Revitalising Exports

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2000s, such assistance for the RMG sector has been quite low. Currently (for 2017-18), this assistance is provided under different mechanisms: (i) export-oriented RMG firms, not using bonded warehouse and duty-drawback facilities, are eligible for cash assistance of four percent of the value of their export shipment; (ii) small and medium sized firms in RMG can avail additional four percent assistance; (iii) exporters exporting to new markets (other than Canada, the EU and the US) receive three percent cash assistance on f.o.b. value of exports; and (iv) RMG exporters exporting to Eurozone countries receive additional two percent cash assistance (to compensate for the taka appreciation against the Euro).

Several other sectors are eligible for cash assistance of higher rates. However, apart from leather and to some extent frozen shrimp and fish, there is no other sector with any sizeable export base to take advantage of available incentives for contributing meaningfully to overall export growth and diversification.

The current policy is clearly geared towards stimulating export response from the relatively less-established emerging sectors, and higher rates of assistance for them are justified. However, the overall ambition of the export policy, which is to raise export earnings to USD 60 billion by 2021, should not be overlooked. As such, all possible avenues for revitalising exports must be considered. This should include the option of keeping the existing cash assistance for the new sector while raising the level for others as well. For example, the 20 percent cash assistance for active pharmaceutical ingredients (API) can help encourage future expansion of the sector, but in the short- to medium-term any large export response is unlikely. On the other hand, as pharmaceutical products have already established a respectable export base and production capacity, comparable incentives granted to the sector will more likely result in significantly higher export earnings, helping export diversification efforts.

Figure 1: Contribution of new products to export growth (%)

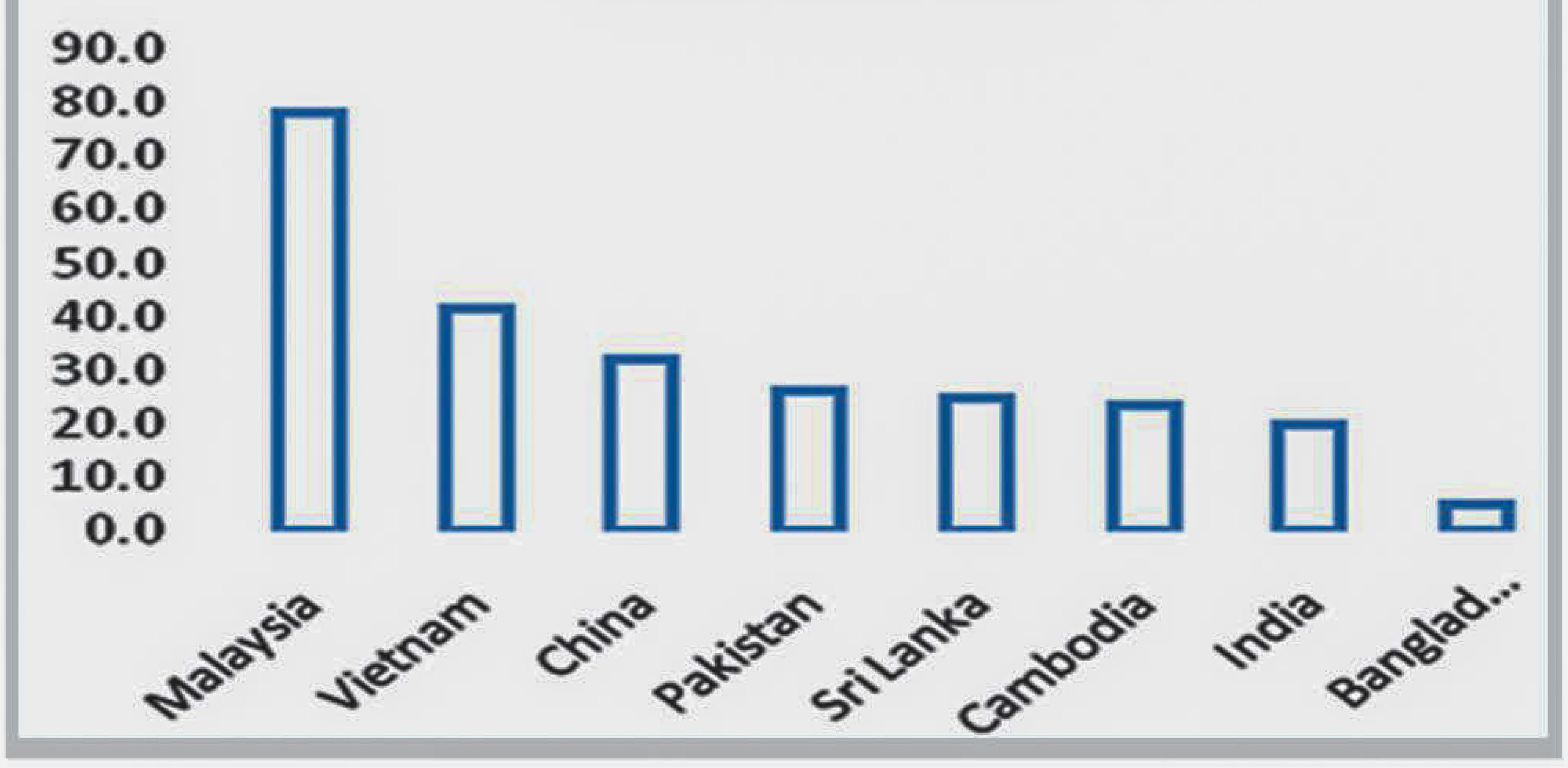
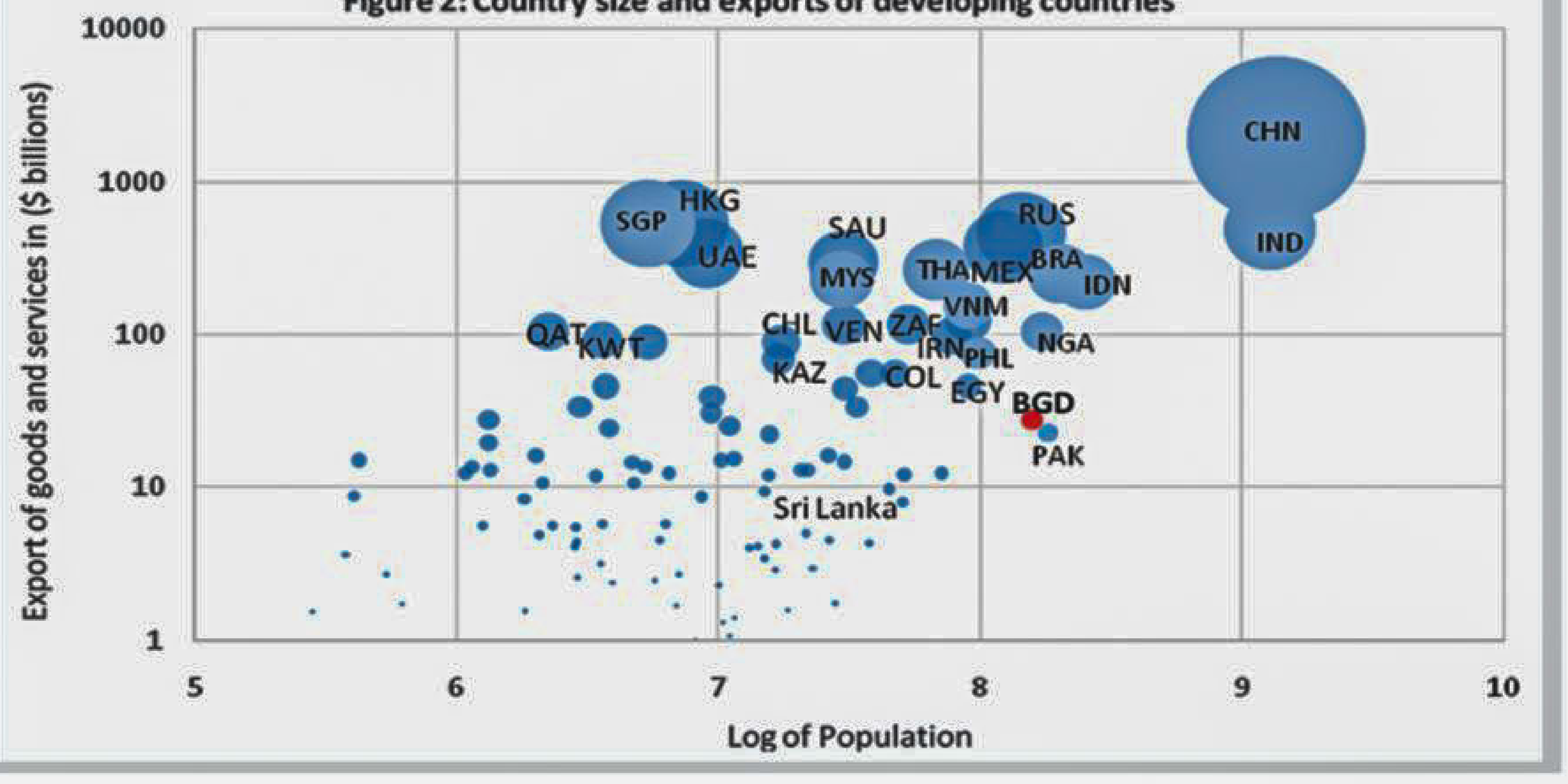


Figure 2: Country size and exports of developing countries



For the emerging sectors with currently small exporting capacity, it is important to maintain the support for a reasonably longer time period to provide them with policy consistency.

In some instances, non-RMG sectors cannot access certain incentives. It is important to review these cases in granting non-discriminatory support to all sectors. In this respect, extending bonded warehouse facilities to all exporters will constitute a helpful initiative. Possible leakages to domestic market sales are sometimes cited as reasons for restricted bonded warehouse facilities. However, governance failures should be addressed by appropriate administrative and legal provisions rather than imposing across-the-board restrictions that can hurt competitiveness of dynamic firms within a broad sector.

It is worth noting that Bangladesh is going to graduate out of the LDC group over the next 6-9 years, after which some of the existing policy flexibilities and trade preferences will either be lost or significantly reduced. Bangladesh as an LDC enjoys tariff-free market access not only in the EU but also in several other countries. A much bigger push is now needed to make the most out of it. Lack of supply response means that many of the available trade preference schemes have remained underutilised.

Also, after graduating from LDCs, export support measures like cash assistance schemes are most unlikely to be possible to continue with given the rules and provisions of the World Trade Organisation. Therefore, it is high time to consider reinvigorated and deepened policy support with the objective of expanding export base rapidly before Bangladesh loses its LDC preferences and privileges. A proactive initiative of making use of any available policy space and preferences thus cannot be overemphasised. Failure to do so now may prove to be a missed opportunity soon.

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