EXPORT-LED GROWTH AND INDUSTRIALISATION

The circumstances of relatively 'small market' and the presence of a large 'labour surplus' have made the case for industrialisation through export-led growth, an obvious one for Bangladesh. The National Workshop on "Export-Led Growth and Industrialisation," held at BIDS on 13 January 1993, thus is highly appropriate.

The Workshop, an outcome of an on-going Link Programme between BIDS and Strathclyde University of the UK, provided an important opportunity to debate the issue. There were four key papers, one each from **Dr Jim Love** and **Dr Mozammel Huq** of Strathclyde University and **Dr Mostafizur Rahman** of Dhaka University and a joint paper by **Drs R A Mahmood** and **D K Roy** of BIDS, covering a number of relevant aspects of "Export-Led Growth and Industrialisation."

Given the importance of the subject, The Daily Star devotes this special feature.

NON-TRADITIONAL EXPORTS

Problems and Prospects

by Dr Raisul Awal Mahmood and Dr Dilip Kumar Roy

COMPARED to the overall economy the export sector of the country has performed most appreciably during the past decade. The total export earnings of the country which was US $710.7 millions in 1980/81 stood at US $ 1993.10 millions in 1991/92. This gives an average annual increment of over 16 per cent. The rate of growth of export earnings, moreover, has been much higher during the later half of 1980 as compared to the earlier half. During the first half of 1980s export earnings of the country increased by around US $ 110 millions. The increment during the later half was more than a US $ 1 billion registering an annual growth rate of around 28 per cent. Such a high rate of growth of export earnings compares most favourably with various macro indicators of the country.

Traditional and Non-Traditional Exports

Non-traditional items underline the progress that Bangladesh has made in export promotion in recent years. These are commodities other than raw jute, tea, hides and skins, and jute manufactures other than jute carpet. These few items historically comprised the bulk of the export basket of the country.

What we need most at the moment is (i) a prioritisation of the various commodities that we can produce in Bangladesh and sell overseas, (ii) all out efforts to foster the growth of such exports, and (iii) playing the trade game properly.

Export earnings from non-traditional items experienced over eight folds increase within a decade. From US $ 196.83 million in 1981/82 it increased to US $ 1582.73 million in 1991/92. This gives an average annual growth rate of more than 70 per cent. Moreover, the relative share of non-traditional exports as of total also increased most significantly during the same period. Non-traditional exports comprised less than one third (31.45 per cent) of total export of the country as of 1981/82. This rose to 79.38 per cent of total export earnings in 1991/92.

Commodity Composition of Non-Traditional Exports

Few major commodities account for the bulk of the non-traditional exports of the country. These include such items as ready-made garments, leather and leather products, frozen food, and chemical products. The importance of these individual items in the non-traditional export basket would seem most paramount. Ready-made garments alone account for about three fourths of non-traditional exports of the country; fish and fish products for 9.4 per cent. Leather and leather products contribute for another 10.4 per cent of total non-traditional exports. Another important non-traditional export item is crude fertilizers including urea. These four items together account for 95.77% of total non-traditional exports in 1991/92 period.

Both primary and manufactured products comprise non-traditional exports. The major non-traditional export items of primary nature are fish and fish products, agricultural products such as vegetables, fruits, crude fertilizers, etc. On the other hand, the major manufactured non-traditional items include ready-made garments, fertilizer, leather and leather products, etc.

The non-traditional primary items account for 56 per cent of total primary exports of the country in 1991/92. Their relative shares were only 13.23 per cent in 1976/77. On the other hand, most of the manufactured exports of the country in recent years fall under the category of non-traditional exports. In 1991/92 they account for 83.02 per cent of total manufactured exports. This is as compared to 24.93 per cent in 1976/77, and 61.23 per cent in 1986/87. This would tend to suggest that over time Bangladesh is exporting more and more of manufactured products; and her dependence on primary products is declining.

Major items which demonstrate a relatively higher growth patterns in recent years are specialised textile and household linen, hosiery, jute carpets, chemical products, ready-made garment and handicrafts. Export of ready-made garments which exhibited a rapid growth during the early 80s tend to have slowed down in recent years. Most similar is also the case with respect to frozen food and fish products.

Future of Exports from Bangladesh

How far have we taken advantage of the latent potentials in the world market? What prospects there exist for further enhancement of the export of various non-traditional items? How adequate and appropriate are the government policies? What possible division of labour between the public and the private sectors could enable the best possible exploitation of the existing market opportunities, and realisation of the diverse linkages between export growth and economic development?

With regard to latent potentials in the world market, it needs no further elaboration that there exists various market opportunities which need to be tapped. Who heard of the possibilities of the garment sector, say, a decade and half back; how much would we know of the potentials that Bangladesh has in terms of frozen fish export? At present, with few exceptions, Bangladesh contributes for a tiny fraction of the world market in different products. If we could sell some, why can't we sell more? And if we can sell in one market, why can't we sel in other markets? What we need most at the moment is (i) a prioritisation of the various commodities that we can produce in Bangladesh and sell overseas, (ii) all out efforts to foster the growth of such exports, and (iii) playing the trade game properly.

Two fundamental aspects of the trade-game would be (a) maintaining the country's competitive position, and (b) diversification of markets. As long as we can produce and supply at or lower than the world price, there should not be any problem.

Export-led Growth: Arguments and Prospects

by Jim Love

As government, like that of Bangladesh, adopt export promotion strategies, it is perhaps timely to examine the reasons why views changed so substantially during the 1980s and to consider whether the shift in thinking and in policy is one of substance or is part of a cyclical process which will again result in a shift to another 'fashionable' paradigm.

AS with other areas of life, economics is subject to changes in fashion. The last ten years have seen a major resurgence in advocacy of the merits of increasing exports as a means of stimulating economic growth and a corresponding decline in belief that import substitution provides an effective basis for growth. This widespread shift in preferences among economists and governments have been accompanied by marked changes in the nature of economic policy. As government, like that of Bangladesh, adopt export promotion strategies, it is perhaps timely to examine the reasons why views changed so substantially during the 1980s and to consider whether the shift in thinking and in policy is one of substance or is part of a cyclical process which will again result in a shift to another 'fashionable' paradigm.

In the 1960s and 1970s the predominant view favoured import-substituting industrialisation (ISI) with the possibility of export-led growth being rejected on the grounds, principally, of unfavourable demand conditions for primary products. The process of substituting for manufactured imports was also seen as being likely to create more income and employment and as having more substantial external benefits for the rest of the economy than a strategy based on expanding the agricultural sector.

Following the infant-industry argument, government in developing countries introduced protective regimes to foster the growth of domestic manufacturing. As early as 1970, however, disquiet began to appear about the ISI approach. Developing countries were losing shares in export markets for both manufacture and primary products and were experiencing growing trade deficits. The roots of the export problem were increasingly though to life in the policy regimes designed to promote the manufacturing sector.

Tariffs and other trade restrictions, taxes and overvalued exchange rates were seen as increasing the costs of imported inputs to agriculture, destroying incentives to agricultural producers and shifting incomes out of agriculture into the manufacturing and government sectors. Consequently, agricultural producers were handicapped and traditional exports suffered. With respect to manufacturing, it was felt that isolation from the world economy weakened pressures to remain efficient and competitive, that relatively small domestic markets often meant high costs, and that the maze of quantitative restrictions placed a high premium on skills to deal with administrative matters rather than on entrepreneurial flair. Such factors restricted the possibility of developing new export industries.

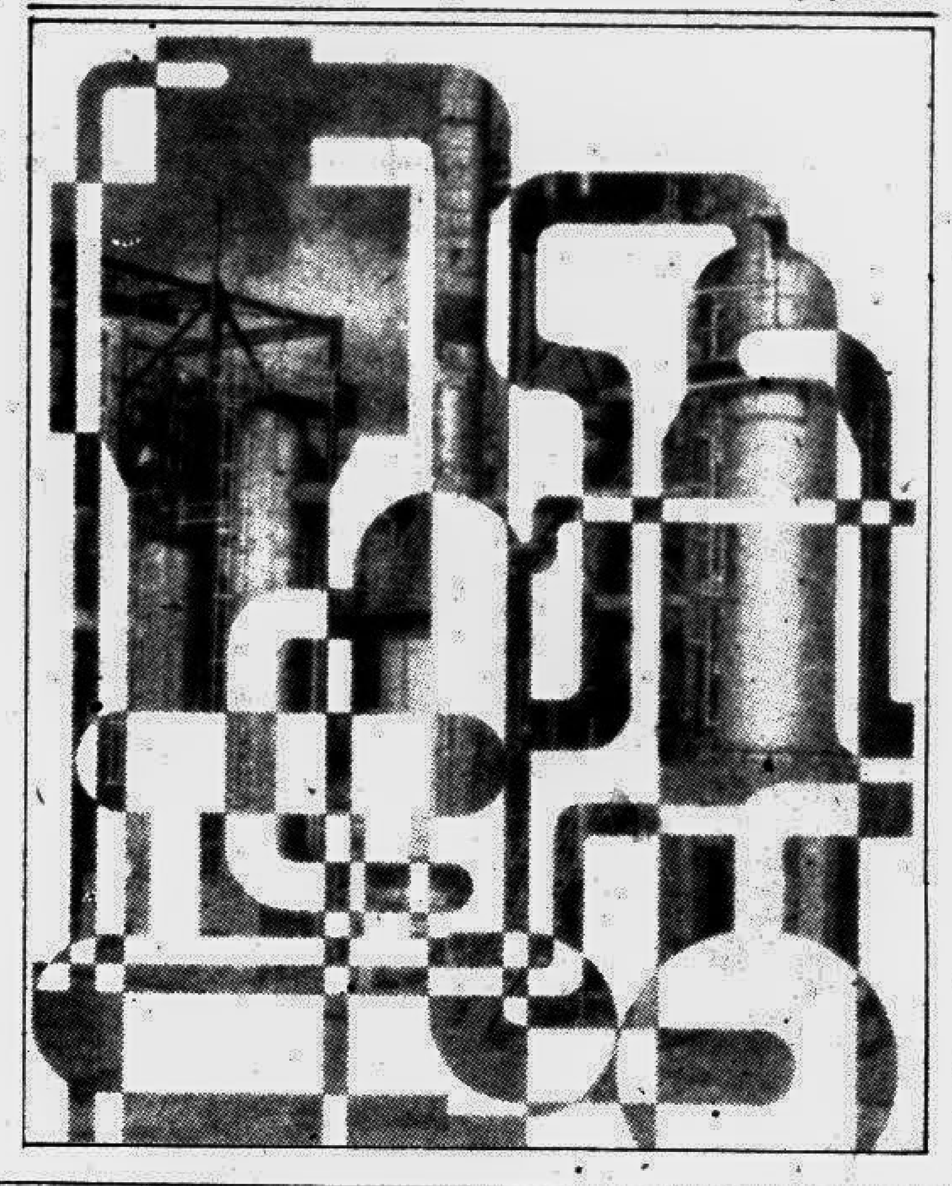
This emerging discontent over the efficacy of ISI strategies also took place at the same time as the neo-classical counter-revolution moved into full spate in the developed countries. Arguments about the need to reduce government spending and to privatise public enterprises and about the need to free markets from government intervention were increasingly population. The elections of the Reagan and Thatcher governments with their commitment to market forces and antipathy to the public sector reflected this change in mood. Moreover, the influence of these governments, particularly that of Reagan, brought about a shift in World Bank policy towards structural adjustment programmes.

Lending by the Bank was made increasingly conditional on countries accepting policy regimes aimed at achieving sustainable balance of payments equilibrium. The thrust of the Bank's approach is that of 'getting prices right' in order to increase efficiency and to improve incentives to increase exports. This has been accompanied by policies to reduce the size of the public sector and to contract the domestic money supply.

Much reliance is placed in the export promotion case on the success of the 'Tiger' economies of South East Asia in achieving remarkable rates of manufactured export growth. This is often attributed to their adoption of liberal, market-orientated policies. Increasingly, however, the view is emerging that government has played a central role in their successful export-led strategy. With respect to South Korea, for example, it is argued that export-led growth depended heavily on administrative guidance and strong state support to develop the manufacturing sector. Moreover, this fits with the so-called 'new trade theory' in which temporary protection is defended in order to allow domestic industry to overcome its initial cost disadvantage and then to compete in international markets.

These arguments may be seen as heralding the start of a revival of protectionism. However, it is unlikely that we shall return to the kind of inward-orientated strategies that accompanied the period of ISI dominance. Those strategies involved countries setting their faces against the market and did not prove successful for the developing countries. The world trading environment is now changing, and the relaxation of trade barriers on a widespread and substantial scale will increase the volume of world trade.

During the next few years developing countries will continue to liberalise their economies as a necessary condition to competing successfully in world markets, but at the same time they will pursue strategic intervention to improve their prospects of increasing exports. This will involve some revisiting of the infant industry argument and its application in the light of the circumstances of particular developing countries. Thus, the fashion for export promotion will probably be followed by a period of tempering of the market mechanism with a rediscovery of the merits of judicious intervention.



AUGMENTING EXPORT PERFORMANCE

Evolving Incentive Structure

by Dr Mustafizur Rahman

IT is well documented that the export sector of Bangladesh has undergone important changes, both in terms of quantum as well as structure, during the last decade and a half. Export growth rate during this period was almost three times as high as GDP growth rate. If in mid-1970s the ratio of primary and manufactured commodities in exports was 43:57; at present the corresponding figures stand at 16:84; for traditional and non-traditional items the corresponding pairs of figures are 80:20 and 17:83 and for consumer goods and intermediate goods the matched pairs of figures are 25:75 and 66:34. There is no denying that shifts in international market structure explains a large part of this change, but it is equally true that the structure of incentives designed and developed over this period is one of the key explanatory variables of this performance.

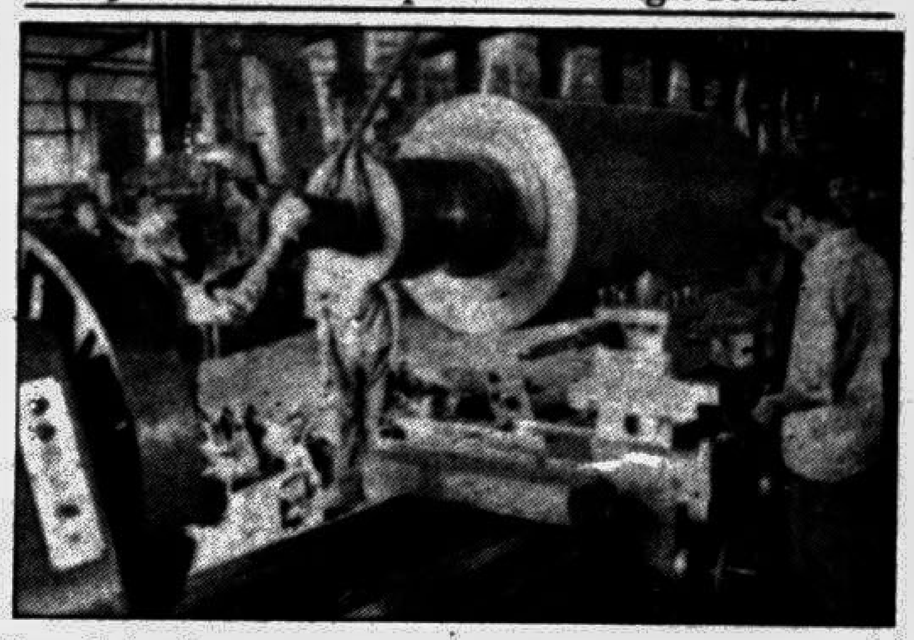
On the other hand, a closer scrutiny of the export related variables shows some disturbing signs which include : (a) if RMG and a few other non-traditional exports are excluded, exports in terms of physical quantum have more or less been stagnating during the recent past; (b) export has remained narrow-based and undiversified with only seven items accounting for 90 pc of exports and 15 items accounting for almost 97 pc of export accruals, (c) lack of forward and backward linkages has resulted in very low value addition in the export sector averaging about 35-40 per cent for the whole sector and 25-30 per cent for the RMG sector; (d) uncertainties about safe sanctuaries provided through MFA and GSP facilities have increased tremendously with the signing of GATT accord on 15 Dec 1993 (and which is scheduled to be effected from July 1, 1995) and phased over a subsequent ten-year period); (e) negative implications of Harkin's bill and US Anti-dumping laws (which are incidentally not affected by GATT accord) and (f) increasingly more aggressive export policies pursued by almost all of Bangladesh's neighbouring countries in South Asia which puts products from Bangladesh to fierce competition in most of the traditional and many of the new markets.

In the above context a fresh look is called for at some of the major incentives, Bangladesh's capacity to implement those incentives, issues related with continuity of those policies and critical areas of contradictions in the policies.

Export incentives provided in Bangladesh can be categorised as : (a) those providing assistance to output (like exemptions on VAT and excise type duties on output), (b) those providing assistance to input and intermediates (like exemptions on duties and taxes on imports) and (c) assistance to gross value added or returns to primary factors (like credit subsidy and income tax concessions). Another way of defining the export incentives provided in Bangladesh is to group them as : (a) incentive provided to output prices, (b) incentives provided to investment in export oriented activities and (c) incentives to marketing. It is a relatively more convenient way to refer to these incentives as : (a) Fiscal Incentives, (b) Financial Incentives and (c) Institutional Incentives.

Fiscal incentives currently being provided in Bangladesh are duty drawback facilities, tax holiday, bonded warehouse facilities, income tax rebates on export accruals, waiving of import licence fees, concessional rates for capital machinery exports, rebates on freight and other services. Financial incentives include cash assistance programmes to promote backward linkages, availability of credit at concessional rates, provision of importing under back to back L/C including provision for inland back to back L/C, retention of foreign exchange by exporters. Institutional facilitatory arrangements include services provided by Export Promotion Bureau (EPB) and Duty Drawback and Duty Exemption Office (DEDO), setting up of Export Credit Monitoring Cell at Bangladesh Bank, Export Credit Guarantee Scheme (ECGS) operated by Sadharan Bima etc.

Some of the neighbouring countries provide incentive packages which are relatively more comprehensive compared to Bangladesh.



As far as duties and tax exemptions are concerned, which allows manufacturers of exports to obtain their imports at par with world market prices through two methods (a) temporary admission schemes like bonded warehouse facilities (BWF) and private warehouse facilities (PWF) and (b) duty drawback facilities enjoyed by export oriented units who do not enjoy BWF, which is operated by DEDO. The duty drawback is either on the basis of flat rate (which is product specific) or actual rate (which is manufacturer-specific). DEDO has calculated about 600 flat rates and processed about 15000 claims (out of about 27,000 submitted) and paid about 200 crore taka only during last two years. Flat rates obviously facilitate repayment.

Some of the neighbouring countries provide incentive packages which are relatively more comprehensive compared to Bangladesh. The difference between direct exports and deemed exports and between units in EPZ and 100 pc EOUs (export-oriented units) outside EOUs is minimum in these countries. Pakistan allows bonded factory facilities and the Federal Export Promotion Bureau is headed by the Prime Minister; in India export policies are declared for five years to make them contemporaneous with five-year development plans

Nepal has made its currency convertible on current account which is much wider than currency convertibility in trade account and the administrative policies for export incentive implementation are much stringent; Shri Lanka's export package is the most comprehensive in the region.

It has been estimated in an OECD study that after everything is said and done developing countries stand to gain about 86.4 billion dollars annually once the GATT accord starts to be implemented from July, 1995. What Bangladesh's share in the promised pie is anybody's guess, but to a great extent it will definitely depend on Bangladesh's capacity to redesign its incentive structure in anticipation of the expected changes in international trade relations and in light of the opportunities about to be opened up in the emerging new markets.

Government Role in Promoting Export-led Growth

by Dr Mozammel Huq

WHILE the case for industrialisation in 'land poor' and 'labour surplus' countries like Bangladesh is more or less obvious, the proper role of the state in achieving such industrialisation or, for that matter, economic development, is less clear. Indeed, the issue "How big a role should the government play?" has remained somewhat controversial. From the World Bank and the IMF, influenced by neo-classical thinking, there is a tendency to promote the 'liberalisation' standpoint and to question the effectiveness of state action in promoting economic development. So far as the New Classical Chicago is concerned, the state can even "do no right" as, according to them, its involvement will lead to "an inefficient and inequitable allocation of resources." In contrast, there is a strong view which, with a Keynesian emphasis on market imperfections, supports active government intervention.

An economy bedeviled by administrative harassment will continue to cause inefficiency in the production system, thus making the industrial structure internationally non-competitive in an open trading system.

Advocates of state intervention in Third World development include, *inter alia*, such distinguished economists as Paul Rosenstain-Roadan, Raul Prebsich, Hans Singer, Tibor Scitovsky, Joan Robinson and Ameratya Sen. An influential piece of work which has provided strong evidence in support of a promotional state role in Third World Industrialisation is a study by Alice Amsden (Asia's Next Giant: South Korea and Late Industrialisation) (OUP, 1989). Moreover, a recent study, conducted by the World Bank, shows that in the 'miracle' economies of East Asia, government played a significant part in their successful export-driven strategy.

At the outset of this paper, which examines the case for a positive government role in promoting export-led industrialisation in a developing country such as Bangladesh, a distinction between 'bureaucratic obstruction' and 'supportive government' is perhaps in order. Bureaucratic obstruction, as the term implies, generates confusion and difficulties for investors, causes harassment, and favours parties having contacts with the officers involved and/or political influence. An important aim of this type of obstruction is the enrichment of a section of bureaucrats through bribery and corruption, which in the end not only adds to the cost of production but also discourages sectors of investors with true potential. On the other hand, 'supportive government' involves a promotional government role where spontaneous administrative help is assured at different points in the control system, e.g. customs, income tax, credit and marketing in particular export markets. A supportive government will also help entrepreneurs in negotiating improved deals with foreign partners for procuring technology or raw materials or even for selling output, and in fostering quality and cost improvement through help in research and development. The main aim of a supportive government is to help entrepreneurs gain competitive strength. This enables sectors and people with potential to become established in the production system. It should, however, be emphasised that a promotional government role is less likely to be feasible in an incompetent administrative set-up. Fortunately for Bangladesh not only is there a long tradition of administrative recruitment of meritorious and highly capable people but also there are a number of honest administrators at the top as well as at the middle and lower levels of bureaucracy.

However, the experience of manufacturing does not appear at all satisfactory. The average annual growth rate in the manufacturing sector during 1980-91 was only 2.9 per cent, while the corresponding figure was 5.1 per cent during the 1970s. It is, therefore, apparent that either the liberalisation move has not been successful in bringing the expected success in the manufacturing sector or that something has been wrong in manufacturing in Bangladesh.

The relatively poor performance of the manufacturing sector has not, however, shaken the government's faith in economic development through liberalisation. As mentioned above, a revised Industrial Policy was formulated in 1986, pushing the liberalisation drive further.

Surprisingly, these days a number of key government Ministers are also openly critical of the bureaucratic hindrances in Bangladesh. In an economy like that of Bangladesh, an important objective of any reform programme is to introduce good governance, bringing justice and accountability. It was lacking in the past and, as categorically stated by the Finance Minister of the Government of Bangladesh in a recent speech, "the need of the hour is an administration which is enterprising and believes in the basic elements of good governance." As observed by him, the resistance to economic reforms also arises from conflicts among sectional interest groups and the business community when it does not suit their purpose. The need for good governance is also being emphasised by other key government Ministers.

The government approach towards the industrialisation drive and, in particular, the adoption of the export-led growth strategy has definitely played some part, e.g., in encouraging garments manufacturers to take advantage of the quota system that exists for the export of garments from Bangladesh. However, it is still doubtful if in an obstructionist administrative structure that is found to exist in Bangladesh, investors will find it easy to gain competitive strength in the manufacturing sectors with genuine comparative advantage. An economy bedeviled by administrative harassment will continue to cause inefficiency in the production system, thus making the industrial structure internationally non-competitive in an open trading system. Indeed, especially in a complex production system such as large-scale manufacturing, the existence of physical, infrastructural support satisfies only the first condition, though a necessary one. Along with this, the government should provide institutional support (what we have called "a promotional role of the government"), a need which appears to have been satisfied in the case of successful late industrialisers such as South Korea. This condition is obviously lacking in Bangladesh.

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Bangladesh, like many other developing countries, is finding it difficult to achieve a breakthrough in industrialisation. There are, at least on paper, impressive lists of incentives offered for industrial promotion.

However, in practice, investors suffer from various hindrances, an outcome of an obstructionist administrative structure. To remain competitive, particularly in the international market without protection, there is need to minimise the effective cost of production. It is true that the country has made some progress in terms of providing the basic physical infrastructural facilities which, though an important condition, is not a sufficient one. It is also necessary that the institutional framework (including marketing promotion, and law and order) be one of a supportive type, and it is here that the internal policy environment in Bangladesh is significantly lacking.

The liberalisation drive is a step in the right direction for efficient resource allocation, especially as it has not been easy to direct resources efficiently in a framework of administrative allocative mechanism. However, along with the liberalisation drive there needs to remain, side by side, a supportive role of the government.