

Geriatric infants in the industrial sector

The practice of perpetually protective policies will lead us nowhere



ZAIDI SATTAR

I am not referring to human infants, who need society's affection and complete care. The focus here is on "infant industries", a jargon in trade economics for new firms and industries in the international marketplace. Like human infants, the argument goes, they need to be protected until they grow up and are able to compete with established firms in the industry. The presumption was that newly set up industries would face high average costs of production but, through learning by doing, over time, they would be able to reduce production costs enough to be able to compete with established players. Sounds logical, but it raises a host of questions.

Ever since the propagation of the post-War Prebisch-Singer hypothesis of import-substituting industrialisation for developing economies, the strategy of protecting "infant industries" on the path of industrialisation became the bread and butter approach in most developing countries seeking transition from agrarian to industrial predominance.

What was left unclear in this particular approach to industrialisation was "how long" an industry was to be considered an infant industry. Human infants pass through more or less defined stages of childhood, adolescence and adulthood, but the literature on trade theory and policy has given us no such guidance about the periodicity governing infant industries. The history of industrial protection over the past 75 years has revealed that protection, once introduced, falls into the grip of inherent inertia, making it difficult to come out of it. Global research reveals how the policy of protection creates vested interest groups who would devote time and resources to maintaining high degrees of protection unless public policy intervenes to reduce it. In consequence, in most economies, the protection regime gathers its own momentum to secure greater longevity. Sadly, Bangladesh is among those where industrial protection has taken a life of its own, seemingly without any

end in sight.

The other unanswered question is "how much" protection is appropriate. While protectionist bans and restrictions on competing imports has been pretty much phased out under WTO rules-based world trade, tariffs remain the orthodox instruments of protection. Again, trade theory and policy does not offer any guidance on how high tariffs (or para-tariffs) could be raised to protect industries.

Globally, tariffs have come down significantly over the past 50 years and customs duties (CD) of 15 percent is considered a "tariff peak", but this is not a legally mandated upper limit, so no one follows it. Bangladesh maintains a top CD rate of 25 percent (unchanged since 2005) complemented by other duties like supplementary and regulatory duties (SD, RD) on imports. These latter group of trade taxes, termed para-tariffs, are additional means of bolstering protection. Although revenue is ostensibly the principal argument for applying these para-tariffs, research from the Policy Research Institute of Bangladesh shows that, by and large, SD serves as an instrument of protection in our economy.

Typically, any consumer good manufactured in Bangladesh is subject to tariff protection at the highest CD rate of 25 percent, topped up by various rates of RD and SD. While all domestic manufacturers of consumer goods get protective CD of 25 percent, and most get three percent RD and 20 percent SD, a few industries are selected for higher protection by giving them "extra" SD of 45, 60 or even 100 percent. We are aware that automobiles, alcoholic beverages and tobacco are subject to the highest rates of tariffs and para-tariffs (up to 650 percent), but that is clearly for mobilising revenue or discouraging consumption, not for protection.

So we have a confluence of three underlying issues in protection relevant to the Bangladesh context—magnitude, sectoral variation and periodicity. Together, they throw up quite a conundrum in the pursuance of protection policy.

First, in the absence of any theoretical guidance on the magnitude of tariff protection, Bangladesh seems to follow a path of "high" protection when compared to other developing



How do we justify that leather shoes are singled out for higher protective tariffs over leather bags?

PHOTO: ANISUR RAHMAN

economies. Note that in principle, a protective tariff is equivalent to a subsidy on import substitute production, similar to a cash subsidy on exports. A World Bank comparison of average tariffs shows Bangladesh is leading in this sector. It turns out that Bangladesh's average tariff (CD) of 13.5 is higher than that of lower middle income countries (7.2) or upper middle income countries (3.2). It raises the question of how high tariffs have to be for protection to be effective.

Second, if the case for protection is made, why not provide equitable or uniform protection to all import substitutes? There is no theoretical basis for giving higher protection to some and lower protection to others. For example, how do we justify that leather shoes and ceramics are singled out for higher protective tariffs over leather bags and plastic chairs? The way variable protection has been meted out seems to suggest that those sectors or associations that have greater influence or can lobby harder receive the benefit of extra protection.

Third, our protection policy makes no mention of how long the high tariffs would last

or when they would start being scaled down. Nor is high or low protection ever linked to performance (output or employment) or made time-bound. As a result, the presumption of entrepreneurs is that tariff protection, once granted, would be everlasting. Simple logic tells us that in such cases, producers become complacent. There is a lack incentive to become more efficient and reduce costs, and to become globally competitive and capture job-creating export markets.

More importantly, and what is seldom recognised, is that it is consumers who actually pay the protection tax—the price increase resulting from tariffs on competing imports as well as domestically produced import substitutes. As such, it is a transfer of resources from consumers to producers and the government. In letting protection last indefinitely, consumers are made to bear the burden without being told when they might hope to see domestic prices of consumer goods reflect lower international prices, not to mention coming out of the limited choice of imports that is associated with protective tariffs. Until then, it seems Bangladeshi consumers

are left with no choice but to pay prices of consumer goods at least 50 to 75 percent above international prices.

To be sure, the practice of *ad infinitum* protection to industries cannot be taken as policy support to infant industries because so many of the protected industries have been in business for decades. Promising industries like agro-food processing, footwear and leather products, electrical gadgets, plastics and ceramics have export potential but high tariff protection, making domestic sales more lucrative and discouraging exports. When we talk of export diversification, the focus is on these industries, in addition to jute goods, electronics, pharmaceuticals and light engineering products. Emerging industries established in recent years, like bicycles, motorcycles, mobile phones, air conditioners and refrigerators indeed fall into the category of infant industries, to be supported with tariffs and other incentive measures available. But simple logic (bolstered by trade theory and policy) suggests that such support measures must be made time-bound or performance-based to be effective in developing efficient and competitive industries. This was how some of the successful developing economies managed their industrial development. Eventually, they were able to pare down protective tariffs and compete in the global marketplace.

The practice of perpetual protection, rather than building robust competitive industries of the future, could become a path to nowhere, besides creating and sustaining industries that are likely to need life support till the cows come home. If industries require high protective tariffs after being in business for 20, 30 or 40 years, they cannot be regarded as infant industries but could be termed as "geriatric" infants. Unfortunately, the list of geriatric infants in our industrial sector is large and only getting larger. Rapid scaling down of protection for such industries is in the national interest, and in the long-term interests of the industries concerned, and would be of immense benefit to the average consumer in Bangladesh.

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Is Great Britain becoming a great breacher of international law?



KAMAL AHMED

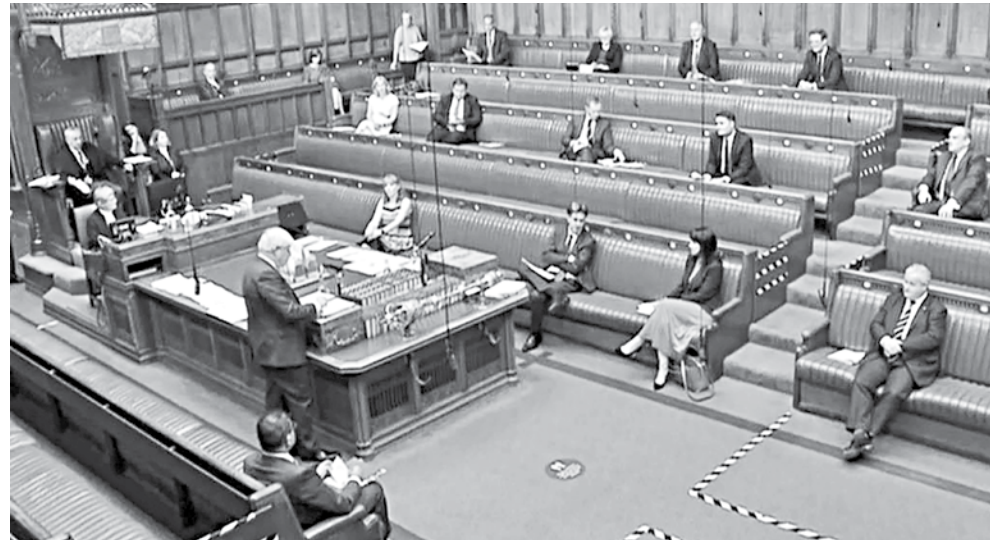
It is probably the first time that the House of Commons recorded a statement by a cabinet member that a legislation brought by the government of Great Britain will breach international law. In a new normal setting of the British parliament, where

Covid-19 health rules imposed limits on the physical presence of MPs and ministers, the extent of the shock was beyond anyone's guess. However, despite quite a significant dissent within the Treasury bench, Prime Minister Boris Johnson remains unmoved. Five predecessors, three from the Conservatives—John Major, David Cameron and Theresa May—and two Labour ex-PMs—Tony Blair and Gordon Brown—in unison decried the legislation, saying it would damage "trust" in the UK and its standing in the world.

The aim of the amendment is to change parts of the EU withdrawal agreement, negotiated last year. Northern Ireland Secretary Brandon Lewis on September 9 told the House that the new bill would break international law in a "specific and limited way". Later on September 14, Prime Minister Johnson told MPs in the Commons that he did not wish to use the law; rather the aim was to have an insurance against failure in clinching a deal with the EU. And Johnson got his way, as the bill has passed the first hurdle with a comfortable majority in the Commons. However, the number of abstentions shows deep unease within the ranks. It will now be vetted by a parliamentary committee and several

amendments are expected.

The proposed Internal Market Bill will do away with any new checks on goods moving from Northern Ireland to Great Britain. It gives UK ministers powers to modify or "disapply" rules relating to the movement of goods that will come into force from January 1, if the UK and EU are unable to strike a trade deal. Under the withdrawal agreement,



Britain's Prime Minister Boris Johnson speaking in the House of Commons in London on September 14, 2020 regarding the proposed bill.

PHOTO: AFP

export declarations will be required for goods moving from Northern Ireland to Great Britain and some rules will be followed on state aid to exports. This issue of a virtual or presumptive border on the Irish Sea was at the centre of a huge debate last year since the Republic of Ireland is still a member of the EU, whereas Northern Ireland (as a part of

the UK) will no longer be. This "soft" border between the Irelands has always been a huge point of contention in Brexit debates. PM Johnson had signed up to such complicated arrangements in order to get "Brexit done" by the end of 2019.

Unsurprisingly, the European Union despatched a top official to London, the European Commission Vice-President Maros



Britain's Prime Minister Boris Johnson speaking in the House of Commons in London on September 14, 2020 regarding the proposed bill.

Sefcovic, to demand the withdrawal of the amendment bill, issuing an ultimatum until the end of the month. The EU Commission is now threatening legal actions against any such breach. A prescheduled separate trade talk between the chief EU negotiator Michel Barnier and his UK counterpart David Frost also ended without much headway. While

heading back to Brussels, Barnier, in one of his briefest comments, told the waiting press that "trust and confidence are and will be key" in making any progress in future talks.

And, trust is now at stake. Many of the leading voices in the Conservative Party and opposition Labour and other regional parties have questioned the government's motive. They argue breaching international law will not only harm relations with the UK's largest trading partner, but erode trust and confidence in Britain across the world. Newspapers suggest a few dozen MPs within Johnson's party have indicated they will vote against it. It faces even harder resistance in the upper chamber, the House of Lords, where the ex-leader of the Conservatives Michael Howard said the bill would damage the UK's reputation as a protector of the rule of law.

And an unlikely intervention came from the United States too. It was a very strong rejection of the proposed British amendment. House Speaker Nancy Pelosi said: "Whatever form it takes, Brexit cannot be allowed to imperil the Good Friday agreement, including the stability brought by the invisible and frictionless border between the Irish Republic and Northern Ireland. The UK must respect the Northern Ireland protocol as signed with the EU to ensure the free flow of goods across the border." She even went as far as to warn that if the UK Brexit treaty undermines the Good Friday accord, there will be absolutely no chance of a US-UK trade agreement passing the Congress.

Despite the EU ultimatum, a senior member of the cabinet Michael Gove said the UK had made it "perfectly clear" it would not withdraw the bill. The government says parliament is sovereign and can pass laws which breach the UK's international treaty obligations. Speculations are rife that PM

Johnson wants a no deal Brexit and hopes to blame the EU for not accepting a realistic proposition. His cabinet colleagues are arguing that the proposed amendment is not a rejection of the withdrawal agreement, but a necessity to implement it for maintaining uniformity in Britain's internal market. Talks, however, are set to continue as the EU remains cautious about shouldering any blame of abandoning the negotiations.

Downing Street says that parliament has the sovereign right to pass any domestic legislation it sees fit and necessary for protecting national interests. Opponents of the government move argue that it is an established principle of international law that a state, acting through its executive government, is obliged to discharge its treaty obligations in good faith. So far, five former prime ministers, two former attorney generals and a former chancellor have come out against the move, warning that breaking international law would come with a price that could never be recovered.

Among them, John Major's words are quite striking when he said, "For generations, Britain's word solemnly given has been accepted by friend and foe. Our signature on any treaty or agreement has been sacrosanct." He continued, "Over the last century, as our military strength has dwindled, our world has retained its power. If we lose our reputation for honouring the promises we make, we will have lost something beyond price that may never be regained."

Great Britain has a huge legacy in formulating rules of law and developing rule based international order. It has become a reference point for many decades. It would be an irony if it now becomes synonymous to a great breacher of law.

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ON THIS DAY IN HISTORY



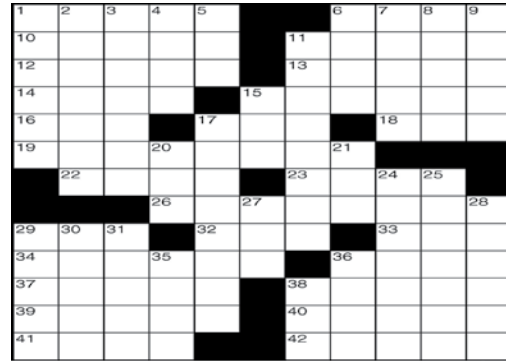
Rome incorporated into Italy
September 20, 1870

On this day in 1870, Italian troops occupied Rome, leading to the eventual incorporation of Rome into the Kingdom of Italy and the limiting of papal governing authority to the Vatican itself and a small district around it.

CROSSWORD BY THOMAS JOSEPH

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| ACROSS | 33 — cupla | players |
| 1 Den group | 34 Facing trouble | 8 Uptight |
| 6 Poll numbers | 36 Toppers | 9 Old English forest |
| 10 Those opposed | 37 Walk with pride | 11 Tirade |
| 11 External | 38 Jeweler's unit | 15 Help out |
| 12 "Robinson Crusoe" writer | 39 Lock of hair | 17 Job interview topic |
| 13 Tip over | 40 Give a speech | 20 Total |
| 14 Leave out | 41 Ticked off | 21 "Lenore" writer |
| 15 Relaxed | 42 Hay bundles | 24 Navy bigwig |
| 16 Rockies tree | DOWN | 25 Time of delivery, roughly |
| 17 Feeding-time need | 1 Hurting for money | 27 Caret's key |
| 18 Fellows | 2 Rivals | 28 Sticks, in a way |
| 19 Came clean | 3 Initially | 29 Shopping aids |
| 22 Leave speechless | 4 Mob event | 30 Prologue |
| 23 Map line | 5 Toronto-to-D.C. dir. | 31 Kitchen gadget |
| 26 Made a mistake | 6 Hoodwink | 35 Join together |
| 29 Gloss target | 7 Group of top | 36 Zhivago's love |
| 32 Suitable | | 38 Corn core |

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YESTERDAY'S ANSWERS

S A F E R A U R A L
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A L G A E L E A S E
L A S T S S A N E R

BETLE BAILEY



BY MORT WALKER



BABY BLUES



BY KIRKMAN & SCOTT

