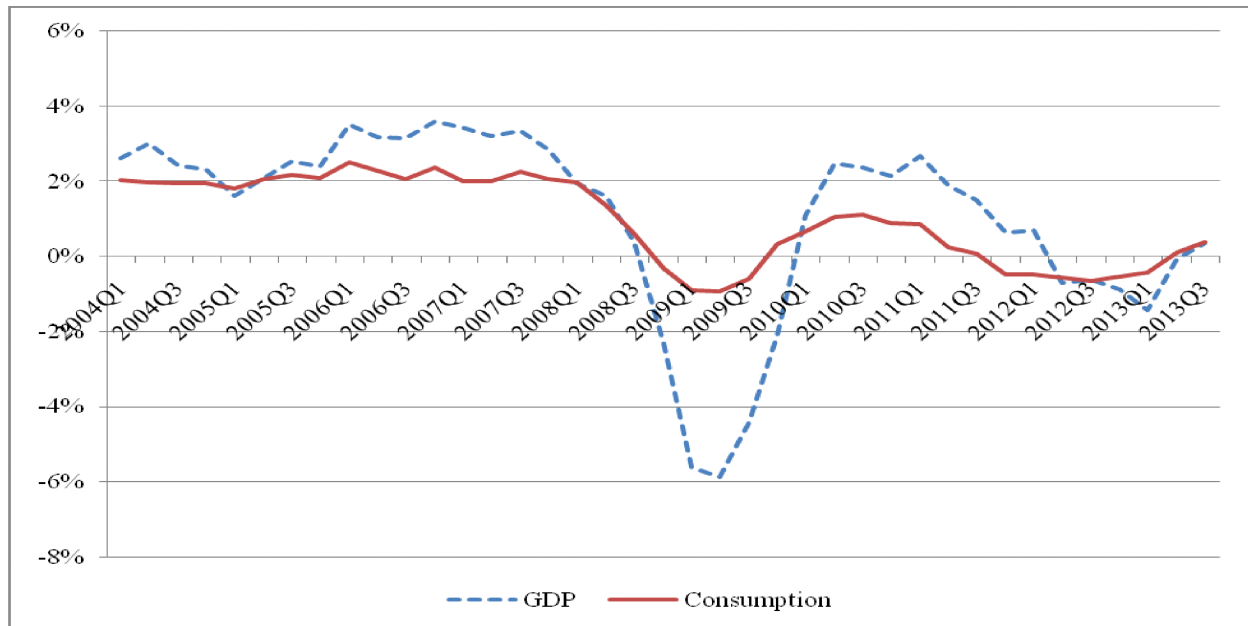


Figure 3: Quarterly growth rates of consumption and GDP of EU

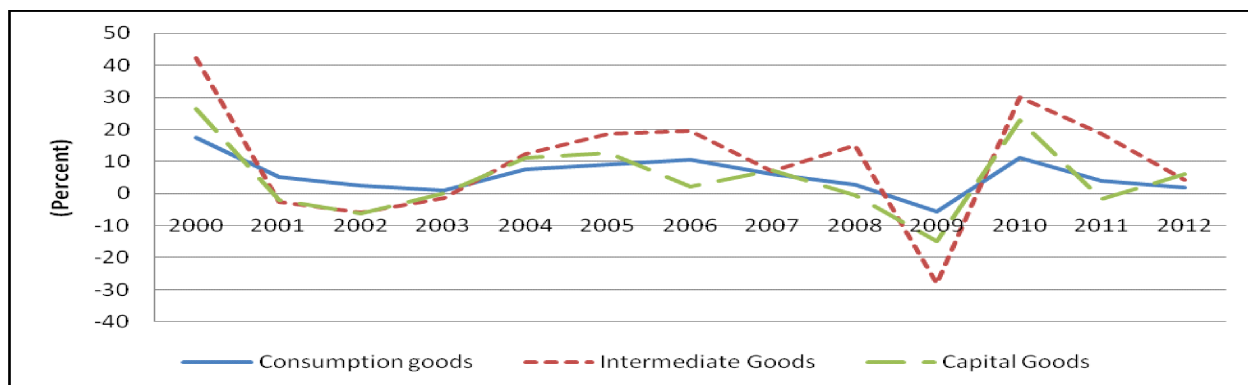


Figure 4: Growth rates of import of EU by broad economic category

more during the recession as shown in Table 1.

3 Competitive Strength

While the predominance of consumption goods, especially apparels, in the export basket explains the relative stability of export earnings of Bangladesh over the business cycles, it does not fully explain why it has outperformed many other countries including the major exporters of apparels to EU over a fairly long period. Obviously other factors were at play.

Since nearly nine-tenths of the total export of Bangladesh to EU comprise clothing items (HS61 and HS62), the growth of total export of Bangladesh closely follows the growth of apparel export. The export of ap-

parel, a consumer good, withstood the EU recession well, and hence, the growth of total export was also fairly robust. An important feature of the time trend of apparel import of EU from Bangladesh and the rest of the world is that the share of Bangladeshi apparel in total EU apparel import has been increasing steadily over a long period. But the rate of increase accelerated sharply since 2007. The share was 7.6 percent of the total EU apparel import from the rest of the world in 2007, but by 2012 it jumped to 12.7 percent. Bangladesh is now the second largest source of apparel import of EU behind China.⁵

Such a feat required that apparel export of Bangladesh grow considerably faster than the growth of EU import of apparels. This was indeed the case. Apparel export of Bangladesh to EU far exceeded the growth of EU apparel

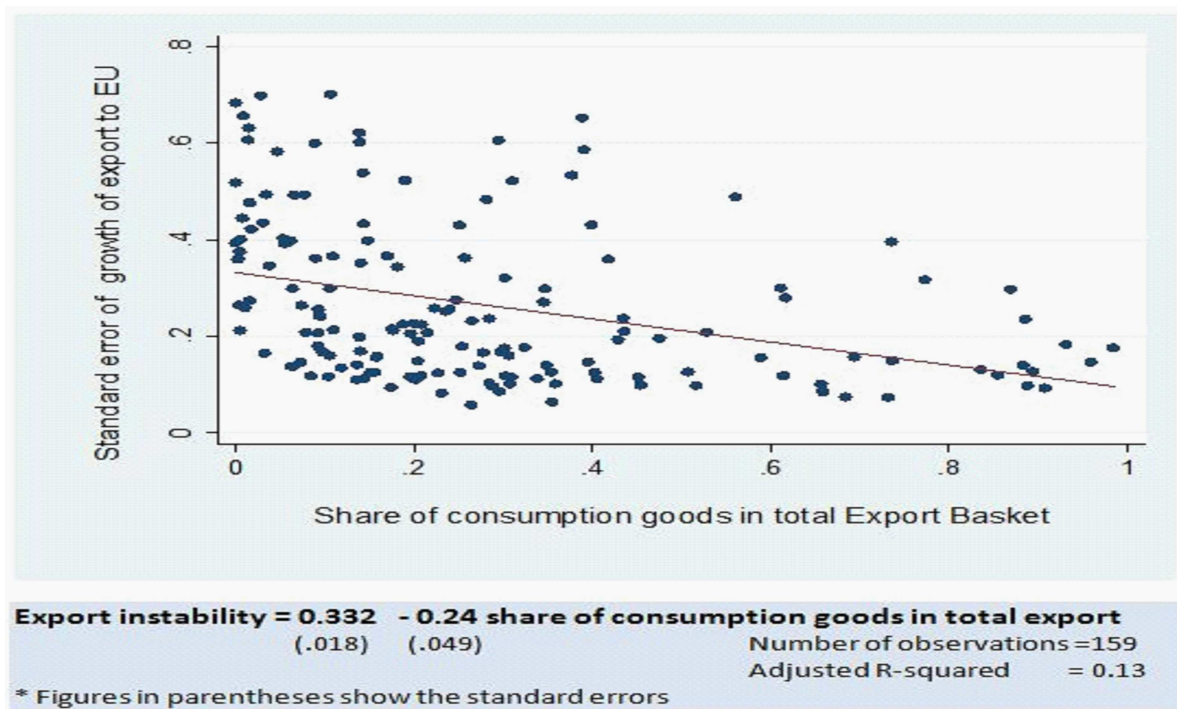


Figure 5: Relationship between the variability of export growth and the share of consumer goods in total export to EU by country, 2012

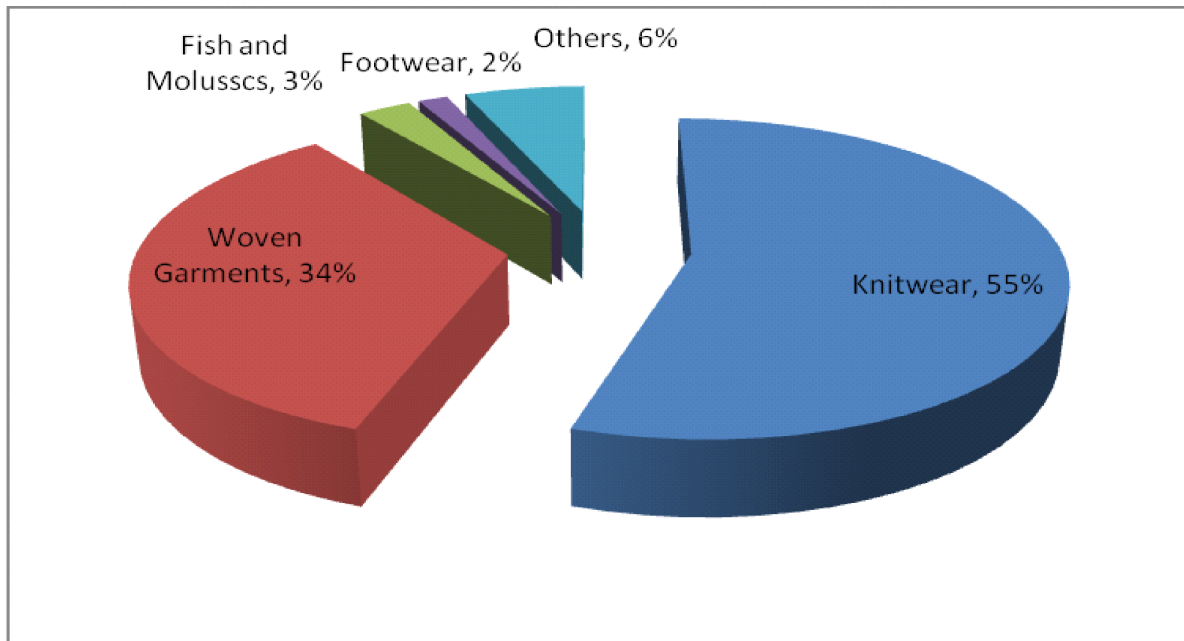


Figure 6: Composition of export of Bangladesh to EU, 2012

import during each of the last five years. Since the recession of 2008–09 Bangladesh apparel exporters also outperformed most other competing exporters, especially the major competing exporters such as China, Turkey, India, Vietnam and Pakistan.

The competitive strength of Bangladeshi apparel exporters derives from the innovativeness of the domestic entrepreneurs, duty-free access to developed country markets (except the USA), and most importantly an abundant supply of cheap labor, which allow the exporters to offer prices for apparel products much cheaper than that offered by the exporters of competitor countries.⁶ Several surveys have found the labor cost to be the lowest in Bangladesh even in comparison to other least developed countries such as Cambodia. According to *Eurostat* data, the cost to EU of import of apparel per kilogram is the lowest when sourced from Bangladesh. The competitiveness of the apparel industry of Bangladesh and the composition of the export basket worked together to keep the export earnings of the country buoyant during the recessions.

4 Concluding Remarks

The preponderance of consumption goods in the export basket of Bangladesh works as an automatic stabilizer in reducing the fluctuations of its export earnings. By developing an export sector specializing in basic manufactured consumer goods over the last three decades, Bangladesh has largely avoided instability of export earnings that characterized so many less developed countries which exported mostly agricultural and mineral products.⁷ A steadily increasing export income (as well as remittances) has enabled the country to maintain a positive current account balance over almost a decade, which led to the build-up of a comfortable international reserve position. The other side of this story is that the exports of countries with a large share of non-consumption goods in the total export basket is likely to bounce back strongly when the EU economy recovers whereas Bangladesh will experience a slower increase in the growth of its export earnings due to the very same reasons that prevented a large fall in it during the recessions.

Acknowledgment

The authors wish to gratefully acknowledge the comments and suggestions of two anonymous referees.

Endnotes

Throughout this paper EU refers to the 27 countries in the European Union, i.e. EU-27 in *Eurostat*.

1. UNCTAD (2013), p.1–2.
2. Since December 2012, EU import decreased every month year-on-year.
3. <http://business.time.com/2013/05/03/eu-predicts-eurozone-recession-to-continue-in-2013/>; (IMF 2013).
4. EU import payments increased by 3.7 percent in 2012, but import volume declined by 12.8 percent.
5. *Eurostat*.
6. See Taslim and Haque (2010) for more on this issue.
7. See Kenen and Voivadis (1972), MacBean (1966).

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