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Export Growth

A microeconomic perspective

Mirza Azizul Islam

I had earlier written a paper under the title "Export Growth of Bangladesh: Do we know the determinants?" The paper was published in the Financial Express on 19 August 2015. It was found that growth of consumer expenditure of developed countries and nominal exchange rate of Taka with US dollar were not very powerful explanatory variables for export growth of Bangladesh. The regression analysis showed that these variables were of the right sign but not statistically significant. I also ran a regression replacing nominal taka-dollar exchange rate by the real effective exchange rate (REER). The coefficient of this variable turned out to be of wrong sign. This counter-intuitive result may be explained by two considerations. First real effective exchange rate is based on a basket of currencies whereas most of exports are dominated in US dollar. Second, there may be a degree of money illusion among the exporters. They may be more concerned about how much taka they get at current prices presently in exchange for export rather than the real effective exchange rate which would involve adjustment of nominal exchange rate by inflation differential between Bangladesh and its trading partners.

The above findings point to the inadequacy of macroeconomic variables as determinants of export growth of Bangladesh. In the light of the above, this article seeks to analyse the export growth from a microeconomic perspective. For this purpose, I examined data for 17 periods starting with July-March of the fiscal year (FY) 2011-12 ending with July-December period of FY 13 relating to the volume of exports, unit price of exports and value of exports in terms of US dollar. For each period data on these variables were compared with the same period of the previous year. I considered only two items of export, namely, woven and knit garments which account for nearly four-fifths of our total export earnings. The analysis is intended to indicate the relative importance of demand and supply side influence on export earnings.

Volume-price-value combination gave rise to the following categories:

Category 1: There was an increase in the volume as well as unit price leading to increase in the earnings. In these instances increase in demand (technically rightward shift of the demand curve) was clearly the leading force. This was the case for 5 periods for woven and 6 periods for knit garments.

Category 2: There was an increase in the volume but fall in unit price. Nevertheless, earnings increased. This implies that the fall in unit price was more than compensated by increased volume. This is indicative of the leading role of supply side. As many as 8 periods were in this category for the woven and 6 periods for knitwear. It goes to the credit of the suppliers that they reduced price with a view to increasing volume to take advantage of price-elastic demand.

Category 3: There was only one instance where volume increased, but price remained the same foe woven garments. The result was higher earnings. In this case, demand and supply side seem to have played equal role. The increase in demand was matched by equivalent increase in supply so that there was no increase of price.

Category 4:This category is characterized by a decrease in volume, increase in unit price and an increase in the value of exports. Here obviously the supply side played a greater role as the suppliers were able to secure higher price in the face of reduction in volume and thus fetch larger earning. There were three such instances in each of woven and knitwear products.

Category 5: There was one case of knitwear where both volume and price decreased leading to reduced earning. Apparently the fall in demand was the villain of the piece.

Category 6: Finally, there was one case of knitwear where volume increased, but price decreased by a significant amount. The result was a decrease in the volume of export earning . This was a situation where an increase in supply led to a decrease in price but quantity demanded did not increase enough to increase the earnings. Hence the supply side was the dominant force in determining the outcome.

The summary picture that emerges from the disaggregated analysis is that out of 34 observations (17 each of woven and knitwear) there were 21 instances where the supply side played the major role in determining the quantity-price-earning outcome; there were 12 cases of apparently dominant role of the demand side and one instance of both sides playing equal role. In many view the policy implications of this analysis are the following:

First, our exporters must enhance the price competitiveness of exports. This would require technological up-gradation and enhancement of labour productivity so that unit price can be reduced and yet the value of exports can be raised by enhancing the volume of sales. Apparently there is no solid basis for pessimistic assumption regarding price elasticity of demand.

Second, while the above should form the principal thrust in our strategy for increasing export earnings, demand side cannot be ignored, given that there were as many as 12 instances where the explanation for increase in earnings apparently was in increased demand. This suggests that we need to improve the brand image of garments produced in Bangladesh in the existing markets. Moreover, we have to explore new markets that have the potential of making significant addition to demand. Some potential markets may be in Eastern Europe, Middle East and Central Asia.

Before concluding I would like to add one observation. It has been found that there were only two periods out of 34 where only the knit wear suffered a decline in earnings. The case of fiscal subsidies for the garments industry, therefore, is manifestly weak. Instead of lobbying for such subsidies at the time of preparing every new budget the garment industry owners should exert pressure on the government to ease production bottlenecks arising from deficiency in infrastructure and other public services and to assist in exploration of new markets

The author is a former Adviser to the Caretaker Government, Ministries of Finance and Planning and presently a visiting professor at BRAC University.

maislam@bracu.ac.bd