

Export diversification: the need for different eggs and baskets

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BANGLADESH has come a long way in terms of its exports. With an export of only \$0.36 billion in fiscal 1973, the country has managed to increase it to \$30.2 billion by the end of fiscal 2014. Comprising a share of 20 percent in the GDP, the importance of exports remains critical to the overall economic growth of the country.

Firstly, let us take a quick look at some of the facts regarding exports of Bangladesh. The exports are largely dominated by readymade garments, whose share was 81.2 percent in FY2014. Around 96 percent of all exported goods are manufactured commodities. If we look at the table of top five manufactured goods, what we can perceive is that Bangladesh's export basket is heavily concentrated on one product that is the readymade garments.

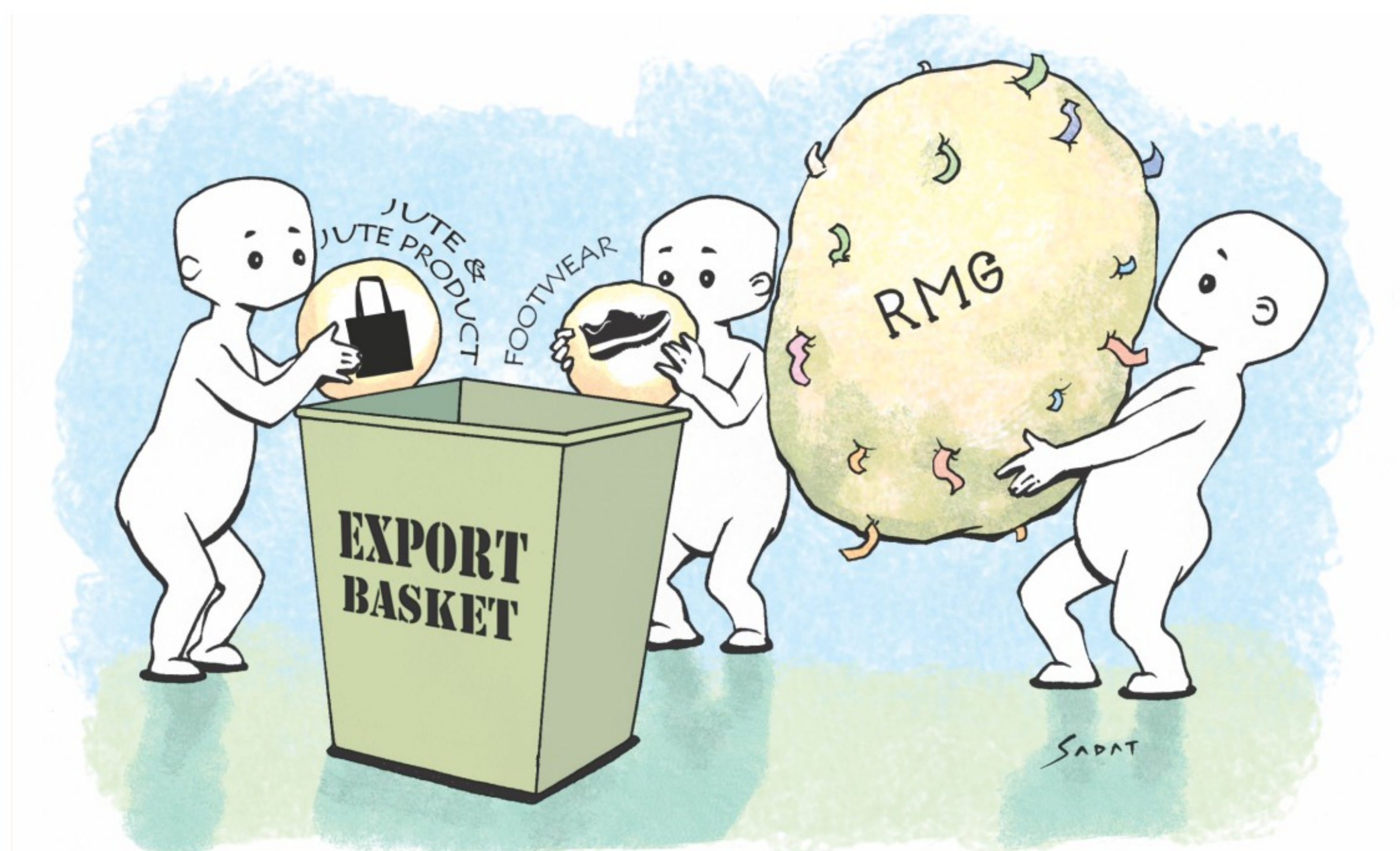
With about four million workers and 81.2 percent of total export earnings, a lot of the country's fate depends on a single sector. High export concentration on the garment sector can make the economy vulnerable to shocks.

Shocks stemming from international financial crises, however, are likely to have minimal effects on Bangladeshi exports. This is because the share of Bangladeshi exports in world trade is extremely small. To put this in perspective, let us take a look at our largest export partner -- the USA. Total import of goods and services into the USA was \$2,766 billion in 2013 and the share of Bangladesh is only a meager 0.2 percent of total US imports. This depicts that Bangladesh has a vast world market for selling its products.

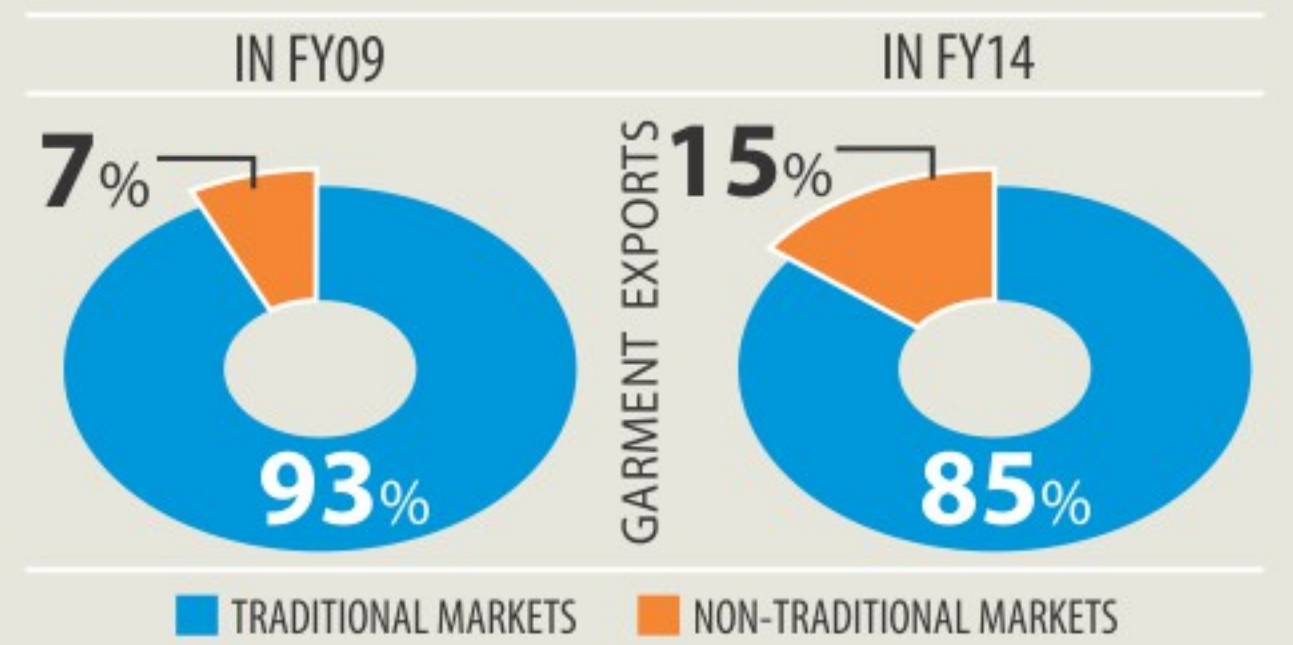
However, possible threats that Bangladesh's garment exports may face mostly stem from domestic inadequacies and rival countries.

Currently, our garment industry has a comparative advantage in two areas namely high capacity and low wages. With 5,600 factories, Bangladesh's apparel industry is ahead of countries like Indonesia (2,450 factories), Vietnam (2,000 factories) and Cambodia (260 factories) in terms of capacity.

However, the other prime factor, low wage, may not be a sustainable comparative advantage for Bangladesh. The minimum wage in the industry has already increased by 77 percent to \$66.25 since December 2013. Though it is lower than in countries like India, Pakistan, Indonesia and Vietnam, an increase in Bangladeshi wages will lead to a



MARKET DIVERSIFICATION ON THE WAY



TOP 5 MANUFACTURED EXPORT GOODS IN %

GOODS	SHARE IN TOTAL EXPORTS	AVG ANNUAL GROWTH FY09-FY14
Garment	81.2	15
Jute & jute goods	2.7	9.5
Home textile	2.6	14
Leather & leather products	2.5	31
Footwear	1.8	25

change in its comparative advantage. Not only can a wage hike in the domestic industry create a problem but countries emerging with lower wages may pose threats to our industry as well.

For instance in the case of African nations such as Ethiopia, minimum wages can be as low as \$23 a month. In addition, African countries receive a zero duty benefit for their exports to the US under the African Growth and Opportunity Act, whereas Bangladesh has to pay duty of 15.6 percent. African gar-

ment exports to the US were \$0.9 billion in contrast to Bangladesh's \$5 billion in 2013. It should not come as a big surprise if African garment exports to the US gallop in the next few years.

Nevertheless, the effects of rising wages can be negated with the help of higher productivity. But in terms of Standard Allowed Minutes (SAM), Bangladesh has a productivity score of 40 percent in contrast to its competitors Vietnam, India and Pakistan with a score of 80 percent in garment production.

The question remains as to what can be done to increase Bangladesh's exports, especially since a vast world market lingers out there.

One way to do this is by diversification of products. Along with introducing new products to the export basket, the country can also focus on increasing exports from the existing industries that can prove to be lucrative.

For instance, if we look at the exports of leather and footwear industry, we will see that they have been growing at an average annual

rate of 31 percent and 25 percent respectively during the last five years. Scope exists for these industries to increase their exports further with the help of correct policies.

One thing to realise is that the protection system that currently prevails in Bangladesh favours production for the domestic market rather than exporting. This creates an anti-export bias which makes domestically produced import competing goods more profitable to sell in the country rather than exporting. Garments on the other hand have been able to overcome this bias with the help of several measures such as back-to-back LC for import finance and bonded warehouse system for duty-free imported inputs.

Another way to increase exports is through diversification of markets. In fiscal 2009, 93 percent of Bangladeshi garment exports went to the traditional markets, namely the USA, the EU and Canada. This has declined to 85 percent in fiscal 2014. The government gave cash incentives to the garment industry (5 percent, 4 percent and 2 percent for 2009-10, 2010-11 and 2011-12, respectively) for exporting to new destinations. This has increased exports and helped trigger the process of market diversification.

We have seen that Bangladesh has a vast market for its exports and fluctuations in world demand due to international financial crises are likely to have minimal effect. However, such crises may affect export earnings in the short run. This is because Bangladesh is considered to be a price-taker in the international market and a fall in output price may result in some decline in export earnings, despite total quantity of garment exports being unaffected. Geographical diversification of exports can also help in this regard.

Export diversification can help increase overall exports and thus growth rate of the economy. Bangladesh has a high endowment of labour and the benefit of labour-intensive manufacturing which it can take advantage of. However, addressing domestic problems like land acquisition, energy and infrastructure inadequacy is key. Moreover, political stability is vital for uninterrupted flow of production as well as giving signal to the international buyers of the country's reliability. Though it may be a challenge, with appropriate policies, the country will be able to diversify exports and increase its overall exports and hence economic growth rates.

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Apple CEO Tim Cook speaks about the Apple Watch during an Apple event at the Flint Centre in Cupertino, California.

All eyes on Apple's Cook as Watch launch expected

REUTERS, San Francisco

APPL Inc Chief Executive Officer Tim Cook on Monday is expected to announce details of the first product developed under his leadership, a watch that Apple hopes will transform the market of wearable technology.

The company provided a sneak preview of the "Apple Watch" in September, has shown it to fashionistas, and even bought a 12-page advertising spread in Vogue magazine, but fans and skeptics are eager for more details.

With a rectangular face of about 1.5 inches (38 mm) in the smaller of two sizes, the watch wirelessly tethers to an iPhone, measures heart rate, and can tap wearers on the wrist to signal a new message or appointment. The price will start at \$349.

Apple has said the watch will launch in April and speculation is rife on what capabilities, from healthcare and fitness to navigation and entertainment, will be included. Apple fans have been waiting for a new type of product for five years, raising expectations.

It is an open question whether Apple or anyone else can create a new market for watches. The first watches based on Google Inc's Android Wear software

became available last year.

Companies, including Samsung Electronics Co Ltd, LG Electronics Inc, Huawei Technologies Co Ltd and Qualcomm Inc, collectively have not yet had a wearable hit. More companies are expected to test the waters this year, including possibly Xiaomi Technology Co Ltd, China's largest maker of smartphones.

Meanwhile, traditional watch brands such as Swatch are beginning to make timepieces with features such as activity tracking.

Roughly 4.6 million smartwatches were shipped in 2014, according to research firm Strategy Analytics. Analysts estimate that Apple could sell anywhere from 10 million to 32 million Apple Watches in 2015. By comparison, Apple sold about 15 million iPads in 2010, after an April launch.

Apple will have to "tweak" its stores to handle the watch, Cook told the Telegraph newspaper recently.

Cook is expected to take stage at 10 a.m. PST on Monday in a carefully choreographed presentation. The company has not confirmed the event is about the Watch, but the invitation simply reads "Spring Forward," a word play on the resetting of watches for daylight savings, which begins the day before.

Incepta unveils \$10 copy of US blockbuster drug for hepatitis C

BLOOMBERG, Mumbai

A\$10 version of Sovaldi, the Gilead Sciences Inc hepatitis C treatment that sells for \$1,000 a pill in the US, is now available in Bangladesh and could make its way to other parts of the world where the US company does not have patents.

Incepta Pharmaceuticals Ltd does not have a licence from Gilead and its version was launched last month, said Managing Director Abdul Mukhtar. The company also aims to sell the drug overseas, including to parts of Southeast Asia and Africa.

The generic drugmaker has beaten to the market a number of larger Indian competitors that were licensed by Gilead to produce low-cost versions of Sovaldi for 91 countries that are mostly poor. Nations not covered by Gilead's licence, including Thailand, Malaysia and Morocco, and countries where Sovaldi is not patented could benefit from the new source of cheap copies.

Incepta's price of about \$900 for 12 weeks is the same price at which Gilead will offer its branded version of the drug in India. Even so, the Bangladeshi version shows the challenge facing Gilead from companies it does not have agreements with in countries where the drug is not patented.

The World Health Organisation said it is in talks with Incepta for its prequalification programme, which assesses drug quality. International aid agencies and countries look to this WHO certification as a reference when picking drugs for bulk purchases.

Gilead is "aware of unauthorised generic versions of sofosbuvir being offered in the marketplace," the company said in an e-mail. "We're focused on enabling our 11 Indian generic partners to launch their authorised generic versions as soon as possible."

Under a World Trade Organisation agreement, Bangladesh, as one of the world's least developed countries, does not have to protect pharmaceutical patents.

In the US, Sovaldi has sparked a backlash from commercial health insurers because of its cost of \$84,000 for a 12-week course of treatment. In the rest of the world, the price of the drug is already set to plunge as Gilead's licenses start selling.



Hyderabad-based Natco Pharma Ltd, one of Gilead's licensees, launched its generic sofosbuvir in Nepal this month. Natco in a statement Monday said it had priced its generic medicine at 19,900 rupees (\$318) for a bottle of 28 tablets in Nepal.

A number of other Sovaldi generics besides Incepta's, also not authorised by Gilead, are in the works in Egypt, according to the Egyptian Initiative for Personal Rights.

The WHO is in talks with Incepta along with a "handful" of companies in India and Egypt on pre-qualification of Sovaldi generics, said Peter Beyer, senior advisor in WHO's department of essential medicines and health products in Geneva.

Dhaka-based Incepta is currently preparing quality and dissolution studies on its version of sofosbuvir to submit in support of its international applications, Mukhtar said.

"We are just a little ahead of them," said Mukhtar of his Indian competitors. "So, maybe we should be able to launch these products wherever it is required. In some countries in Africa, and some of the Southeast Asian countries where the burden is very high - these are the countries we are looking at." Gilead's hepatitis drugs, including Sovaldi

and the related pill Harvoni which combines Sovaldi with another drug, have transformed the way liver infection is treated, with most patients being cured after a 12-week course.

Nearly a dozen Indian manufacturers are part of Gilead's licensing pact for low-income countries, including Cipla Ltd, Hetero Labs Ltd, Mylan Laboratories Ltd, Ranbaxy Laboratories Ltd and Natco.

"I think everybody is very excited about this product because it offers such a wonderful treatment option," Mukhtar said. "But the price is going to come down, and the treatment regimen is only for three months. So, I don't think it's going to be a big money-earner."

Sovaldi was Gilead's top-selling product last year, bringing in \$10.3 billion in sales for the Foster City, California-based company.

Incepta's copy of Sovaldi, called Hopetavir, is aimed more for international markets than Bangladesh, where hepatitis C prevalence is low, though there is no reliable nationwide data, Mukhtar said.

Founded in 1999, Incepta has more than 600 products approved for sale in Bangladesh, ranging from oral solid pills to injectable human insulin, according to the company's website. The company exports products to more than 40 countries, mostly less regulated markets like Mongolia, Kenya, Somalia, Ethiopia, Mauritania, Democratic Republic of Congo and Afghanistan. It also sells to more regulated markets such as Finland, the UK, Ukraine and Turkey, according to the site.

Doctors Without Borders is "searching for affordable, quality assured sources of sofosbuvir," said Rohit Malpani, director of policy and analysis at the Access Campaign in Paris. The aid agency can purchase products approved by "stringent" country regulators or by the WHO, he said.

The majority of the world's hepatitis C sufferers live in middle-income countries, which carry approximately 73 percent of the world burden, according to Doctors Without Borders.

Brazil, home to 2.6 million people with hepatitis C, Thailand, with 1.5 million patients, and Morocco, with 625,000 patients, are all nations not included in Gilead's agreement with the Indian generics companies.