BRINGING DOWN THE BARRIERS – CHARTING A DYNAMIC EXPORT DEVELOPMENT AGENDA

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BUILDING COMPETITIVE BUSINESS ENVIRONMENTS: BUILDING TRADE RELATED INFRASTRUCTURE – WHAT CAN THE PRIVATE SECTOR DO?

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1. Introduction

Diversification of export is a high priority area in Bangladesh Government’s development strategy. It is increasingly recognized that accelerated development and diversification of country’s exports is needed for easing the pressure on balance of payment situation and for the growth of more viable and efficient agricultural and industrial sectors for balanced development. Bangladesh has a sizable burden of foreign debt and is in urgent need of foreign exchange resources for debt servicing and financing of expanded development projects. Employment opportunities need to be created through expansion of exports for alleviation of poverty. This will encourage savings and broaden the scope for investment.

In spite of heavy odds, Bangladesh has done fairly well in its export development efforts. Export earnings of Bangladesh have increased substantially over the years. The government has recognized that there is a critical need to fully support and invest in export development and diversification.

2. Export Diversification – A Pre-requisite

Export diversification is crucial for effective participation in the global trading system. Expanding the country’s supply base is central to any export strategy. While removal of constraints and improvements in the incentive structure will enhance export performance of the country in the short to medium term, expansion of production across industries along with adaptation and development and diversification of products to compete in the overseas markets constitutes a medium to long-term priority. The strategy intends to turn the ‘drive for export led growth’ into an economic movement. The export sector has to be dynamic to meet the needs of increased foreign exchange earnings.

In 1994/95, export earnings registered a phenomenal growth rate of 37.04%. At that time the govt. redirected trade policy towards a competitive export oriented economy by liberalizing the trade regime. Taka was made convertible. Trade facilitation was made the centrepiece of the reform agenda. Around this time there was a significant shift from jute centric export to RMG centric export. Gradually non-traditional items became more dominant as against traditional and primary commodities. Incremental export earnings have come mostly from the RMG sector in recent years. Concentration of export market is also quite visible with EU and USA accounting for almost 80% of Bangladesh’s total exports. Our external sector was under considerable strain in 1998-99 when export growth decelerated to 2.9%, the lowest since 1990s. The devastating flood of 1998 and a slump in the prices of our commodities contributed to this decline. In the aftermath of 9/11, export earnings came down by 7.44% during 2000-2001. A positive development in the structure of export growth, which has important policy implications, relates to performance of the knit RMG sector. This sector has been able to demonstrate robust growth performance over the recent years.

3. Constraints faced by Bangladesh Exporters

Constraints faced by exporters in Bangladesh are multifarious. Lack of finance is identified as a major constraint. Small and medium sized exporters are found to be more severely affected by this constraint. Infrastructural constraint is perhaps the most serious bottleneck to expansion of export and investment augmenting activities in Bangladesh. Govt. rules and regulations pertaining to exports are complicated and too much paper work is needed. Senior management’s valuable time is spent with govt. officials over interpretations and changes in laws and regulations. Exporters are required to pay extra money to customs officials for getting their export consignments checked. Payment is also to be made to port officials, power personnel, telephone service and airport personnel. Bribes are also required to be paid to other service personnel. The cost of doing business is very high. Absence of skilled manpower is felt in sectors like RMG, leather, electronics, data entry and information technology.

Most of the enterprises in Bangladesh have neither the in-house capacity to gather necessary trade information nor the networking facility to access information. Market access issues are becoming increasingly complex and diversified. Bangladesh’s access to EU market was
jeopardized on ecological and environmental requirements. Environmental conditional ties will continue to pose serious problem to our exporters over time. In Bangladesh the export base has remained narrow and no breakthrough is visible in expanding the export basket with the removal of quotas, a process of restructuring of the global RMG sector is expected to evolve when price competitiveness and quality aspects will predominantly dictate the market behavior. A comprehensive strategy is needed to deal with the RMG sector in the post-MFA era. The rising importance of knit RMG needs to be given special attention. Backward linkage activities need to be strengthened further. Strong political commitment will be needed to pursue a proactive export policy.

4. Key Potential Sectors

Labor-intensive agro-process based export oriented activities should be used in the production of shrimp, processed foods and jute products. Pharmaceuticals are emerging as a prospective sector. As a least developed country, Bangladesh is authorized to produce patented drugs up to 2016. This has given us an enormous opportunity of producing any kind of patented drugs that will help boost export in a big way. Movement along value addition in RMG, leather and shrimp may bring rich dividend for Bangladesh. A number of products such as processed vegetables, toys, jewellery, cane furniture, fragrant rice, electronics, soft ware, data transmission, etc have good potential for export.

The export policy of 2003-2006 has been formulated with the objective of improving institutional capacity, diversification of products, encouraging value addition, promoting new exporters, developing skilled manpower, proper utilization of information technology and making all concerned aware of the international trading system. Many new incentives have been made available to exporters. Some existing incentives have been modified and improved to make them more workable. A number of new strategies have been adopted for facilitating exports. Institutional facilities will be provided to trading and export houses. Producers will be assisted in the application of modern technology in respect of design and output. Exporters will be assisted with market intelligence and in organizing trade fairs abroad.

Subsidies play an important role in promoting exports. Textile products, agricultural products, fruits and vegetables, frozen food, jute products, non-traditional items. Handicrafts, etc are enjoying different rates of subsidy. Other countries also subsidize their exports. Subsidy policy has to be consistent with WTO rules. Bangladesh has to be alert about anti-dumping duties imposed by other countries. Brazil, India and USA have imposed anti-dumping duty on Bangladesh products. There are unconfirmed reports about dumping of certain products in Bangladesh. The Tariff Commission may conduct investigation into the possible dumping of products. We can think of imposing countervailing duty measures. The business community has to be aware of the rules of anti-dumping and countervailing duty. Their interest may be affected by the unfair price practices of producers and exporters in other countries.

Regional co-operation in our region is yet to take off. South Asian free trade agreement is under negotiation. Bay of Bengal Initiative for multi-sectoral, technical and economic co-operation (BIMSTEC) is still in its infancy. It will take time to make progress in export diversification through regional co-operation. Free trade agreements with India, Pakistan and Sri Lanka are at different stages of negotiation.

Asian Development Bank projected slump in exports during 04-05 because of floods and the abolition of textile quota. But this has not happened. Exports amounted to dollar 7.79 billion during July-May (05) as against dollar 7.6 billion in 03-04. This is an increase of 2. 3 percent in eleven months. A target of dollar 9. 6 billion of export has been fixed for 05-06. The GDP growth rate rose by 5. 4 per cent in 04-05 against an earlier projection of 6 per cent. The soaring oil price has come as a boon for Bangladesh jute sector. Because of high oil price, the prices of synthetics are rising. International buyers of raw jute and jute goods are offering higher prices.
Bangladesh's woven exports increased by only 1.93 per cent and knitwear export increased by 34.58 per cent during the eleven months (July-May). Of the last fiscal year. Anyway it will take some time before the full impact of quota phase-out is realized.

Garment exports to the US market have declined in recent years. As Bangladeshi garments witness continued market loss in the US, local garment exporters continue lobbying to get duty-free access to the US market. A bill has been placed in US Congress for allowing the least developed countries to get duty-free access to the US market. The garment leaders from Bangladesh while meeting the US policy makers explained that Bangladesh and other LDCs will have to compete with China, India and Pakistan and it will be difficult for them to survive in the quota-free regime. To get the Congressional approval is tough but it is not impossible.

Diversification of export can be achieved through a number of mechanisms. Knitwear sector has to establish its supremacy. The potential of agro-processed products has to be exploited, given the incentive of 30% subsidy. The acquisition of a cargo plane will facilitate the export of fruits and vegetables. The exotic leather products should get a share of the steadily growing demand in the international market. The outlook for shrimp export is quite strong. We should take advantage of the growing seafood market. Export of electronic components is considered to be of potential importance to Bangladesh. The IT could be another lucrative export-oriented sector. Software/data transmission export has a possibility to grow fast. Bangladesh has comparative advantage in horticulture products a number of other products are believed to have high export potential.

Concentration on the manufacturing industry would have to mean some extent of automation to make the effort profitable in the macroeconomic level. Recent wage crisis in the RMG sector should be noted here. The average garment worker currently is paid a salary of Taka 900 but is demanding a figure of Taka 3000. The industry entrepreneurs claim that they can raise the bar to only Taka 1500 while protecting their own interest as well, a declaration that has caused quite an unrest in the garments’ sector. A need to avoid hassles such as these is precisely why most entrepreneurs prefer to lean towards low-labor force employment methods of production. Yet, in developing countries, the tendency has been that labor cost is lower than capital cost (the reason why so many major brands outsource to nations such as Vietnam and Cambodia). And as it is only China that provides a making cost quotation lower than Bangladesh, at the moment, Bangladeshi garments companies can afford to raise the wages without any loss of orders from its foreign correspondents.

Assuming that Bangladesh’s current economy is at the status of where China’s economy was some twenty years ago, we might surmise the steps to be taken for our country and procedures she may undergo before showing actual results. In 1985, when agriculture accounted for about 50% of Bangladesh’s GDP and 82% of its population lived in the rural areas, China employed 63% of its labor force in its agricultural sector though contributing only 33% to its GNP; on the other hand, its manufacturing industry employed only 17% of its labor force but its proportion of GNP was some 46% whereas in Bangladesh, manufacture contributed to only 10% of her GDP. From China’s statistic, which is the stronger economy even today, we may assume that increased GDP, and not labor employment, led to the gross income of her economy. At present, however, agriculture sector has declined considerably in its share in Bangladesh’s economic structure. In the year 2005, agricultural sector came down to only 21.9% of the economy, whereas industry and services sectors increased to 28.4% and 51.4%, respectively.

5. Exports and Poverty Reduction

However, it does not necessarily mean that with increased production, poverty is coincidentally lifted from a nation. There is a slight matter of income distribution to be considered here. As late as the year 2000, the percentage of income allocated to the richest 20% of the population was 42.8% of the total GDP, and allocated to the 20% of the poorest Bangladeshis were a mere 8.7% of the total GDP. One of the major reasons for this disparity is the fact that most of the economic transaction takes place in a very small region of Bangladesh, surrounding the capital. Thus, if Bangladesh’s GNP should increase, we must seek to ensure that GNP per capita is, accordingly, well distributed. This can be done if
manufacturing plants are distributed throughout Bangladesh and not just in and around Dhaka City. In order to maneuver the building up of newer industrial hubs, government can facilitate the construction of infrastructure and housing in areas away from the capital and surrounding the regions in which the newer manufacturing facilities are set up. So that poverty is not removed from a small region only.

When the nation realizes a greater amount of its GNP potential, relative poverty can be reduced also in terms of health and literacy. Better hospitals and academic institutes can be created, and again, not only in Dhaka City. People’s relative standard of living can be thus improved greatly. Moreover, if export-oriented production were to be emphasized, then opening up of vocational training centers would mean more people would be better suitable to meet the changing needs of the world community. We may also see to it that government is equally able to get itself out of deficit so as to employ any surplus in its balance of payment to improve public facilities. For example, a major problem throughout Bangladesh’s history has been its inability to create and deliver enough energy sources and the necessity to impose electricity load-sheds on its people. With a surplus, money can be employed in improving energy manufacture so as to eradicate this problem and improve people’s standard of living.

Of course, if we turn to low-cost production, it can mean that the market would have a greater supply of FMCG. When aggregate supply of products are higher than aggregate demand, the price is bound to decrease, making the inflation go down and providing possibilities for foreign investors to venture into our nation. Meanwhile, also ensuring that surplus can be sold abroad, thus, increasing the GNP of Bangladesh.

While concentrating on the industry sector, what we are forgetting is the sector upon which our nation had been dependent for so long. Bangladesh’s agriculture should not be disregarded so easily as a non-profitable venture. Indeed, there is still room for export-oriented foreign income where labor can also be adequately employed. In fisheries, for example, shrimp export has shown to be a very lucrative business in recent years. Between 1990-2001, the value of Bangladeshi shrimps has risen from US$6 per Kg to US$12 per Kg (with a dip in prices during the EU ban period in 1997-1998). That is doubling the price in just a decade. In fact, some exporters are now recording the price to be at US$16 per Kg, again showing a steady rise in value of shrimp in our country. About 1.3 million people are currently employed by the frozen shrimp industry and the greater processing takes place in Khulna. Moreover, as it is now common usage for farmers to use their paddy fields in off-seasons for the cultivation of shrimps, it can be the same people who cultivate rice during the rest of the year, which may decrease the unemployment rate that emerges through seasonal cycle.

6. Strengthening the Trade Support Network

Collectivization in the agricultural sector may also be a trick that our local industrial heads may borrow from countries such as Russia and China. Local institutes such as the Sheikh Mujibur Rahman Agricultural University has the idea straight. They are basically an R&D facility that provides training and employment opportunities in the farming business. Their research facility seeks to better the cultivation process for various forms of vegetation in Bangladesh as well as introduce local farmers to the newer opportunities in this field. For example, mushroom, which basically multiplies best if left alone, have been introduced in Bangladeshi farming for less than a decade and can be produced for exportation if pursued vigorously?

What more, this research organization even maintains a closed-door community system where residential quarters are made for the employees and their families as well as students? For further convenience of the employees, lower level schooling opportunities are also offered for employee children. At the end of the management chain, whatever surplus they opportune from their cultivation in process, they sell to the market. If more and more cooperative farming establishments like this are distributed throughout Bangladesh, there may be enough surplus to export overseas. And perhaps Bangladesh may then venture into the canned food industry as well because the fact remains that developing countries can often do well to export food products because they can be produced at low cost, given that basic foreign standards of
approval are met through appropriate technologies and sanitation lookouts. Such methods of amalgamating brain and brawn power should be employed in every industry.

Manufacturers of man-made goods would do well to adopt the example set by Sheikh Mujibur Rahman Agricultural University. By collectivizing the organizational bodies of various heads of each industry, the resulting conglomerates may take the opportunities of lowering capital costs by transferring technologies within the industry. Technology transfer can be achieved within an organization, across industry, amongst related industries, as well as to governmental bodies. As such, if accumulation of brain and brawn is achieved intelligently, conglomerates can afford to move their manufacturing facilities away from Dhaka City, so as to afford better distributional of income geographically. For example, ceramics plants in Maymanshingha or various crafts in accordance to the region those are popular for their manufacture. Such manufacturing firms may easily then bring about new labor communities by offering job opportunities with the help of the government in housing development and road construction as well opportunities for vocational training in that particular sector, generating further employment. Moreover, if smartly organized, then transportation cost can also be outwitted. For example, Chittagong and Khulna, where wood is abundant, should be the grounds for manufacturing furniture.

Items such as furniture, crafts, and other FMCG might also be a sector to be revamped with more advanced technologies. These industries may be distinguished into two facts: automated goods and labor-intensive alike. For example, low cost manufacturing through automation maybe employed to produce large quantity of furniture to be sold to the locals at low price, with surpluses rearing for exportation. But as handicrafts are very well sought abroad, there may be a labor-intensive sect of furniture makers that produce handmade furniture to concentrate on exporting their products to increase our GNP. This way, poverty alleviation maybe induced both by increasing production and generating employment. Such efforts may be employed in other sectors such as crafts and garments too. For example, pottery, jewelry, glass bangles, art are sectors that we have not yet fully exploited in the export world.

Another industry that Bangladesh can profit from if ventured into extensively would be the exportation of granite and other construction material rocks that are plentiful in Sylhet and its surrounding regions. And while we are on the subject of construction, ceramics industry should also be exploited towards exportation. The tiles and bricks production in Bangladesh is relatively stable and can be further developed. As such, it would then require a larger manpower to carry on the various stages of setting up and burning the items. If the finished good could be then exported to countries such as Malaysia and Singapore, where ceramics is highly popular, then again Bangladesh may increase its gross national income.

7. Don’t forget the traditional sectors

And why should we forget the crowning glory of Bangladesh’s export history? As late as the years 2001-02, the various jute-manufacturing plants produced almost 293000 tons of jute products worth over US$ 244,000,000. Yet, today, this is a dwindling sector. If the market is not buying the old fashioned items such as bags and canvases, then Bangladesh should develop market for carpet items. Creating a carpet industry with a competing nature against those of Persia may be the key. Especially, if the carpets are hand-woven, then they should receive a greater amount of positive response in distant western nations, where such depiction of rich Asian culture is hard-come-by. And as hand-woven would mean requiring a large labor pool, jute items would be just the ticket.

In the land of the farmers, we really should not forget by-products such as fertilizers and leather. Although, currently Bangladesh is not producing fertilizers even sufficient for herself (in 2003, she had to import US$ 93000000 worth of fertilizers), with four plants, she is able to produce 117000 tones of Urea and 1250000 tons of Ammonium Sulphate alone per year. If the number of plants is increased, then Bangladesh can easily get out of importing fertilizers and begin exporting them. In fact, if Bangladesh sought to produce artificial fertilizers, which is now very popular for domestic vegetation growth overseas, perhaps more plants may be
opened to facilitate the many chemists graduating from Dhaka University each year. In the Asian continent, at least, exporting fertilizers would turn out to be very lucrative venture.

Leather, by no means, should be neglected at this point. The Bangladesh leather industry is fairing well and is most active post-Aidul Azah period of the year (about 72.6 lakh pieces of skin and hide can be obtained from cattle, 1.2 lakh from buffalo, and 4.9 lakh from sheep/goat, amounting to 44% of leather contribution throughout the year). A total of one crore and 65 lakh pieces hides and skin are produced every year in our country and only 2.75 crore square feet is consumed for domestic purpose. The rest is exported as crust finished leather and various products originated from leather. Moreover, Bangladesh leather industry has the advantages of low labor cost; lo setup cost, international quality leather can be made available at low prices locally, as well as duty drawbacks in many areas.

Bangladesh may follow the examples of countries such as China and Malaysia and go into developing its electronics and software industries. In recent years, a large pool of software engineers have been brought up in our country, what with our governments effort to improve its computer industry by levying 0% tariff on computer imports and subsidizing tertiary education in computer related courses. What Bangladesh may do is have foreign investors outsource their resources to Bangladesh and employ our labor force in such assembly lines as electronics and software manufacturing, somewhere along the lines of what they have done in the garments industry.

In China, foreign firms have gone to the extent of not only financing manufacturing software plants, but multinational firms such as Nokia, Microsoft, GM, Motorola, and Samsung have established over 100 R&D centers as well. That should require a huge labor force to maintain. Considering the fact that Bangladeshis make very good engineers and has always shown high technological potential, this would be just the industry to tap into. The trend has been for Bangladeshis to imitate whatever technological consumer good that arrives as fast as possible and then to sell it at a cheaper price to locals. If this ingenuity was to be generated towards a more legal and record-able output, then the process of poverty alleviation could be quickened. We already have companies such as Philips, Siemens, and Nokia investing in our country on a small scale; now we just need to make them instigate stable foundations. And that can be done by providing vocational training centers, and that is where governmental efforts come in.

But if we are talking of increasing our GNP through exporting, what better to manufacture than labor itself. Service industry contributes to over 51% of the nation’s GDP. With proper vocational training centers such as polytechnics to concentrate on careers like as nursing, various forms of engineering, or hotel and tourism management, we can produce a labor force with direction and discipline, which we can then flood the foreign market with. Currently, lower level manual labor workers in the fields of construction and building jobs are what Bangladesh is ample of for exporting. The wheels of sending Bangladeshi construction workers to Malaysia was set in 1994, when the government of Malaysia agreed to allow up to 50,000 workers per year to be imported into their country. The Middle East is another section of the world where we supply much labor. The fact is that, in today’s world of globalization, we are dependent on taking into account foreign needs. And the world is increasingly investing into services sectors. If the world needs nurses, we should provide nurses, and if the world wants to be waited upon, we should supply waiters. But to increase the worlds demand for our nurses and waiters, we have to ensure they are at top of the world’s standard chart. And therefore, we need polytechnics.

8. Learn from the lessons of other countries

Perhaps, as one of the industrial heads of the world today, it is China’s accomplishments that should be mentioned first. The road to economic independence has not been easy by any means, it having undergone many political upheavals for the very specific reason of eradicating economic inequality from the country, uprooting and dismantling the government’s whole structure before replacing it with a Communist one. And, although Communism soon gave its way to its less extreme cousin, Socialism, so as to incorporate features of foreign
cooperation to increase economic growth, the fact remains that state controlled economy was the gateway to China’s road to success.

Interestingly, although farming was the main source of employment generation even in the late 1980s, it was not this sector that contributed to her economic growth. It was an intelligent move on the government’s part to keep most of the working population (63%) occupied in what they know best and to at least ensure that the country produced at a self-sufficient level, so that it could concentrate its GNP growing effort in the export oriented sectors. Nevertheless, cooperative farming did ensure that the country produced enough to feed itself. The early stage of the Socialist China’s economy (before 1979) saw the works of the people’s commune, where each commune comprised of 30,000 members, 16 production brigades, 7 production teams to each brigade, and so on. The production teams were the basic agricultural collective units that corresponded to small villages who worked together to harvest a certain one or few types of crops per year. This crop would then be handed over to the state to be redistributed.

The system had bureaucratic elements to it, but for the most part, it ensured guidance and discipline in the production system. As each commune was responsible for the production of its own crop and had a benchmark set up for them as to how much to produce, the country could at least come out of the need to import food. By 1979, however, people’s commune had given way to the “responsibility system”, which took a more capitalistic view of things and by 1984, 98% of the old production teams had adopted the new system. It allowed each cooperative unit to look after itself as a profit-oriented organization would, keeping trade and competition foremost in its activities planning, whereby after the harvest of a certain amount of crop, which was signed over to the village officials, any surplus belonged to the family to be either consumed or sold. Moreover, because cooperative farming allowed greater cost efficiency in terms of land labor and entrepreneur, these joint farms could expend its finances on advancing farming technologies to eventually increase production to enable its move into the export business.

Malaysia, similarly had concentrated on developing its agriculture in its initial stage when under the East India Company. However, the British officials had seen to it that the nation’s understood export-manufacture before it left. Because of its climatic advantage, Malaysia began cultivating rubber and teak from a very early stage. By the 1920s, her tin industry had shown equal, if not greater, signs of flourishing in the export business. Malaysia, on her own, however, has brought about great changes in all its sectors. It began by employing any unskilled labor towards infrastructure and housing constructions whenever there seemed a high rate of unemployment in the country.

Since 1995, however, the unemployment rate has been consistent to a mere 2.5%. In fact, in late 1996, the total of unfilled vacancies was reported to be increased by 13.7% (38,076 vacancies). However, the government did not see this as a condition to be overlooked, comprehending correctly that the resultant vacancies were due to shortage of skilled labors and not labor force itself. The manufacturing sector has been the second largest for employment, accounting for 27.5% of total employment in 1997, which was an increase of 129,800 person compared to 26.7% in 1996, showing a growth rate of about 3%. There has been a consistent growth since, which is still saying something since Malaysia opportune a growth of at least 3.1% jobs each year in its service sector (through its tourism policies in hotels, transport, communication and retail trades) generating work for at least 47.5% of its labor force, keeping most of its working population occupied.

But most of the unemployment has been due to the unavailability of skilled labor in the manufacturing sector. In the year 2000, a shortage of 5,250 engineers and technicians and 44,450 skilled and semi-skilled workers occurred, found in industries such as electrical and electronics, information technology, ceramics, chemicals, machinery and engineering, foundry, plastics, textile and wood based industries. The increase of foreign employees (estimated to be 1.7 million) also led Malaysia’s labor crisis, as skilled labor of other countries were chosen over local unskilled labor. This trend led to the implementation of the 7th Five Years Plan, which emphasized on public and private sectors to increase the employment of local over foreign employees by incorporating female workers into their organizations and
also urged to increase the productivity level by upgrading workers’ skills through comprehensive exercise on training and retraining.

Private sectors were asked to help government organize in-house training as well as play an important role in the education sector towards human resource development and research and development activities. To encourage greater FDI, government has set up more polytechnics that provide courses in skilled labor manufacturing and implemented a mechanism to relate the increment of wage with level of productivity in all sectors. Since the mid-1990s, companies like Sony have been known to make permanent their manufacturing base in Malaysia. As most of these manufacturing facilities concentrate on assembling of various products, it requires a large labor pool, for which, the Malaysian government has been jointly providing facilities to churn out skilled labor.

Singapore, unlike its mentor nations, however, did not have an abundance of land to employ in agriculture. So she took its largest resource, people, and employed them in the manufacturing industry. Much of Singapore’s economic history has been occupied with export-oriented activities, having been one of the “four dragons” (along with Honk Kong, Taiwan and South Korea) of Asian economy and being the port-of-call for South East Asia. But following a socialist trend like China, (perhaps because the ruling government, PAP consists mostly of Chinese), Singapore has also shown a tendency towards concentrating on developing a few sectors at a time. For example, when the world focused on IT development in the late 1980s, Singapore did not stay long behind in providing IT workers. By the year 1994, the government passed a condition that any student failing to pass their ‘O’ level examinations would have to take on the opportunities provided by the various IT institutes that the government opened out of its tax revenues or not be enrolled in any further studies. This ensured that students who showed a lack of academic ambition could be employed to bring up Singapore’s IT sector. Currently, Creative Blaster, sound software, has the advantage of monopoly over the world.

9. Foreign Direct Investment – Necessary or Not?

Most of these fast developing nations, however, rely heavily on FDI. Foreign investment not only allows an inflow of capitals and opportunities for local labors to be employed, but also lends a huge hand towards human resource development. As many foreign companies also invest in research and development, this facilitates the host nation’s growth in terms of technologies and skilled labor as well. By 2003, Microsoft alone invested over US$80 million in Chinese research institutes and another US$50 million to the creation of a Microsoft Asian Technology Center in Shanghai. Motorola has been one of China’s largest sources of FDI since 1987 had invested over US$3.4 billion by 2003, owning to wholly owned subsidiaries, 8 joint ventures and 18 R&D centers. Moreover, local firms that supply to their foreign counterparts receive various types of support other than simply financial assistance. China’s ability to conform to the world market and opportune low-cost manufacture in every industry from stationary to garments has made it the breeding ground for more advanced technologies.

While most countries nowadays have shown the tendency towards creating its comparative advantage by guiding its labor force towards specific manufacturing skills, some still make use of the comparative advantage granted them by nature. Thailand is such a nation, which has profited much from producing and exporting leather-based FMCG. Small and medium enterprises comprise 90% of Thai leather industry. The only factor that has been stalling the industries growth has been a lack of fashion expertise. However, the industry has now been encouraged to make use of IT in order to allow fashion designers from Italy, France and other western fashion hubs to communicate orders to local entrepreneurs. Bags, shoes, jackets and other clothing items is only the beginning of various leather items produced in Thailand, and this has been encouraged further by government’s policy of OTOP (One Tampon One Product). Thailand has been ranked number six in the world’s leather exporters and its 2,750 enterprises employs well over 300,000 workers. Major costs of leather SME are raw materials (59%), salary (24%), and miscellaneous (17%). Various international fairs instigated by the government and leather-producing firms in recent years have contributed to its image in the world market and the subsequent demand that has followed.
Viewing its most basic factors, high-tech manufacturing is just not feasible for a country such as Bangladesh simply for it's financially incapability. First of all, local entrepreneurs may simply not be able to afford advanced technologies to incorporate into their methods of production. Unawareness of technology life cycle may also make entrepreneurs averse to adopting new technologies. Moreover, lack of in-house R&D capabilities and skilled supervisors to monitor the machines can mean that even if newer technologies are adopted, proper usage or maintenance is not guaranteed. Thus, it is less likely that manufacturing heads of our country would suddenly spring up and all start adopting more advanced machineries in their respective fields. However, if granted that proper direction will be maintained, then it is high time that even a country at the poverty level of Bangladesh should enter into an export-intensive economy.

Most of the nations that have been able to move out of the underdeveloped label of economy have certain elements in common that have ensured their success. For one, FDI from outsourcing companies such as Microsoft, Nike, Sony, etc. have proven to be high source of employment generation. This is an important aspect as labor is an abundant resource for these countries. Secondly, government and the private sector have both delegated efforts towards mobilizing their labor force according to world market demand through specialized vocational schools and then distributing the skilled labor into their respective job fields. A further advantage has been that these countries did not fall into the trap of concentrating their business efforts in one region only. For these countries, manufacturing facilities are usually distributed in more than one hub, and certainly throughout the country. Finally, the governments of these countries did not try to take on too many tasks at once. Most of these countries have shown tendencies to develop basic sectors such as agriculture and manufacture before entering into services, although in all these countries service now contributes the most to GDP growth. These countries have ensured the industries where they were naturally endowed with comparative advantage flourished before entering into newer grounds to which they were previously unaware. If developing nations such as Bangladesh can adopt the smarter movements of the out-of-danger zone nations and take note of risks that came with the averse, then they would do well.

In the year 2000, the inflow of foreign direct investment (FDI) in Bangladesh was some US$280 million, whereas in Asia (excluding Middle East) the net total inflow was about US$71,197 million. That means that FDI inflow for Bangladesh was less than even 1% of FDI circulation in Asia! And let us at least agree that there are not that many nations in the Asian continent for Bangladesh to excuse such dismal statistics. Bangladesh has a high potential for further FDI inflows if it can only improve its image through a more stable political, and thus, economic condition. The RMG sector has proven that if taught, Bangladeshi workers can learn to cooperate and produce with efficiency. Such confidence should be shown in other sectors such as electronics, metallurgical, agricultural production too. The government should activate a vigorous effort to mobilize the labor force to build their skills in various occupations in accordance to world demand as well as distribute the various industries throughout the country so as to ensure more people get a chunk of whatever increased GNP we achieve. Privatization should be maintained so as to ensure that bureaucratic corruption of the state is avoided in production and capitalistic point of view leans on increasing productivity, and the industries should be ventured into with proper short-term planning such as most other nations that have followed the Five Years Policy method. Only then can we sustain the statement that export-oriented manufacture can be a logical solution for underdeveloped countries such as Bangladesh.

A good number of recommendations have been made for supporting export diversification. Necessary resources and infrastructure facilities are to be made available to the exporters. The export sector of the country has demonstrated promising growth pattern. If good governance can be put in place, an enabling environment will be created for robust growth in export. Implementation of the recommendations is the key issue. We have to either export or perish. This should be our slogan.
10. **Recommendations**

**Short Term:**

i) Financing facilities for export oriented industries are to be made available on a priority basis. Lack of adequate finance is one of the major constraints for diversification of export. Small and medium exporters are affected more by this constraint. Therefore, providing financial support is a top priority.

ii) Private commercial banks may be persuaded to give loans to exporters at rates of interest fixed by the govt.

iii) Existing subsidy for export should be continued. New items in the priority list may be considered for granting subsidy.

iv) As indicated in the current export policy, an export development fund may be created for providing venture capital, fees for foreign experts, marketing missions abroad and other export related activity.

v) Delivery time in shipment has to be cut down particularly for RMG. Government may reconsider their decision for setting up of a central bonded warehouse. World Bank has recommended the establishment of a central bonded warehouse for textiles.

vi) Gas and power supply need to be ensured for export oriented industries.

vii) Trade information centre of EPB must be upgraded immediately.

viii) A cargo plane may be purchased for facilitating export of fruits and vegetables. Finance Minister was pleased to say this recently.

ix) Govt. may allow duty free import of capital goods for all export oriented industries. This is followed in many other countries.

x) In view of the demonstrated capability of the private sector, some regulatory functions may be delegated to the private sector.

xi) Free trade agreements may be implemented expeditiously for boosting exports.

**Medium and Long Term:**

i) Private sector should take full advantage of the incentives offered by the govt. These incentives should be utilized for the benefit of the exporters. Govt. may ensure full implementation of the incentive structure.

ii) Both the public and private sector should work as partners in promoting export diversification. Implementation of govt. policies for export diversification must be given priority.

iii) Although there are numerous constraints to export diversification and cannot be resolved all at a time, efforts should be made to remove them in a time bound manner.

iv) The recommendations of the National Coordination Council on RMG sector should be approved and implemented as soon as possible. NCC’s suggestions are aimed at improving the competitiveness of the textile sector. The matter brooks no more delay.

v) Vigorous efforts should be made for expansion and diversification of manpower export. More and better training facilities are to be organized for upgrading the skill of our workers.

vi) We have to convince the US govt. to grant duty and quota free access to our products as a good number of other countries have done this. We must have some space in the aftermath of quota phase-out.

vii) Potential investors from outside should be encouraged to invest in export oriented industries. In this context Tata proposals to invest in steel, power and fertilizer sectors are very timely. We should process these proposals expeditiously and in a positive manner.

viii) There is serious lack of research and development in the industrial sector. Industrial enterprises should develop their own capacity for research and development with assistance from the govt. Government has to provide adequate support for this purpose.

ix) Major trade bodies like FBCCI, MCCI and DCCI may undertake research and development and survey work particularly for the benefit of the small exporters.

x) Investigation has to be conducted for possible anti-dumping action. Tariff Commission as the authority for such action should keep all concerned informed about their action programme.
xi) Private sector may appoint their own representatives in key locations outside Bangladesh for facilitating export diversification.

xii) In order to deal with WTO matters more effectively, DCCI may set up a full-fledged WTO cell.

xiii) We must create an enabling environment. Good governance well facilitates creation of an enabling environment.

xiv) Incentives provided to the exporters have to be comparable to neighboring countries. It is proposed that a study may be undertaken by DCCI on this subject.