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Role of Trade in Development

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Dear Mr. Chairman,
Distinguished Guests,
Ladies and Gentleman,

It is a great honour for me to join you today at the Bangladesh Economic Association, a group full of wisdom and vision.

The central theme of my speech today is the role of trade in fostering development. As countries integrate into the global economy, trade plays an important role in helping roll back extreme poverty and Bangladesh exemplifies this well. Your country boasts one of the largest young labour forces in the world and the past decade has witnessed rapid economic growth of the Bangladesh economy. Merchandise exports and imports enjoyed annual double digit growth. Today, the country is known for its globally competitive garment industry and it is a major player in world exports of clothing. The pharmaceutical and chemical industries are thriving.

As a result, extreme poverty is in retreat. The World Bank estimates that an unprecedented 550 million people escaped abject poverty over the last decade. As we look to 2015 and evaluate progress on the Millennium Development Goals, the record of Bangladesh in addressing extreme poverty will be one of the positives on the balance sheet.

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On the other hand, Bangladesh remains a Least-Developed country today with serious development concerns. How to create sufficient jobs for the young people entering the labour market? How to improve infrastructure bottlenecks? How to attract more foreign direct investment? How to diversify your exports? How to link Bangladesh industries to global value chains? These are a few of the many challenges facing the country's policy makers.

Progress on Poverty

Let me go back to the World Bank report to develop my theme. In 1981, 77 per cent of people in East Asia and the Pacific lived in extreme poverty, measured at $1.25 per day The region posted the highest rate of extreme poverty in the world. By 2008, the figure had dropped to 14 per cent, one of the lowest.

Nowhere is this dramatic turnaround illustrated better than in Thailand. In 1981, 22 per cent of Thais lived in extreme poverty. By 2009, it was 0.4 per cent. In July 2011, the World Bank upgraded Thailand from a lower-middle income economy to upper-middle income economy.

The virtual elimination of extreme poverty in Thailand can be attributed to the country's sustained economic growth for more than two decades.

Global Supply Chains

Why quote Thailand in a speech to the Bangladesh Economic Association? Bangladesh is a regional partner of Thailand in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation. But that's not why I mention Thailand. The reason is to be found in global supply chains.

Last year's terrible flooding took the lives of over 600 people in Thailand. Flooding is of course a scourge which Bangladesh knows only too well. Flood defence and climate change are understandably high government priorities. The Thai floods left much of Bangkok under water. They also exposed the full extent of Thailand's presence in global value chains. This integration in global production and supply is particularly advanced in automobiles, car parts and electronics — notably in hard disk drives.

Some analysts believe that the floods have wrought a downturn in the hard disk drive industry world-wide even more severe than that caused by the economic crisis of 2008. Market estimates suggest that hard disk drive shipments fell by nearly 28 per cent in the final quarter of 2011. And this of course has had knock-on effects in global supply chains.

A cascade effect can also be seen in automotive assembly and production. Thailand exports some 900,000 vehicles to places like Australia, New-Zealand, Europe, Middle East, Mexico and South Africa. Auto part makers in the flood-affected regions are an integral part of national, regional and global supply chains. The crisis forced a scaling back of auto production in Indonesia, the Philippines and Vietnam. It delayed vehicle delivery in other parts of the world.

Beyond Thailand itself, the flooding brought a further unwelcome shock to the Japanese economy in 2011. Japanese companies maintain extensive manufacturing operations in areas affected by the disaster.

These supply chain shocks are tangible evidence of Thailand's penetration of global value chains.

I note them because they illuminate the reality of the processes which the WTO and the Japanese think tank IDE-JETRO described in joint research which was published last year on trade patterns and global value chains in East Asia.

The key message of this report is that increasing geographic fragmentation of value chains has led to a surge of trade flows in intermediate goods, especially in the manufacturing sector. In 2009, trade in intermediate goods was the most dynamic sector of international trade, representing more than 50 per cent of non-fuel world merchandise trade. Twenty years ago, the import content of exports was twenty per cent. Today it is around 40%.

This trade in parts, components and accessories encourages the specialization of different economies, leading to a "trade in tasks" that adds value along the production chain. Specialization is no longer based on the overall balance of comparative advantage of countries in producing a final good, but on comparative advantage in "tasks" that countries complete at steps along the global value chain.

And for developing countries, specializing in one part of the supply chain offers new opportunities. It lowers the cost of entry for new entrants who need only focus on one part of the chain, not all the linkages in that chain.

This process has transformed the Thai economy and helped all but eradicate extreme poverty in the country. How? Through the employment opportunities which have been created and through the tax revenues generated - tax revenues which also help sustain fiscal transfers to the poor.

Bangladesh and Global Supply Chains

National 2010 survey data highlights that extreme poverty still blights the lives of some 30 per cent of Bangladeshi households, and falls disproportionately heavily on women. But here too, poverty is also in retreat. The national poverty headcount rate fell by 8.5 per cent between 2005-2010 - accelerating a positive trend that began in the 1990s and coincided with the progressive opening of the Bangladesh economy. I say coincided, but it is no coincidence if you want my view.

Various factors are at play, not least the creation of safety nets and the government's positive handling of the fuel, food and finance shocks of the past five years. One might of course also cite micro-credit, but for me, two factors stand out: Ready-Made Garments and Remittances.

The growth of the garments sector has been critical, notably in its impact on women's employment and income. Some 5,000 firms are creating employment opportunities for more than three million people, of which 80 per cent are women who mostly come from rural areas. The sector is also creating a similar number of jobs in complementary industries or services that service this lead sector.

Employment is lifting people out of poverty. Income remitted by city garment workers is cushioning the vagaries of village life. And tax revenue is starting to contribute to the government's ambitious public investment expansion. The garment sector is of course one part of a global value chain that runs through Geneva, Milan, Hong Kong, Singapore or New York and back into company boardrooms in Dhaka.,

Let me again draw comparison between Bangladesh and its partner in the Bay of Bengal project, Thailand. From an historic base of silk and cotton production, Thailand's textile industry has diversified into a combination of petrochemical and agricultural companies that supply the synthetic and natural fibres and filaments to manufacture textiles. Initially driven by low-cost labour, garment manufacture has now moved up the value chain. One can imagine a similar growth trajectory for Bangladesh and one which inspires Bangladesh's entrepreneurs to branch out of textiles and into the thrust sectors, which the government believes hold promise for the Bangladesh economy.

The other factor I mentioned is remittances. Running at over 10 percent of GDP and rising, remittances help stabilize Bangladesh's balance of payments. Like the income sent home by garment factory employees, remittances are a source of resilience and poverty reduction, particularly in rural areas. The central bank of Bangladesh estimates inflows at $12 billion last year, up 10 percent from 2010, dwarfing the figures for foreign aid or foreign direct investment.

Why do I mention remittances in the same breath as trade? For the simple reason that over 7 million Bangladeshis are working abroad. The openness of these markets to temporary labour migration is aiding Bangladesh's economic growth. Bangladeshi expertise in shipbreaking means Bangladeshis are in demand for shipbuilding jobs in Singapore. The diversification of the Gulf economies into financial and other services is being constructed on the enduring foundation of Bangladeshi brawn and know-how. Bangladeshis are on the staff at WTO. In WTO jargon, we term it trade in services. And the efficiency of financial service markets also determines the cost of remitting that income back home.

The spread of the global economy is opening opportunities for Bangladesh.

Government and Global Supply Chains

This again is not to gloss over the development challenges which Bangladesh and other LDCs face. Let me highlight three areas which seem key to me for LDCs to take advantage of the geographical extension of global supply chains:

The facilitating role of government;

The regional context; and

Supply chain governance.

The facilitating role of government

The challenge of any government, regardless of the country's level of development, is to turn policy documents into development deliverables. Government is about trade-offs. One fundamental trade-off for LDCs is the level of tariffs needed for public investment to address infrastructure bottlenecks versus a level of tariffs which favours export led-growth and diversification. This trade-off is particularly acute in LDCs which lack significant resource endowments. Striking the right balance is a critical factor in entering value chains.

Remittances are a remarkable tool for poverty alleviation, but their efficacy can also be enhanced. Addressing the business climate and regulatory issues that hold back foreign direct investment in key sectors will improve the efficacy of remittance flows too.

The regional context

Energy is a fundamental constraint for many LDCs and a brake on their economic development. Bangladesh is no exception. Like bottlenecks in transport infrastructure, addressing energy constraints requires national investment by the public and private sector, Aid for Trade and foreign direct investment.

Solutions often also have a strong regional component. Let me give you some examples. The Asian Development Bank supported Central Asia Regional Economic Cooperation has disbursed loans and grants worth almost $17 billion over the past decade. Likewise, the Greater Mekong Delta Sub-regional forum mobilized some $15 billion for more than 50 investment projects over a similar timeframe.

The potential is there for similar tangible regional cooperation in South Asia, be it through SAARC or the Bay of Bengal initiative or other formats. And there are positive signs that the political climate in the region may be improving too. I hope that the initiatives envisaged for railways, roads and energy co-operation lead to similar outcomes as they have in the Central Asia Region and the Greater Mekong Delta.

As the recent SAARC agreement to run a demonstration container train between Bangladesh, India and Nepal highlights, it is not only Bangladesh's future prosperity which is in question. Chittagong should be a regional hub and take its rightful place among the world's great ports.

Supply chain governance

"Made in the World" is the reality driving global trade. But national discourse on trade and economic policy is still couched in terms of "Made in Country X or Y". A trade discourse built on these feeble foundations encourages a "winner takes all" attitude at odds with the realities of the global economy. The conflicting positions it encourages are in opposition to the co-operation that defines modern supply chains.

There is no doubt the extension of global supply chains creates new opportunities for poor countries and contributes to reductions in extreme poverty.

But again this reality is at odds with the popular image elsewhere in the world which envisions exploitation and servitude in “sweat shops.” Fortunately, supply chain managers realize they must challenge this image. Enforcement of codes of conduct and government collaboration with the ILO and other organizations is essential to challenging preconceptions. Addressing this challenge is important for the future political and economic viability of supply chains - and for the poverty alleviation promise which they hold.

Conclusions

Like the economies of East Asia a generation ago, the realities of modern Bangladesh can be said to be out of step with the image of the country abroad. The same is true of the popular image of trade and development in some quarters, where the two are seen as being somehow in conflict. The experience of East Asia belies this trite conception.

Trade very much supports economic growth and development, provided it is framed by adequate policies and conditions. One of these conditions is the improvement of the global level playing field, i.e. establishing proper multilateral disciplines. Another part lies in ensuring adequate domestic policies in infrastructure, in business environment, in redistribution policies or in education.

During my tenure as Director-General of the WTO, and throughout my working life, I have sought to challenge this pre-conception that open trade would be in contradiction with the goal of poverty reduction. It is fundamentally at odds with the realities of our “made in the world” lives. The tired conceit of protecting LDCs from global trade robs the poorest of their entrepreneurial talent and negates their comparative advantage. Trade offers a way to escape binding national constraints to growth in LDCs. As the global economy moves east, my advice to you is to be a part of it.

Thank you for your attention.