

Export diversification

Myths and realities

SELIM RAIHAN

EXPORT diversification has been an important policy agenda in many of the developing countries. It is commonly viewed that export diversification is a necessary condition for sustained and long-term growth of the economy and job creation. The current discourse of 'global value chain' also highlights the importance of diversification of export portfolio for effective integration with the global value chain.

Among the developing countries, the problem of export concentration is more acute for most of the Least Developed Countries (LDCs). Many of the LDCs are still the exporters of primary products, mainly agricultural, which are not only susceptible to large volatility in the international market, but also provide limited opportunity for value addition. Few LDCs like Bangladesh and Cambodia have been able to move from agricultural exports to manufacturing exports, but still their export baskets remain highly concentrated around few low value-added manufacturing products. For many of these economies, export diversification is said to play an important role in structural transformation of their economies from producing low value-added products to high value-added products.

One strong view related to the policy for diversification of exports is its heavy emphasis on extensive tariff liberalisation with the aim of reduction in anti-export bias. The policy conclusion that emerges from this stance is for low and uniform tariffs and a seamless export-import regime that facilitates least-cost transactions at the border. Tariff liberalisation, under this view, is seen as a kind of 'auto' driver of export expansion and diversification of the export basket.

While the importance of tariff liberalisation for export promotion and diversification can't be undermined, tariff liberalisation alone isn't sufficient to trigger 'auto' large supply responses in terms of expanding export volumes and diversifying the export basket. A number of supply



side constraints can prevent local producers from expanding exports, and the lack of an enabling environment can strangle entrepreneurship and innovation. Studies have indicated that most of the LDCs and a large number of other developing countries face several supply side constraints. High lead-time is an important challenge in many LDCs. Inefficiencies at ports and related internal road transportation further aggravate the problem. Amongst others, lack of investment fund and working capital, high interest rate, poor physical infrastructure, shortage of skilled workers, technological bottlenecks, lack of entrepreneurship and management skills, poor law and order situation, lack of information, invisible costs of doing business, etc. are major impediments to export prospects and export diversification. Therefore, the policy options and support measures for exports are much more difficult and involved than mere reduction of tariffs.

It is also essential to keep in mind that comparative advantage doesn't necessarily

translate into competitive advantage. While many of the developing countries have comparative advantages in producing and exporting several agricultural and manufacturing products, given a domestic environment of high cost of doing business, such comparative advantages are seized to be realised. Therefore, while many of the LDCs are provided with significant market access opportunities in most of the developed countries' markets through different trade agreements and generalised system of preferences (GSP), the single major reason for their inability to take advantage of such opportunities is their supply side constraints, which undermine their competitive ability to supply to the global markets.

It is important to note that in the discourse of policy reforms for export diversification the political economy perspective is generally ignored and reform of institutions is largely overlooked. A favourable overall incentive structure through the management and distribution of 'rent' is important for the diversification of the export

basket. Experiences from many developing countries show that the dominant export sector becomes the main beneficiary of different export incentives (both formal and informal) while for other sectors, such schemes appear to be less effective primarily due to various structural bottlenecks as mentioned before. In this process, the dominant export sector grabs the lion's share of the 'rent' being generated through such incentives.

This situation also raises a critical question as to whether 'rents' are needed for the promotion of other sectors. Experiences from successful countries highlight the importance of providing effective incentives to other sectors and removing structural bottlenecks in order to generate some 'rents' in those sectors. However, it should be kept in mind that while generating such 'rent' there is a need for a well-designed and effective industrial policy wherein monetary (interest rate subsidies) and fiscal incentives (reduced taxes or tax holidays) for the emerging dynamic export sectors are transparent and time-bound. In addition, industrial policy needs to address issues of education and skill development for facilitating higher capabilities for export diversification, attracting FDI and integrating with the global value chain.

Experiences from different countries that have been successful in diversifying their export portfolios also suggest that institutional reforms should be considered key to overall policy reforms targeting larger export response and export diversification. Improving the bureaucracy quality, ensuring property rights, managing corruption, ensuring contract viability through reduction of the risk of contract modification or cancellation are examples of such institutional reforms. Furthermore, reducing political uncertainties or establishing political stability and generating political capital for a diversified export basket are critically important.

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CHILDREN AND POVERTY

MANZOOR AHMED

THAT children are especially vulnerable to adversities of all kinds including poverty of the family or the community is well-known. Even in a rich country like the United States, 22 percent of children under 18, more than one in five, live in poverty, estimates the National Center for Children in Poverty at Columbia University's School of Public Health. Its research, not surprisingly, shows that poverty impedes "children's ability to learn and contribute to social, emotional, and behavioral problems" and "risks are greatest for children who experience poverty when they are young."

China, on track to surpass the US as the largest economy in the world in a decade, is concerned about the price of economic development paid by children. The argument is that protecting and promoting children's well-being must figure prominently in poverty reduction efforts; otherwise, children end up being short-changed.

The China Development Research Foundation (CDRF) teamed up with the Asian Regional Network for Early Childhood Development (ARNEC) to convene an international conference in Beijing last month, during October 21-24. The theme was "Transforming Power of ECD for Equitable Development." CDRF is the research arm of the State Council of China (equivalent to the Cabinet of Ministers in Bangladesh).

Among the invitees were early childhood development policymakers, practitioners, and activists from 33 countries. Bangladesh was represented by a strong delegation of 18 members led by the Minister of State for Women and Children Affairs Meher Afroze.



Chumki. The team included officials, members of the civil society and NGO representatives. This writer, as the chair of the Bangladesh ECD Network (BEN), had the privilege of attending the conference.

The organisers of the conference

lined up a bevy of Nobel Laureates in economics—James Heckman, Amartya Sen and Joseph Stiglitz—to make the case for attention to children in fighting poverty. These world renowned scholars joined the conference by video link-up. Heckman, known for his advocacy

for investment in young children, made the non-economist argument for soft skills (rather than just cognitive knowledge), attitudes and values that must be formed early for later success in life. "Efforts should focus on the first years for the greatest efficiency and effectiveness... when the brain develops rapidly to build the foundation of cognitive and character skills necessary for success in school, health, career and life," asserted Heckman.

"Protecting the rights of children and providing the essentials for their development must be part of the definition of poverty reduction," said Stiglitz, stressing the toll that inequality takes on society, especially on children. "Having succeeded in rapid economic growth and poverty reduction, China now faces the challenge of growing inequality, affecting large numbers of children," stated Stiglitz.

UN Secretary-General Ban Ki Moon, in his message to the conference, said, "China has achieved transformational results having reduced poverty on an unprecedented scale, and improved education, health, gender equality and women's empowerment." To secure and to take these gains further, rights and development of children have to be given priority, emphasised the Secretary-General. He noted the inclusion of this priority in the Sustainable Development Agenda (SDG 2030), particularly in Goal 4 on education and child development, proclaimed by world leaders at the UN in September.

Chinese speakers including Vice Premier Liu Yandong, proud of their economic success, pointed out that economic progress also imposed a toll on children. "As many as sixty million children have been left behind with their grandparents, deprived of parents' care and love, when the parents move

to faraway cities seeking better earning opportunities," it was noted.

Minister Meher Afroze in her plenary speech drew attention to the vulnerability of Bangladesh and other low income countries to climate change effects. "This vulnerability places their people including children in poverty and danger," said Ms Afroze. "In planning adaptation and mitigation measures for climate change, protecting children from hazards and creating the conditions for their development have to be given higher priority than given so far."

Ms Afroze said that a comprehensive early childhood development policy was adopted in 2013 by Bangladesh. She noted, "But we face many obstacles in implementing the policy—constraints in resources, capacities, old habits in governance and management practices, which must be overcome." Jeffrey Sachs, the adviser to the UN Secretary-General on SDG, reminded the conference that the comprehensive and ambitious SDG 2030 agenda is achievable. "We now have to bring together technology, resources, partnerships, synergy and commitment within countries and across countries," Sachs said. "We have heard many times that investment in children is the best investment we can make. We must do it now."

In Bangladesh, in spite of poverty and capacity constraints, remarkable progress has been made in achieving child development objectives in health and education set in the Millennium Development Goals for 2015. Now the SDG agenda for 2030 has to be elaborated for Bangladesh and pursued with vigour. We owe it to our children and ourselves, not to fail, and to rise up to this challenge.

The writer is Professor Emeritus at BRAC University and chair of the Bangladesh ECD Network.

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QUOTABLE Quote



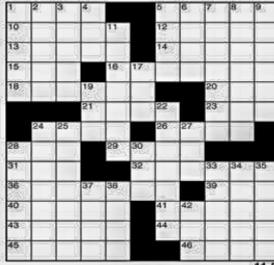
DOROTHY THOMPSON

American journalist and radio broadcaster

Only when we are no longer afraid do we begin to live.

CROSSWORD BY THOMAS JOSEPH

- ACROSS**
- Took the trolley
 - Cart pullers
 - Cast out
 - Ferber novel
 - Ice cream extra
 - Prelude
 - Swearing-in words
 - Emotional strain
 - Affectionate
 - Regret
 - Some nest eggs
 - "-- been real"
 - Church leader
 - Tempo
 - Pet perch
 - Tyne of TV
 - Pub product
 - Boarder
 - Well-founded
 - Disfigure
 - make blank
 - Recording problem
 - Jimmy of "NYPD Blue"
 - "Cosmos" creator
 - Bullfight bulls
 - Go out of business
- DOWN**
- Mail in
 - Rust, for one
 - Mason's partner
 - Yale player
 - Not "fer"
 - Confession list
 - Like Swift stories
 - Between travel points
 - Setting items
 - Came onstage
 - Historic time
 - Brief drop
 - Neighbors of kidneys
 - Sicilian city
 - Like amphitheaters
 - Writer Rand
 - Current fashion
 - Braves, on a score-board
 - Pedro's pal
 - Twang
 - General direction
 - Regarding
 - Harry's wife
 - Clumsy one



YESTERDAY'S ANSWER

CAREEN ASTO
 AVENUE SPIN
 DEPART PINE
 COSMIC
 COST AREAS
 HIP HATED IT
 ELI EWETRY
 SECURES EEL
 TREND LADE
 DESIRE
 HALA MANETS
 GAMY SENTRY

BEETLE BAILEY

by Mort Walker



BABY BLUES

by Kirkman & Scott

