INVITATION TO A DIALOGUE

Industrialisation and policy of import liberalisation

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The World Bank's reform agenda

One of the more debatable issues surrounding our current economic reform programme is the policy of import liberalisation. The World Bank has in all its structural adjustment reform packages around the world and certainly in Bangladesh since 1982, been pressing for a programme of import liberalisation. The World Bank believes that the reduction and eventual elimination of tariffs and various forms of quantitative restrictions (QR) on imports will make our economies more globally competitive and this will contribute to faster economic growth. This simplistic policy prescription has been exposed to both theoretical challenge and its validity has been questioned through research evidence from across the developing world including Bangladesh. However, the World Bank has pressed ahead with its import liberalisation agenda in Bangladesh, and this has been embraced, not always happily, by successive governments in Bangladesh.

Since the mid-1980s, the World Bank initiated, under the pressure of conditionalities attached to specific structural adjustment programme loans made to the GOB, an agenda of import liberalisation. These reforms were designed to gradually do away with the regime of quantitative restrictions (QRs) which have governed first Pakistan's and then Bangladesh's import regime and to gradually lower tariffs on imports.

The policy inheritance from Pakistan

The import policy regime inherited from Pakistan had been driven by two goals. To conserve foreign exchange and to promote industrial growth through a regime of import protectionism. Successive governments in Pakistan had sought to restrict imports through a system of import licensing and high tariffs. The idea was that whenever an industry came into existence we should not waste foreign exchange by bringing in competing imports. This would furthermore provide a secure home market for the industrialist which would encourage investment. This policy obviously had some merit because it enabled Pakistan to raise the share of value added from manufacturers from around three or four per cent at the time of the partition of India to around fifteen or sixteen per cent at the time when Bangladesh came into existence in 1971. Needless to say there was a price to pay in the inefficiency of many of these industries which remained internationally uncompetitive. These high costs of protection were passed on both to domestic consumers as well as to non-protected primary product exporters such as the jute growers of East Pakistan.

Notwithstanding the very genuine weaknesses in Pakistan's strategy, industrial growth was impressive, particularly in the 1960s, averaging over six per cent. Whilst the state through PIDC and through heavy DFI financing assistance underwrote this industrialisation there was considerable reinvestments into industry of the 'rents' earned through protectionism and foreign exchange controls. The policy goal of transforming a trading class into first generation industrialists through a policy of making industry profitable under a highly protectionist regime was thus reasonably successful.

Export growth in the 1960s was significant since the introduction of the Export Bonus Scheme which was designed to offset the disadvantage to manufacturing exporters of an overvalued exchange rate. This protectionist regime inherited from Pakistan was retained in place by successive regimes in Bangladesh in the 1970s to promote industrialisation. Bangladesh inherited a very narrow manufacturing base which amounted to nine per cent of GDP. Due to its population size and the limited absorptive capacity of agriculture, much faith was placed in industrial development by our policy makers but little was done to actually see that industrialisation took place.

What price liberalisation

The World Bank took the view that industrial growth could only take place in Bangladesh, in a more competitive regime open to foreign competition. The Bank thus pressured the GOB to cut both quantitative restrictions (QRs) and tariffs. In 1986 the government removed the system of import licensing and replaced it with a 'negative' list whereby import of certain items remained banned and some other items could be imported under certain restrictions set by the annual import policy orders. This combined list which, in 1985-86, covered 647 items was in successive years reduced to 250 items by June 1991. Tariff rates have also been gradually reduced. The target is to bring these rates, on average, down to about 25 per cent.

There is not enough empirical evidence to show whether the reduction in QRs and tariffs has had a disincentive effect on industrialisation in Bangladesh. In meeting after meeting the Chambers complain that import liberalisation harms private industry. But they have yet to produce hard evidence to identify specific industries facing difficulties because of import liberalisation. Torch batteries appear to be a favorite example where more liberalised import of batteries has led to closure of same factories, though some other local firms appear to have gone on making good profits.

Again, we have anecdotal evidence of the impact of illegal imports, mostly from across the border harming local industry. The alleged decline of the handloom industry due to excessive competition from sarees smuggled in from India is the most publicised item. However a BIDS study completed in 1988 showed that the handloom industry, in the 1980s, had registered significant growth, product diversification, and technological upgradation, which suggests that it had managed to both withstand import competition and achieve significant growth mostly without any government assistance or protection. In contrast there are stories from larger engineering units such as the pipe mill of the BESC, the diesel engine plant in Joydebpur, the GEM plant in Chittagong and private sector units producing electrical meters and other engineering products, who all complain that aid programmes finance free imports of these items whilst domestic manufacturing capacity sits idle.

What we need most urgently is a body of research reviewing, in concrete terms, the number of industries which have faced difficulties from legal and illegal imports. This will provide a guideline, for the short term, to ascertain whether restricting particular imports would lead to greater profitability and more important, the competitive viability of this industry.

However the issue of import restrictions is only the tip of the problem. The key issue is to create a climate where rapid industrial expansion takes place. There is a fair presumption from the experience of other developing countries that above everything else first generation industrialists need a sense of security whereby they can feel confident that money they will invest will be recovered in guaranteed profits. This was what initially stimulated industrialisation and laid the foundations of an industrial base in Pakistan, India, Brazil, Mexico, South Korea, Taiwan. None of these countries opened their protected domestic markets to significant competition from imports till their manufacturing/GDP ratio was above fifteen or sixteen per cent and indeed for most of them above 20 per cent. By this time a new generation of industrialists had come of age, with experience in running medium and even large industry, with some exposure to export markets, with a capacity to raise equity capital and even capable of technological innovation.

In the case of Brazil, Korea and Taiwan, in particular, but even with the others, a protected home market did not conflict with vigorous efforts for exports promotion by the government. South Korea in particular, graduated from the 1960s to the 1980s from exporting labour intensive manufactures such as garments and footwear to heavy industry items such as steel, ships, automobiles whilst continuing to protect industries catering to domestic consumption. It is only in the 1980s that Korea and Taiwan, two of the world's most competitive economies, began opening up their domestic economy to imports.

> ***We must be very careful that the protected home market does not became an open-ended excuse for inefficiency and indiscriminate protection. Industries which supply inputs to the export sector, such as for instance the textile industry which can service the garment industry, must be kept internationally competitive so that the export industry does not carry the burden of low quality, high cost inputs.***

Designing an industrial strategy

It is thus very debatable that Bangladesh, whose manufacture/GDP ratio has stuck at around ten per cent for the last 20 years, should go in for rapid import liberalisation at this stage of its development. What we need is to stimulate a precess of rapid industrial expansion, where for a period, the government not only guarantees to protect domestic industry from import competition through a regime of import bans but should also create supporting conditions whereby these industries can earn substantial profits from which they can repay their loans and also reinvest in new industrial capacity. The demonstration of profit earning opportunities in industry and the proliferation of an industrial culture will further induce local entrepreneurs to risk trading capital in industry.

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Having said this one should not aim to recreate the fully controlled regime of the 1960s we left behind in Pakistan. Our exchange rate regime has changed and should be kept flexible without becoming a fetish, as pressured by the IMF and the World Bank who try to set rigid targets for the exchange rate in the foolish belief that such adjustments ensure higher exports. At the same time we should move from an indicative strategy of export promotion to a Korean type managed system of export promotion. This involves designing a fully developed industrial strategy which identifies industries for promotion and then uses credit targeting, interest rate and fiscal concessions, aggressive export promotion led by the government, with the setting and constant monitoring of export targets.

Where private sector enterprises cannot or are slow to occupy critical export niches the government should not be hesitant to take the initiative in setting up such industries in collaboration with private foreign investment, with local private partners or on its own. The Korean government did not wait for anyone when it set up the steel industry in the public sector and made it the most competitive industry in the world both as an export industry and to supply steel at subsidised prices to the export oriented engineering industry.

Keeping industries competitive

At the same time we must be very careful that the protected home market does not became an open-ended excuse for inefficiency and indiscriminate protection. Industries which supply inputs to the export sector, such as for instance the textile industry which can service the garment industry, must be kept internationally competitive so that the export industry does not carry the burden of low quality, high cost inputs.

But this again leaves the onus on the government to ensure the modernisation of the textile industry and in then enforce a marriage with the garment industry so that the bulk of our value added from garment exports is retained at home.

Similarly we do no want to penalise poor farmers by forcing them to use high cost, low quality, inputs for improving farm production. Here too, very careful monitoring of efficiency and prices of such industries will be in order where provision for imports can be used as a form of sanction if domestic manufacturers do not maintain competitive standards.

This still leave a whole range of mostly end-use consumer goods industries producing anything from biscuits to plastic buckets which, under protection, will remain high cost and often not of the best quality. Whilst we must initially learn to live with this as the price of industrialisation this must not become an open ended situation. Here the best resort is to promote domestic competition, so that few domestic monopolies are created. However where scale economies provide for, at best, one or two producers, then such industries must be exposed to much closer monitoring and even some form of price regulation based on their performance and changing cost trends. This principal is applied in some countries in the regulation of private statutory monopolies.

In creating an enabling climate for rapid industrialisation we must keep in mind that considerable competitive capacity in the informal sectors of small/rural/household industry exists. A regime of protection must cover this sector and every effort must be made to enhance their competitive capacity vis a vis modern, institutionally funded industry.

The larger reality however remains that whenever the state goes to help any industry, it ends up by weakening its competitive worth. The scope for the state becoming an instrument of patronage and a haven for non-investing rentiers remains a permanent hazard of any interventionist and protectionist strategy of industrialisation in Bangladesh. What we therefore need is a capacity for heightened vigilance over the state through parliament, a free media, consumer/user associations, public groups, regular high quality academic research to analyse and publicise the costs of such a system and finally, a climate of competition at home as well as aggressive, planned, export promotion which should not just co-exist but be strengthened within a well defined strategy of industrial development. This system should again not be rigid but constantly adjust to changing circumstances and opportunities.

At the end of the day, say by the year 2000, Bangladesh must aspire to a manufacturing/GDP ratio of 20 per cent that triples and quadruples the numbers in manufacturing employment, and raises its exports to at least 12 to 15 billion dollar. All this and more can be done by a purposeful, creative but above all accountable regime, working in close collaboration with its private sector, who must also remain creative and socially accountable. The market must play a key role in this process but it must always remain the servant and not the master of our development agenda. What we must now undertake is a wide ranging dialogue involving the government and opposition parties, the business sector, labour, professionals, to assess the actual consequences of import liberalisation and to develop the design for an alternative agenda for industrialisation.

Some questions which may be addressed in such a dialogue should include the identification of key industries in the public and private sector whose performance is constrained by liberal imports, the special role of smuggling in impacting on the fortunes of some industries, the causes behind the lack of competitiveness of those industries, steps to be taken to make those protected industries competitive, can these industries ever be internationally competitive and if not what should we do with them, what types of import restrictions are effective and for how long should they continue, what special measures should be taken to protect and stimulate small and rural industry, who will pay the cost of industrial protection and how to compensate them, will protection be prejudicial to export orientation and competitiveness and if so, how to avoid this, what steps can be taken to ensure that high profits from protection are reinvested in industry and used to service debts.

French parliament rejects US-EC farm subsidy deal

PARIS, Nov 26: After militant farmers battled riot police a block away from the National Assembly, a majority of lawmakers voted to oppose a farm trade pact between Washington and the European Community, reports AP.

Premier Pierre Beregovoy, who staked the fate of his Socialist government on the issue, won the late Wednesday night vote 301-251.

"The government will exercise its veto on any accord that is contrary to the interest of France," Beregovoy told the chamber prior to the vote.

But the main opposition bloc withheld their backing, demanding Beregovoy take even harsher measures against the farm deal worked out last Friday.

The accord was designed to avert a possible trade war between Europe and the United States, which had threatened punitive tariffs against 300 million dollar of European products, especially French white wine, if a dispute over farm subsidies was not solved by December 5.

The United States— backed by Canada, Argentina, Australia and many Third World nations— claims high EC farm subsidies unfairly deny their farmers access to world markets. France insists the policy changes demanded by the United States endanger its farmers' way of life.

Despite the French threat, under EC rules no veto is possible until a legal motion goes before the foreign ministers of the EC's 12 members. It was unclear Thursday when that meeting would be called.

Members of the French National Assembly voting on the disputed US-EC farm subsidy deal Wednesday night.

— Star TV photo

According to EC diplomats, there would not likely be a vote on the issue until a full world trade agreement is reached. The farm dispute between the United States and the EC is just one small part of those GATT trade talks.

France could veto the overall GATT deal to protest the farm provisions. But that would torpedo the hopes of 108 countries who expect a world trade pact to revitalize stagnant economies with an estimated 200 billion dollar in new trade.

Earlier Wednesday, up to 3,000 farmers took to the manicured lawns of the Hotel des Invalides, which houses Napoleons tomb, and fired bottle rockets, firecrackers, stones and apples at hundreds of riot police. Some threw corn over the ornate Alexandre III bridge spanning the Seine.

Several hours later, police lobbed round after round of tear gas at the farmers, who responded by throwing iron bars, garbage cans and crowd control barricades.

The clashes injured 56 police. Twelve farmers were reportedly arrested.

Farmers also broke into the Paris Stock Exchange on Wednesday, interrupting trading, unfurling banners and setting off firecrackers.

Demonstrations also were held elsewhere in France.

Farmers represent only six per cent of the French work force, but they have a powerful psychological hold on the nation and their disruptive protests make them a potent political force.

They also embody a rural spirit that is an integral part of France's national identity but is fading fast. The nation's one million farmers are expected to number only 350,000 by the year 2000.

In Brussels, the EC Commission ruled Wednesday that the farm accord between the EC and the United States is compatible with EC agricultural reforms and does not unduly harm French farmers.

That accord commits the EC to cutting farm subsidies by 20 per cent and reducing the volume of EC subsidized farm exports by 21 oilseeds production must be cut.

Getting to know more about GATT — through questions and answers

GENEVA, Nov 26: International trade talks aimed at sharply expanding global trade and wealth resume Thursday. Questions and answers on the GATT talks.

Question: What is GATT ?

Answer: The General Agreement on Tariffs and Trade, known as GATT, is the set of rules that govern international trade and also the name of the Geneva-based organization that oversees these rules. The original agreement came in to force in 1948 as part of a wide-ranging effort to re-shape the world economy after the Great depression and World War II. It has subsequently been expanded to make it easier for nations to sell their goods to each other.

Q. What has GATT achieved ?

A. GATT-sponsored negotiations, officially known as "rounds" of trade talks, have cut average customs duties worldwide from 40 per cent to about five per cent. As a result, consumers can buy a wide choice of products, ranging from televisions to cars to tropical fruit, at lower prices. International trade has soared from dlrs 57 billion in 1947 to more than 3,500 billion dollar at present. The trade boom is credited for the increase in global prosperity.

Q. What is the Uruguay Round ?

A. The current negotiations are called the Uruguay Round because they started in the Uruguayan resort of Punta del Este in 1986. They involve 108 countries.

Q. Why is the Uruguay Round so important ?

A. Existing rules are hopelessly out of date. The Uruguay Round is meant to draw up trading standards in new areas and to reduce subsidies in agriculture and the textile industry that previous political leaders did not dare tackle for fear of angering local producers.

Q. What are some of the top issues in the Uruguay Round ?

A. The Uruguay Round deals with about 15 different areas. They include:

— Import tariffs. Governments have promised to reduce overall import tariffs by at least 30 per cent.

— Agriculture. Government supports to farmers include tariffs to keep out cheaper imports, support measures to prop up domestic prices and subsidies to enable exporters to undercut competitors on world markets.

This means many consumers pay both taxes to fund government aid to farmers and higher food prices — for sugar in the United States, for rice in Japan and for meat and dairy products in Europe, for instance. Negotiators are edging toward a deal that would cut farm supports by at least one fifth. This will particularly help efficient Latin American, Canadian and Australian farmers who have been squeezed off world markets by subsidized European products. French and other EC farmers will be hardest hit.

Ironically, some food prices might rise in the next few years because of the cuts in export subsidies, and some African countries would face overall higher food bills. But free trade advocates say the long term benefits would outweigh these losses.

Textiles and clothing. Rich countries use high tariffs and quotas to limit cheaper imports from developing countries such as India and Pakistan. These restrictions cost American consumers, for instance, an estimated 27 billion dollar per year and double the price of imported textiles and clothing.

The Uruguay Round aims to phase out the quota system over a 10-year period. The American and European textiles lobby fear this will lead to big unemployment. Free trade proponents say US and European industry is efficient enough to withstand competition — especially in quality products —and job losses will be limited.

Q. What issues are being tackled for the first time in the Uruguay round ?

A. Trade in services like banking, insurance, telecommunications and tourism in worth more than 800 billion dollar per year. For the first time ever, negotiators are trying to draw up international rules and make countries open their markets. Supporters say dismantling of restrictions will lead to huge increases in foreign investment and job creation and should ultimately bring down the cost of foreign vacations and long-distance telephone calls.

Also on the table are "intellectual property rights." American companies alone lose an estimated 60 billion dollar annually because of copyright theft and patent infringements. And consumers around the world are duped into buying fake "designer" clothing and watches or sub-standard automobile parts. The Uruguay Round aims to allow injured companies to sue in foreign courts and to have customs authorities seize counterfeit goods.

Q. Will a Uruguay Round deal help end the recession ?

A. The Uruguay Round deal is not a miracle cure for the world's economic woes. But most governments agree that it is the best solution available to ease the current recession. The Paris-based Organization for Economic Cooperation and Development forecasts it will lead to annual income gains of nearly 200 billion dollar by the year 2002.

—AP

ASEAN facing competition from China, developing states

SINGAPORE, Nov 26: South East Asia's economies face increasing competition from China and other developing countries which are starting to provide multinationals with big profits, according to a top Singapore official, reports AFP.

Lim Boon Heng, Senior Minister of State for Trade and Industry, said late Wednesday that while the Association of South East Asian Nations (ASEAN) had good business infrastructure, other countries were catching up by investing heavily in ports, roads and telecommunications.

"With good infrastructure, abundant resources and the development of skills and management expertise over time, these countries will increasingly have competitive businesses vying with ASEAN countries for world markets," he told local businessmen at a dinner.

Lim said a US Commerce Department survey showed that US multinationals enjoyed a rate of return of 26 per cent on investments in Singapore in 1991, more than twice the global average and more than Hong Kong's 23 per cent.

The same study showed that the rate of return for Indonesia was 48 per cent, Malaysia 30 per cent and Thailand 22 per cent.

OPEC trying to keep output below 25m BPD

VIENNA, Nov 26: OPEC ministers negotiated to try to set a ceiling on total output by the group slightly under 25 million barrels per day (BPD) in talks here, conference sources said, reports Reuter.

The sources said an accord designed to limit output in coming months to "around 24.8 million" would, as one delegate put it, "satisfy almost everybody."

Clinton's package termed too much, too late for US economy

LITTLE ROCK (Arkansas), Nov 26: The US economy is showing fresh signs of life just as president-elect Bill Clinton is putting together a stimulus package that some economists say may end up being too much, too late, reports Reuter.

"There is a clear danger of that — depending on what they do", said Lyle Gramley, a former governor of the US central bank, the Federal Reserve.

Recent reports suggest the sluggish economy may be pulling out of its slump. The government reported on Tuesday orders for expensive durable goods rose at their fastest pace in 15 months in October, while another report showed consumer confidence surging to a five-month high.

Clinton aides say they are not yet convinced the economy is showing definite signs of pulling out of its pattern of slow growth.

They maintain, therefore, that the president-elect is not ready to give up on a campaign promise of a stimulus package, despite economists' concerns it could add to the 300 billion dollar budget deficit and possibly fuel inflation.

But a limited programme relying mostly on targeted business investment tax credits, which Clinton has said he wants, would put less of a strain on the government.

Russia repays overdue US loans

WASHINGTON, Nov 26: Russia has repaid its overdue loans and, after a one-day suspension, can resume buying grain here with credit backed by the US government, Agriculture Department officials say, reports AP.

USDA spokesman Roger Runningen said Russia, this country's biggest wheat customer, was reinstated to the export credit guarantee programme Wednesday afternoon after it paid 405,000 dollar