Can Bangladesh diversify beyond the garment sector?

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After more than three decades of policy debates, hundreds of research papers, and countless newspaper columns, yet another piece on export diversification in Bangladesh may seem redundant, but its very repetition underlines both the gravity of the problem and how elusive a credible way out has remained. If anything, the problem has worsened, as Bangladesh's exports have become increasingly concentrated, with readymade garments now accounting for around 85 per cent of total merchandise exports. The country's export basket is among the least diversified in the world. According to one export diversification index due to UNCTAD, where higher values indicate greater concentration and scores range from 0 (most diversified) to 1 (most concentrated), Bangladesh recorded a score of 0.87 on average during 2020–2022, far higher than the LDC average of 0.66 and well above Viet Nam at 0.54, India at 0.45, and China at 0.38. It has been estimated that since 2000, new products have contributed less than 5 per cent of Bangladesh's export growth, compared with 19 per cent in India, 22 per cent in Cambodia, 25 per cent in Sri Lanka, 33 per cent in China, 42 per cent in Viet Nam, and 62 per cent in Malaysia.

Bangladesh's export problem is not a lack of products, but a policy environment that rewards selling at home and leaves most industries unprepared for the demands of global markets.

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WHY GARMENTS WERE THE EXCEPTION, NOT THE MODEL

The dominance of the readymade garment sector did not emerge from a neutral policy environment but from a particular set of global and domestic circumstances that no other industry in Bangladesh ever enjoyed. From the 1970s until the early 2000s, the global trade regime under the Multi-Fibre Arrangement restricted textile and clothing exports from many developing countries, including the newly industrialised economies of East Asia. This diversion of global sourcing pushed investment towards lower-cost locations such as Bangladesh. Combined with duty-free market access under LDC provisions, this created an exceptional and time-bound competitive advantage for garments, one that never materialised for other sectors. The effect was amplified by the fact that tariffs on garments in major markets are substantially higher than for most other products, in the European Union, for example, MFN tariffs on many manufactured goods are typically around 3–4 per cent, compared with roughly 12 per cent for garments, making preferential access far more commercially valuable for clothing exports and reinforcing firms' incentives to specialise in this sector. Domestic trade policy reinforced this asymmetry. The garment sector benefited from a suite of targeted export support measures, which facilitated it to scale rapidly.

WHY NON-RMG ENTREPRENEURS REMAINED FOCUSED ON THE DOMESTIC MARKET

Any discussion on export diversification needs to address one basic myth. It is often argued that Bangladesh failed to diversify despite having policies intended to support exporting activities, particularly outside the garment sector. Trade policy in Bangladesh has, however, remained largely inward-looking. High tariffs and other trade taxes have made selling in the domestic market far more attractive than exporting.

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