CHAPTER : 8

EXPORT AND DEVELOPMENT IN THE CONTEXT OF BANGLADESH

8.1 INTRODUCTION

This chapter is planned to study export and development relation in the context of Bangladesh. It discusses export and development relation on the fundation of theoretical, historical and empirical process and endeavours to chalk out the relation in case of Bangladesh. On the basis of theoretical, historical and empirical investigation the study tries to answer the fundamental question whether export-led growth strategy of development will work for Bangladesh.

The study also attempts to explain the prevailing conditions of export promoting countries and compares them with Bangladesh.

8.2 TRADE AND DEVELOPMENT RELATION : A CRITICAL VIEW

To the extent that classical and neo-classical economists offered a judgement on this problem they held that foreign trade could make an impressive contribution to a country's development (Meier 1963,p. 151). Robertson (1949,p.501) considered trade as an engine of growth. Bhagwati (1988, pp.27-57) has shown in his recent work that export promotion policies emerge with success. He has stated that the remarkable success of the few economies that pursued export promoting (EP) rather than import

substituting (IS) policies swung the weight of academic opinion behind the EP strategy.

But some economists like Singer (1950), Prebisch (1964), Myrdal (1957) and Chenery (1961) criticised the statement that export works as an engine of growth. With present concern for poor countries the critics are now more numerous and their arguments are far more challenging.

Theoretically it is frequently contended that the static equibrium analysis of traditional theory are irrevelant for interpreting the problems of development which are inherently dynamic. Historically it argued that international trade has been actually operating as an instrument of international inequality, widening the gap between rich and poor countries.

Adam Smith's (1937, E. Cannan (ed.), p. 415) model of foreign trade postulates the existence of idle land and labour before a country is opened to international trade. The excess resources are used to produce surplus goods for export and thus trade vents a surplus productive capacity that would otherwise remain unused.

The idea of "vent for surplus" assumes that resources are not fully employed prior to trade and that exports are enhanced without a decrease in "domestic production".

More generally comparative advantage is the determinant of the trade pattern. Each trading country is able to enjoy a higher real income by specialising in production without any increase in resources or technological change due to presence of comparative advantage. According to Ricardo (1817), by

specialising in commodities for which its costs are comparatively lower a trading nation would increase the sum of commodities and mass enjoyments. As per comparative advantage theory of one factor model the cause of trade is due to differences in the productivity of labour. Heckscher - Ohlin (1919, 1933) theory of trade states different factor endowments as the cause of trade. According to John Stuart Mill (1848) foreign trade results in direct economic advantage by more efficient employment of the productive forces of the world and indirect dynamic benefit by widening the extent of the market, inducing innovations and increasing productivity, foreign trade allows a country to overcome the diseconomies of being a small country. For a number of reasons the traditional conclusion has been: the gains from trade are not only due to resource allocation but also due to the fact that international trade transforms existing production functions and increases productivity of the economy over time.

Trade contributed substantially in the development of some countries (like Britain, Sweden, America, Japan, Sourth Africa, Canada) in the past and still has been contributing to development of newly industrialising countries (NICs) of Asia and Latin America. The emergence of the gains from trade with the gains from growth rests ultimately, therefore, on the efficiency of domestic policy measures in producing sufficient social and political as well as economic change to make the economy more responsive to the stimulus from trade (Meier 1963, p. 191).

The positive view of trade and development emphasises the direct gain that comes from international specialisation under the additional support to a country's development efforts through a number of spread effects of domestic economy. According to Nurkse (1959) the exportation of cheap labour intensive manufactured commodities may provide an increasingly important opportinity for transmitting development to some poor countries which have the necessary resources and can gain a comparative advantage by utilizing labour intensive method. Trade and industrialisation have reinforced each other. Moran (1988) has shown that domestic economic policies that promote investment and capacity in export-oriented activities are likely to play a key role in increasing foreign exchange earnings in developing countries, even if growth in external demand is slow. The World Development Report 1987 has shown through a study that the rate of growth of GDP, factor productivity, savings and investment are more in strongly outward trade oriented countries than that in strongly inward trade oriented countries. This speaks in favour of positive relation between trade and development.

The available theoretic literature on trade and development relation presents two quite opposite views. On the one hand it was frequently agrued (Williams, 1929; Robinson, 1956 and Myrlal, 1957) that the static equilibrium analysis of traditional trade theory are irrelevant for interpreting the problems of present day developing countries which are inherently dynamic in nature. On the other hand it is contented that with suitable modification the traditional trade theory can be used to tackle

the dynamic issues of development (Bensuan-Butt, 1954, Myint, 1958 and Nurkse, 1961). In historical purview it is argued that international trade has contributed substantially to the process of development in the then developing countries (Robertson, 1949; Haberler, 1956 and Cairncross 1966). In contrast it is blamed that foreign trade has actually favoured the advanced countries at the cost of underdeveloped countries and hence accentuated the gap between DCs and LDCs (Singer, 1950; Myrdal, 1956; and Prebisch, 1962).

A third group of economists stood at neutral position and gave special observations on the dynamic character of trade as a transmitter of economic growth (Hicks, 1959 and Nurkse, 1961).

Though the theoretical foundation of classical and neoclassical theory of international trade has been challenged on different grounds it may be concluded that with modification they could explain present world problem. Moreover the modern theory founded on the classical and neo-classical ideas is still explaining well the development issues of the LDCs. Above all by challenging the theoritical hypothesis the present contribution of trade to development though inflow of capital, technology, knowhow and education has admitted the positive role of trade. Economists like Haberler (1967), Cairncross (1962), Robertson (1940), Rostow (1960) and many others including modern economists admit the positive contribution of trade to growth.

8.3 EXPORT-LED GROWTH AND ITS OPERATION

A rise in export leads to an increase in the national income through direct and indirect expansion of other

activities and thus exports lead growth of work as an engine of growth. Chow (1987) has shown that there may be two way relation between export and national income. Exports lead growth of GDP and GDP leads growth of exports. In case of most Newly Industrialising Countries (NICs) he found bidirectional causality between the growth of exports and industrial development. His findings supprt export-led growth strategy because expansion in export not only promotes the growth of national income but also leads to structural transformation of the LDCs. Kavoussi (1984) shows that in low and middle-income countries export expansion is associated with better economic performance and an important cause of this relation is the favourable impact of exports on total factor productivity. Several empirical studies(Balassa Bela, 1978; Heller and Porter, 1978; Michaely Michael, 1977, Michalopoulous and Jay, 1973 and Tyler and William, 1981) demonstrate that exports contribute to GDP growth by more than just the change in the volume of exports. Feder (1982) shows that growth can be generated not only by increase in the aggregate levels of labour and capital but also by reallocating existing resources from the less efficient non-export sector to the higher productivity export sector. Economists (Kessing, 1967; Balassa Bela, 1978; Krueger, 1980 and Bhagwati and Srinivasan, 1978) highlighted various beneficial aspects of exports like greater capacity utilization, economies of scale, incentives for technological improvements and effective management due to competitive pressures abroad. Their conclusion was that marginal productivities in export sector is substantially higher than that in non-export oriented industries.

Recently various export oriented models of development have been formulated to present a macro-dynamic view of how an economy's growth can be determined by expansion in exports. One of this version is staple theory of growth. The term staple designates a raw materials or resources-intensive commodities occupying a dominant position in the country's export. This has a structural similarity to the vent for surplus idea. The staple theory postulates that the discovery of primary commodity in which the country has a comparative advantage will expand resource based export which in turn induces higher rates of growth of aggregate and percapita income. The staple model has some relation to Rostow's leading sector analysis insofar as the staple export sector may be the leading sector of the economy by inducing the rest of the economy.

Corden (1971) analyses the effects of trade on the rate of growth in a "supply motored" model instead of the "demand motored" model of the staple theory. According to him when a country is opened to world trade five different effects may happen: First impact effect corresponding to static gain from trade which raise real income. Second capital accumulation effect results when parts of the static gain are invested. This transfers income from consumption to capital accumulation. Third substitution effect results from a possible fall in the relative price of investment goods to consumption goods if investment goods are import intensive which would raise the ratio of investment to consumption. Fourth income distribution effect will shift income towards the factors that are used in

the production of export which will increase overall sayings propensity and hence capital formation. Finally factor-weight effect will recognise relative productivity of capital and labour. If exports expanded and exports use the faster growing factors of production, the growth rate of exports will rise more rapidly. This effect would be cumulative and raise real income over time.

Nicholas Kaldor (1968) an eminent British economist has established his theory of export-led growth in his different works. The main content of his theory is that the export-led growth is superior to Keynesian consumption-led growth (Tripathy 1985, p.56). In the export-led growth process the incentives to invest remain strong and hence the level of investment becomes high (Kaldor 1971, p.12). Export-led growth generates higher rate of growth for manufacturing industries and causes operation of increasing returns. They relate to the period of structural change in the economy from stagnation (Kaldor 1971, p.14).

A. Lamfalussy (1963) has developed his theory of export-led growth in the context of the post-war economic growth of the European continental countries. Tracing the association of economic growth and export growth in the post-war years of the European economic development he establishes that "faster growth has been associated with rapidly rising exports and with a favourable trend in trade balances" (Lamfalussy 1964, p.111). Lamfalussy-model postulates that export-led growth creates a virtuous circle of growth which goes on self-expanding, self-promoting and self-generating.

There is a relationship between the rate of growth of exports and the rate of growth of labour productivity. This ensures in this export-led model of growth that any exogenous change in foreign sectors tends to be magnified by induced changes in labour efficiency and the resulting increase in export price competitiveness (Batchelor 1980, pp. 214-216).

The success of export-led growth process in Korea, Taiwan, Hongkong and Singapore during 1965-1982 and currently in Malaysia, Indonesia and the Philippines has set an example for export-led growth model. Prebisch (1962), Singer (1950) and Myrdal (1957) have expressed that international trade if left to market forces leads to the deterioration in the terms of trade and causes income transfer from the poor to the rich nations and reduces the rate of growth of the former. (Kravis, 1970) argued that participation in trade was not a good indicator of the success or failure in development of peripheral countries in the 19th century. Kindleberger (1961) observing the performance of British and France economies commented that there have been periods when exports happened to lead and others when they clearly lagged.

Though a number of criticisms are available, the theoretical, historical and statistical investingations suggest that export-led development process worked in the past and is still in operation in the present world and may remain so in future. It holds that if all developing countries follow an export promoting strategy modeled on the example of the NICs of East Asia, industrial countries would not be able to absorb the

resulting volume of imports. "This has been challenged on at least four grounds: first the capacity of industrial nations to absorb new imports may be greater than supposed. Developing country's exports currently account for only a tiny share (2.3% as of 1983) of the markets for manufactures in the industrial economies. Secondly the idea that a large number of economies might suddenly achieve export to GDP ratio for manufactures like those of Hongkong, Korea of Singapore is highly implausible. The resource endowments of the East Asia NICs are quite different from those of countries such as Argentina, Brazil, Indonesia, Cote d'Ivoire, Malaysia and Thailand which are among the next tier of industrializing countries. Third export-oriented countries would produce different products and industry trade is likely to be important. Finally the first wave of NICs is already providing markets for the labour intensive products of the countries that are following (World Development Report 1987, p..81)". So from the above analysis it may be concluded that exports work as an egnine of growth. It worked as propelling force in economic development in the past in Developed countries and has been working in NICs and shall be working in the developing countries.

8.4 CONDITIONS FOR EXPORT-LED GROWTH

Now a days the phenomenon of export-led growth has been a subject of considerable interest to development economists. Empirical observations and historical evidence demonstrate that developing countries with a favourable export growth are having

higher rates of growth. Now the question is under what conditions can the process of export-led growth work. Most of the underdeveloped countries have experienced long periods of export growth. Yet in many countries exports have not acted as a key propulsive sector despite their secular rise. In classical belief it is sometime argued that development of the export sector by foreign capital has created a dual economy in which proudction has been export biased and the resultant pattern of resource utilization has deterred development. There is little support to the assertion that in absence of foreign investment a poor country would have generated more deomestic investment.

The real choice was not between employing resources in the export sector or in domestic production but rather between giving employment to the surplus resources in export production or leaving them idele (Myint 1958).

Another contention is that development is impeded by the "demonstration effect" of trade: the international demonstration of higher consumption standards in developed countries has allegedly raised the propensity to consume in less developed countries and reduced saving rates. By stimulating consumption the international demonstration effect may also have operated on incentives and may have been instrumental in increasing the supply of effort and productive services specially as between the subsistence sector and the exchange economy (Myint 1964).

The serious argument is that international market forces

have transferred income from the poor to rich nations through a deterioration in terms of the trade. This alleged trend is not based on the measurement of prices within the poor countries, but rather on inferences from U.K.'s commodity terms of trade or the terms of trade between primary products and manufactured products (UN 1949, pp.7, 13-24). This does not provide a sufficiently strong statistical foundation for any adequate generalization about the terms of trade of the poor countries (Baldwin 1955, pp.267).

A comprehensive explanation of why export-led development has become possible in some countries, but not in others would therefore distinguish the different effects of the process. Different export commodities will provide different stimuli according to the technological characteristics of their production. The nature of the export goods production function has an influence on the extent of other secondary changes elsewhere in the economy beyond the primary increase in export output (North, 1955, pp.249-251).

The processing of primary product exports by modern methods is likely to benefit other activities through the spread of technical knowledge, training of labour, demonstration of new production techniques that might be adopted elsewhere in the economy and the acquisition of organisational and supervisory skills.

On the other hand export growth will have a negligible carryover if its production techniques are the same as those already in use in other sectors or its expansion occurs by a

simple widening of production without any change in production functions. The influence of skill requirements may operate in various ways: The greater incentives for capital formation may be provided through education, on-the-job training in the export sector may be diseeminated at little real cost through the movement of workers into other sectors or occupations. Skilled workers may be a source of entrepreneurship and they may save more of their incomes than unskilled workers (Richard Caves 1971, pp. 403-442).

The processing of primary products provides forward linkages in the sense that the output of one sector becomes an input for another sector and backward linkage by providing a strong stimulus for expansion in the input supplying industries. Hirschman (1958) emphasised the linkages of export regime.

The nature of production function of export will also determine the distribution of income and has an impact on local employment. The relative shares of profits, wages, interest and rent will vary according to labour or capital intensity of export production and the nature of its organisation. If export income goes to those who are likely to save large portions, the export sector may also make a greater impact in financing growth of other sectors. If the export commodity is subject to substantial economies of scale in its production than this will tend to imply large capital requirements for enterprise establishment and induce extra-regional or foreign borrowing (Meier 1984, pp.507). This may then lead to an outward profit flow in lieu of providing profit income for local investment.

The repercussions of exports will also vary according to the degree of fluctuations in export proceeds. Disruption in the flow of foreign exchange receipts makes development process discontinuous. Greater degree of instability disturbs employment level and affects real income, import level, government revenue, capital formation and resource allocation. Thus depending on the various characteristics of the country's export the degree of strength of the integrative process of stimulus from exports will be differ among countries. However, the stimulating forces of the integrative process will be stronger under the following conditions (Meier 1984, p.507): "The higher the growth rate of the export sector the greater the direct impact of the export sector on employment and personal income, the more the expansion of exports has a leading effect in terms of increasing productivity and instilling new skills, the more the export sector is supplied through domestic inputs instead of imports, the more the distribution of export income favours those with a marginal property to consume domestic goods instead of imports, the more productive is the investment resulting from any saving of export income, the more extensive are the externalities and linkages connected with the export sector, and the more stable are the export receipts that are retained at home. The country whose exports fulfill these conditions more readily will enjoy greater opportunity for development."

The transmission of growth from the export base to rest of the economy will depend not only on penetrating power of exports in underdeveloped countries but also on receptive capacity of domestic economy. In domestic economy it depends on

market imperfection and non-economic barriers in general enviornment. The integrative forces will be strong under the condition of developed market institutions, infrastructure, human resources and stable price level. Acceleration of learning rate of the economy, enrichment of socio-economic infrastructure, expansion of entrepreneurship and mobilization of surplus above consumption constitute the development fundation of a country. Once this foundation is laid the economy can be readily transformed through diversification in primary production, new commodity exports and industrialisation via export promotion and import substitution.

An export-oriented strategy implies that a realistic exchange rate has to be kept. If domestic inflation occurs the exchange rate will usually be devalued rather quickly (Soderstern 1985, p.228). An overvaluation of domestic currency minimises the expansion effect of exports. Within the purview of the above analysis it may be concluded, "exports can lead to growth but they need not. If they are to do so there must be capital formation, technical change, reallocation of resources" (Kindleberge 1962, pp.203-204) and infrstructural development.

8.5 HISTORICAL EVIDENCE OF EXPORT-LED GROWTH

The analysis of historical evidence of export-led growth would make us acquainted with economic and non-economic factors that helped the process of export-led growth in different countries. This would also help to highlight some experiences for Bangladesh. With this idea we discuss the experiences of

few countries of the world and compare them with the experience of Bangladesh.

8.5.1 BRITAIN

Industrial revolution began first in Britain and by 1850 it penetrated into France and Belgium. Half a century later it had reached Germany, the USA, Sweden, Russia and Japan. Britain is put forward as a prime example of export-led growth in the way that exports of textiles first and then iron and coal stimulated the growth of Britain. She also helped in the process of development of France, Belgium and other Western Europe through technical assistance. Professor Nurkse (1962) also mentioned Argentina, Australia, Canada, Newzealand, South Africa, United States and Uruguay as successful examples of 19th century export-led growth.

According to Habakkuk (1940) the export value of Britain increased by 47% in the 1840s, 90% in the 1850s; 47% in the 1860s and 12% in the 1870s. The most satisfying and important acceleration of British export took place between 1889 and 1893. Meyer (1955) has shown that decline in textile engineering, steel and ship exports pulled the economy down after 1875.

As an exporter of 75% to the world market in many commodities Britain could not maintain its position during last quarter of the 19th country. Other Europe countries began industrialising and exporting to the world market. The problem before the British economy was either to upgrade the quality of product or to search out new markets in Asia, Africa and Latin

America.

Britain actually built up new markets. The introduction of tariff in 1890s by USA led to the collapse of British sales in American market. During the last decade of the 19th century and first decade of the 20th century France and Germany made rapid technological progress and enlarged export capacity while Britain remained stagnant.

The industrial revolution of England is connected with the export of cotton textile. During post-Napoleonic decades the export of cotton textile constituted half of the total exports. Industrialisation, urbanisation and commercialisation provided impetus to coal and coal caused technical change, transport revolution and establishment of iron and steel industry. This period was for free trade comparative advantage and accumulation of capital which was followed by phase of capital goods industries. The capital goods share in manufactured exports in Britain increased from 10% in 1840-42 to 27% in 1882-84. Exceeding the glorious advance period 1850-73 the British economy stagnated. Germany and America surpassed Britain in steel production by 1890-95. Many scandinavian countries came ahead and Britain's technological innovation possibility tended to exhaust. As a result she fell behind her rivals. It is remarkable to note that her exports of the manufactures started declining which slowed the growth of the economy.

8.5.2 U.S.A.

American economy expanded tremendously during 1815-60.

The war of 1812 relaxed mercantilistic regulation and created facility for shipping and export and favourable terms of trade. The picture started changing after 1815. There was a fundamental change to shift dependence on Europe to reliance on own internal economy for input to economic development.

The emigration of labour and capital from Europe enhanced the growth of the cotton textile. The cotton export was strategic as the income from it determined the fate of other manufacturers. In the South the income received from the exports of cotton, sugar, rice and tobbacco provided impetus to the expansion of other goods and services. The West provided food for the South. The North-East in addition to providing services to finance, transport and market supplied manufactured commodities.

The foreign demand of American cotton was increasing alongwith staple exports which expedited the process of expansion of the new pattern of the economy. The discovery of gold mine in California in 1848 and market expansion of American staple changed the situation by 1860 and secular improvement of terms of trade increased the inflow of capital, labour and technology at a rapid rate.

8.5.3 JAPAN

Japan was an isolated country before 1859. During Meiji Restoration she opened her doors to the West. She was an excellent examples of open economy with rapid growth in the pre-war and post-war periods. She specialised in export of primary goods in compliance with the doctrine of comparative

advantage. Her exports increased by 15 percent per annum during 1859-67. The composition of export was tea and silk. During 1876-86 the export of semi-manufactured goods was increasing. With a view to save gold and silver the imports of manufactured goods were replaced by home made goods. Woollen textiles and cotton textile were modernised. In the pre-war period 1897-1913 export contributed 29 percent to GNP while it contributed only 8 percent during 1876-96. Share of manufactures in total export rose to 80 percent from just 4.5 percent during 1876-80. Rapid inflow of foreign capital accelerated the process of industrialisation during this period.

The real export-led growth period in Japan started since 1920. Exports contribution to GNP rose to 39 percent. The exports of material and semi-manufactured goods declined in percentage terms and export of manufactures rose by 57.8 percent in 1937. The comparative advantage shifted to labour intensive manufactured goods. Export of Japan increased during this period mainly due to its competitive price in foreign market and Japanese goods were substituted in the world market in place of exports by competitors (M. Shinohara 1963). Some trading companies like Mutsubishi, Mutsui, Marabeni, Marabeni C., Itoh, Sumitome and Nissho Iwai functioned as agents for local producers and distribution of exports goods, exploring market, providing transport vessels, tanks and warehouses. In 1974 top six general companies accounted for about 40% of exports and 50% of imports. Japan has entered the final phase of export-led growth. The comparative advantage of her export production has been shifted from labour intensive-manufactured good to

capital intensive heavy engineering good. The productivity of labour expedited export growth which was raised by super training, higher education, medical services and cordial relation between labour and management.

Educated and trained human resources are most important internal inputs in quick adjustment and rapid transmission. Japan could use foreign capital and advance technology because of her educated manpower.

8.5.4 REPUBLIC OF KOREA

Between 1965 and 1978 the real GNP quadrupled increasing at 10% per annum on average in Republic of Korea. Percapita income increased very rapidly from sixties and onwards and reached US $ 2150 in 1985 from $ 87 in 1962. The manufactured sector grew at 18% per annum. Unemployment was reduced from 9% in 1960 to 2.15% in 1982. The adoption of the labour intensive export-led industrialisation based on comparative advantage transformed agrarian society into a semi-industrialised and highly open economy within two decades. Export was the engine of growth which rose from US $ 41 million in 1960 to $ 30283 millions in 1985. During 1960s major export items were minerals, fish and raw silk. About 90% of the export was manufactured goods in 1978. Export share in NMP rose from 4% in 1960 to 36.36% in 1984. Export contributed highly to employment and output growth. As late as 1960 Korea like Bangladesh was experiencing low level of income, over population, large scale unemployment, low domestic saving and chronic balance of payment deficit. Endowed with poor national resources and limited doestic market

Republic of Korea launched First Five Year plan 1962-1966 for expoitation of international market with labour intensive manufacturing goods. The emphasis of Second Five Year Plan (SFYP) 1967-71 was on modernization of industry and consolidation of benefits of self-sufficiency. During SFY Plan economy initiated boosing exports of labour intensive light industrial products. In Third Five Year Plan 1972-76 Korean government took measures to correct agricultural export lag: The objectives of Fourth Five Year of (FFY) Plan 1977-81 were establishment of self-reliant growth, balanced development through expanding investment in social sector and increase productivity through technological innovation. The export-led growth strategy and an open economic policy was being followed.

Excellent performance of the economy is due to educated labour force, foreign technology and higher productivity of labour. Export accelerated the performance of other sectors. The strongly outward trade policy along with fiscal, monetary and commercial policies played vital role in boosting up exports. Foreign capital and technology policies were always being directed to suit export expansion.

8.5.5 EXPERIENCES FOR BANGLADESH

The experiences of export-led strategy of developed countries like Britain, America, Sweden and Canada might be of little use for developing countries of the present world. Because they developed in such a period when the world economy was different. However, one common point for almost all the

countries is that each country initially started export development on traditional type of commodities based on comparative advantages. Almost all countries of Asia who have been following export-led strategy possessed traditional pattern of economy dominated by agriculture like Bangladesh. Their exports consisted mainly of traditional commodities and a few commodities accounted for lion share of the total export receipts at primary stage. With pace of development their comparative advantages shifted to the production of labour intensive manufacturing goods. This was so because they have had comparative advantage in this production due to surplus labour and low cost of labour. Like those countries Bangladesh has surplus labour due to which comparative advantage lies in labour intensive production line. Even Bangladesh have comparative advantages over many export-leading countries due to low level of labour cost. This has been proved by the fact that some firms in Singapore and Hongkong are producing their contracted garments items by Bangladeshi factories due to low cost of production.

The production pattern shifted from labour intensive line to capital intensive line at the final stage in export leading countries. Government's outward oriented trade policy helped export-led growth in these countries. Export incentives were very much instrumental in this. The governments of these countries are very much commited to give all sorts of incentives for export-led growth. Duty free export processing zones play important role in export development.

Development of financial institutions, education and

skilled labour force, political stability, and developed infrastructure work as catalyst in the process of export-led growth. The role of private export houses is also worthmentioning.

From the experiences of export-led growth in Asian countries it seems that Bangladesh has economic base to develop through the export-led growth strategy. As per the views of Professor Kuznets (1968) that trade involvement of any economy is inversely related to the size of the country. Under this purview the size and compactness of Bangladesh economy is similar to those of Japan, Korea, Malaysia, Indonesia and Taiwan. So her size is suitable for export-led growth.

The financial institutions of the country have developed through nationalised and private banking system. But it is lacking educated labour force and political stability. It has established duty free export zones but their development process is very slow. As per the World Bank study (The World Bank, 1987, p.83) the trade policy of the Government is strongly inward oriented.

8.6 EXPORT AND ECONOMIC DEVELOPMENT IN THE CONTEXT OF BANGLADESH

A good number of empirical studies demonstrate that exports and economic growth are closely associated. Since exports are a component of aggregate output one would expect a positive association in terms of correlation coefficient (Kravis 1970, pp.850-872).

Exports usually have two impacts on GNP of the country: first it directly contributes to GNP and secondly it indirectly induces national products by encouraging investment, savings,

productivity and by shifting resources from less efficient to more efficient sector. Moreover exports enhance capacity utilization, help to reap economies of scale and provide incentives for technological improvements.

Usually the indirect effects of exports bring multiplier expansion of GNP through time lag process. That is current year GNP production is influenced by the previous years exports. From better performance of Bangladesh exports it may be presumed that the expansion of GNP in any year is related to the export performance of the previous year. This proposition has been examined by the equation $Y_t = f(X_{t-1})$... (1)

Where Y_t = GNP in year t, and X_{t-1} = export receipts in year t - 1. Our statistical findings show that the GNP of the country during 1972-73 to 1985-86 is significantly explained by the export receipts during that period. The R^2 and t - value are highly significant which indicate a positive association between GNP and export receipts.

The above proposition is supported when per capita GNP is considered as a function of export through equation:

$$Y_t = f(X_{t-1}) \quad \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Here Y_t stands for per capita GNP in year t and X_{t-1} stands for exports receipts in year t - 1. Here the significant value of R^2 and t - value show that per capita income is positively associated with export receipts of previous year.

Thirdly we assume that the expansion of GNP in any year is a function of export receipts and investment in the previous

year. That is $Y_t = f(X_{t-i_2}\ I_{t-1})$..... (3).

Where I_{t-1} stands for investment in year t - 1. Here the highly significant value of R^2 and t - value support the view that the expansion of GNP in any year is explained by investment and export receipts in previous year. The statistical findings of the above three equations supported the hypothesis that the growth of GNP is led by the growth of exports in Bangladesh. Table 8.1 represents the results of our computation.

Export expansion generates additional real income by reducing the misallocation of resources and bringing spare capacity into use. In export promoting countries domestic savings rise because higher than average share of income generated by exports is saved. The capital market in export promoting country starts advancing and real interest rates improve. This induces savings and investment. Again investment may be financed by foreign savings as well as by domestic savings. Export sector attracts foreign capital which increases investment. Further more attractive profit in export sector induces investment. From this relationship it is clear that export growth raises investment with a time lag in export expanding country. We test this hypothesis in case of Bangladesh by equation

$$I_t = \varphi(X_{t-1}) \quad \text{..... (4)}$$

Here I_t stands for investment in year t and X_{t-1} stands for export receipts in year t - 1. Our statistical findings show that the investment in any year is a function of export receipts in previous year. That is the growth of investment in Bangladesh in any year is induced by the growth of exports in

Table : 8.1

The result of regression analysis

Equations	R^2	F.Statistics	D.W.Statistics
1. $Y_t = 4276.80 + 16.8424\ X_{t-1}$ $(21.2938)^*$ Y_t = GNP in year t, X_{t-1} = Export receipts in year t - 1	0.97417	453.428	2.1852
2. $Y_t = 632.322 + 1.3926\ X_{t-1}$ $(14.6817)^*$ Y_t = Per capita GNP in Year t, X_{t-1} = export receipts in year t-1	0.947265	215.551	1.8546
3. $Y_t = 4I\ 89.22 + 11.0492\ X_{t-1} + 0.2570\ I_{t-1}$ $(4.18211)^*$ $(2.26959)^{**}$ Y_t = GNP in year t, X_{t-1} = export receipts in year t - 1, I_{t-1} = Investment in year t - 1	0.98244	307.714	2.5328
4. $Y_t = 10651.0 + 13.9068\ X_{t-1}$ $(2.61879)^*$ Y_t = investment in year t, X_{t-1} = export receipts in year t - 1	0.7467	18.858	1.1402

Note: Value in parenthesis indicate t- value
* Significant at 1 percent level
** Significant at 5 percent level

previous year.

8.6.2 EXPORT MULTIPLIER IN BANGLADESH

Foregoing analysis investigated export development relation in the context of Bangladesh by regression analysis. Now we shall try to find out the value of export multiplier in the economy of Bangladesh. It may be assumed that export induces national income in Bangladesh by its multiplier operation. The export sector is more advanced in the country and it is expanding at a higher rate than any other sector of the economy. S.Reza (1981) has shown that the factor productivity is higher in export sector than that in import substituting sector. "Industrial exports of Bangladesh can be expected to create more income and generate more employment as compared to industrial import substitution (S. Reza 1981, p. 340)". The rapid development of export sector in the economy tempted us to infer that export expands national income by multiplier operation.

Conceptual Analysis:

In a closed economy national income will be in the form of investment goods (I) and consumption goods (C). So $Y = C + I$ ..... (1). The income earned in the production process can either be spent on consumption or not spent at all. The residual part that is not spent is called savings (S). Thus $Y = I + S$ .....(2). From (1) and (2) : $C + I = C + S$, Hence $I = S$.

If the domestic multiplier or investment multiplier is

denoted by K then $K = \frac{dy}{dI} = \frac{dy}{dy-dc} = \frac{1}{1-MPC} = \frac{1}{MPS}$

The total change in equlibrium income resulting from the initial investment change dI is given by $dy = dI \times \frac{1}{MPS}$

In an open economy exports are similar to investment and constitute an injection into the income stream while imports like savings become leakage out of the stream. Now Y takes the form of : $Y = C + I + X$ ..... (3). Where X stands for exports. Likewise income is spent on consumption of domestic goods or on import (M) or remained unspent viz. saving. So $Y = C + S + M$ .....(4). From (3) and (4) the following identity is obtained:

$$I + X = S + M$$

or $S = I + X - M$; $M = I + (X - S)$.

A straight line import function portrays constant marginal propensity to import(MPM). This is the slope of the import function. So in an open economy MPC + MPS + MPM = 1. Now an increase in export (dX) will increase national income (dy) and this increase in national income will be determined by the slope of the (S + M) function. $\frac{dx}{dy}$ = slope of (S + M) function = MPS + MPM or $\frac{dy}{dx} = \frac{1}{MPS + MPM}$ which is the export multiplier or foreign trade multiplier. But $S = MPS = \frac{ds}{dy}$ so $ds = sdy$ and $MPM = m \frac{dM}{dy}$, so $dM = mdy$.

If there is a change in any of the four variables of the identity: S + M = I + X the change in one side of the expression must equal the change in the other side as a condition for reaching a new equlibrium.

$$\text{Hence } ds + dM = dI + dx$$

$$\text{or } sdy + mdy = dI + dx$$

$$dy\,(s + m) = (dI + dx)$$

$$dy = \frac{1}{s + m}\,(dI + dx)$$

$$= \frac{1}{MPS + MPM}\,(dI + dx)$$

If dy' is the change in income due to change in exports (dx) only then $dy' = \frac{1}{MPS + MPM}\,dx$ i.e. $dI = 0$

The export multiplier for Bangladesh is calculated by adopting the above formula. On account of availability of required data and their reliability the period is covered from 1974-75 to 1985-86. The results are presented in table 8.2. Our findings show that in almost all the years of the said period the value of export multiplier was more than one. Only in 1976-77 its value was less than one. In this year the GDP of the country decreased over previous year at current price and also at constant price. The contribution of trade services to GDP also decreased over previous year. This was caused due to agricultural crop failure along with political instability and change in outlook of the government from socialistic economy to mixed economy.

From the export multiplier value it can be inferred that one unit increase in export results into more than one unit increase in national income. That is multiple expansion has taken place in national income due to each unit increase in export.

Bangladesh is a capital hungry economy with vast unemployed human and natural resources. These vast resources are untapped due to lack of adequate capital as well as narrow base

of domestic market. The narrow base of domestic market results from low per capita income which causes low level of consumption and small territory in comparison with total population (10.2 crore with density of population of 701 per Km^2 in 1985-86). This situation postulates the dependence of the country on foreign market for imports of capital equipment and for export of output. Any increase in her exports raises income of export industries which ultimately raises per capita income. Consequnetly the purchasing power goes up which provides incentive to production units. On the other hand rise in income increases investment via enhanced savings. Thus multiplier expansion of GNP takes place.

Similarly when export increases the import capacity of the economy increases. As a result the country can import more capital equipment for investment as well as foreign capital penetrates for attraction of higher profits in export regime. Thus export multiplier becomes operative.

The growth of garment industry in the economy of Bangladesh is a pragmatic example of the operation of export multiplier. The garment industry is cent percent export oriented. Its growth was tremendously rapid. This sector expanded through multiplier operation.

So the foregoing analysis proved that export multiplier is operative in Bangladesh. That is the exports contribute to GDP growth by more than just the changes in the valume of exports. Some empirical studies conducted by Balassa (1978), Heller and Porter (1978), Michaely (1977), Michalopoulos and Jay (1973) and Tylor (1981) have argued that exports contributed

Table : 8.2

The value of export multiplier and growth of GDP in Bangladesh during 1972-73 to 1986-87

Year	Export multiplier	GNP growth at constant factor cost	% share of agri.in GDP at 1972-73 constant price	% share of Industries in GDP at 1972-73 constant price
1972-73	na	10.8	57.86	6.42
1973-74	na	10.8	57.01	4.75
1974-75	11.11	4.9	57.58	10.48
1975-76	4.17	7.5	54.30	10.01
1976-77	0.19	1.7	51.96	10.29
1977-78	4.17	7.4	56.16	9.81
1978-79	2.27	4.5	49.95	10.67
1979-80	3.85	2.0	49.39	10.75
1980-81	1.45	7.0	48.72	10.61
1981-82	7.14	1.1	48.72	10.69
1982-83	1.49	5.4	49.24	10.15
1983-84	12.50	3.6	48.00	10.10
1984-85	1.96	2.4	46.72	10.05
1985-86	6.67	5.1	46.27	9.80
1986-87	na	5.1	44.99	10.08
		Average annual growth (%)		
1972-73 to 86-87			2.84	7.76
1972-73 to 79-80			3.03	12.08
1980-81 to 86-87			1.87	2.27

Note : na : required data are not available.
Source: Calculated on the basis of Appendix table and Economic Trads, March 1988, Bangladesh Bank, Dhaka.

more to GDP growth. Gershon Feder (1982) has shown that export sector not only generates growth by increases in aggregate levels of labour and capital but also by the reallocation of existing resources from less efficient non-export sector to the higher productive export sector.

8.6.3 CAUSALITY BETWEEN EXPORT GROWTH AND INDUSTRIAL DEVELOPMENT IN BANGLADESH

Our previous findings of export multiplier and relation between exports and GNP demonstrate that the growth of exports contributes to growth of GNP. This is also supported by the fact that economic transformation is taking place in Bangladesh. The share of agriculture in GDP decreased from 57.86% in 1972-73 to 44.99% in 1986-87 against the increase in share of industry from 6.42% in 1972-73 to 10.08% in 1986-87. The average annual growth rate of GDP was 2.8% during 1965-80 and 3.6% during 1980-85. Against this GDP of industry increased by 3.8% in former period and 4.7% in latter period per annum. During the former period the average annual growth of export was 7.1% per annum (World Development Report 1987).

The share of manufacturing exports in aggregate exports of the country increased from 55.81% in 1972-73 to 63.46% in 1985-86. The share of non-agricultural sector in total employed labour force increased from 15.4% in 1961 to 41.2% in 1983-84. Against this employment of labour forces in agriculture decreased from 84.4% in 1961 to 58.8% in 1983-84 (Statistical year book of Bangladesh 1986, pp.191). Available statistics

show that employment indices of industrial workers increased in 1984-85 considering 1976-77 as base in industries like jute, cotton, paper, steel, cement, fertilizer and petroleum products. Although employment statistics for garment and specialised textile industries are not available, their rapid growth undoubtedly has increased employment in manufacturing sector of the country. Our previous analysis state that export has made substantial contribution to GNP growth of Bangladesh. But they could not say anything about the specific contribution of export to industrial development of the country.

To determine the role of export in industrial development the test of causality between the growth of exports for manufacturing goods and development of manufacturing industries we have used the data of manufacturing exports and GDP of industries during 1972-73 to 1986-87 at current prices. Our purpose is to empirically test the proposition that there is a causal relationship between expansion of exports of manufacturing goods (x) and growth of manufacturing outputs (MMG) in Bangladesh.

Granger (1969, pp.242-238) has given a definition of a testable kind of causal ordering based on the notion that "absence of correlation between past values of one variable X and that part of another variable Y which cannot be predicted from Y's own past implies absonce of causal influence from X to Y". Marlow and Manage (1987, pp.248 - 249) state his definition as forecasts of a dependent variable Y using both lagged values of Y and lagged values of another variable X yield

better forecasts than forecasts solely based on lagged values f of Y, then X is said to cause Y. In other words if $\sigma^2(Y/\bar{X}, \bar{X}) < \sigma^2(Y/\bar{Y})$ then X causes Y.
The expression $(Y/\bar{Y}, \bar{X})$ represents the variance of the forecast error of Y obtained from the lagged values of both Y and X and the expression $(Y/\bar{Y})$ represents the variance of the forecast error Y based solely on lagged values of Y. Accordingly if $\sigma^2(X/\bar{X}, \bar{Y}) < \sigma^2(X/\bar{X})$ then Y causes X.
Two-way causality occurs when simultaneity exists between Y and X. Causation runs from X to Y and from Y to X. Other terms used to describe this form of inter-dependence include bidirectional causality and feedback. Two-way causality occurs when

$\sigma^2(Y/\bar{Y}, \bar{X}) < \sigma^2(Y/\bar{Y})$ and

$\sigma^2(X/\bar{X}, \bar{Y}) < \sigma^2(X/\bar{X})$ occur simultaneously. Sims (1972, pp. 540-552) took idea from Granger (1969, pp.428-438) with some modification. According to his definition"one can regress Y on past and future values of X, and if causality runs from X to Y only, future values of X in the regression should have coefficients insignificantly different from zero as a group" (Sims 1972, pp.545).

Chow (1987) has tested Sims causality between the growth of exports of manufactured goods and development of manufacturing industries in the newly industrialising countries (NICs). He used data on exports of manufactured goods for each country derived by substracting non-ferrous metals (SITC 68) from the sum of SITC 5 to 8. Due to non-availability of data in this form in case of Bangladesh we have used data on total manufacturing exports and GDP of industries.

Testing for causal relation between export growth and industrial development in Bangladesh will have important implications for development strategies. If there exists definite unidirectional causality from export expansion to the development of manufacturing industries ($X \rightarrow MFG$), the country may adopt the export-led growth strategy. In this case export will promote the growth of national income along with leading to structural transformation of the economy. If causal relation exists in opposite direction ($MFG \rightarrow X$) then it would imply that the development of manufacturing industries may be a pre-requisite for economy to expand her export. If causal relation is bidirectional ($X \rightleftarrows MFG$) then export growth and growth of manufacturing industries have a reciprocal causal relationship. Bidirectional relationship means that the growth of manufacturing export and GDP are supplemented by each other. Growth of manufacturing export supplements the growth of manufacturing GDP and at the same time the growth of manufacturing GDP supplements the growth of manufacturing export. However, if there exists no definite causality between export growth and development of manufacturing industries then alternative strategies rather than export-led growth strategy may be needed for economic development.

Econometric Model of Causality:

Sims has developed a practical technique of testing causality in a biveriate model. The definition of causality given by Sims is used by Chow. Chow uses the following linear equations with distributed lags:

MFG = f (X, 3 past lags and 3 future lages of X).....(1)

MFG = f (X, 3 past lags of X) .....(2)

X = f (MFG, 3 past lags and 3 future lags of MFG)...(3)

X = f (MFG, 3 past lags of MFG) .....(4)

Here MFG stands for output of manufacturing industries and X stands for export of manufactured goods.

In order to test the hypothesis that "coefficients for future values of idependent variable are jointly equal to zero" (Chow, 1967, pp.58). F statistics as used by Chow are calculated in the following way:

$$F = \frac{(RSS_2 - RSS_1) / (df_2 - df_1)}{RSS_1 / df_1}$$

Where RSS_1, RSS_2 are residual sum of squards of equations (1) and (2) and df_1 and df_2 are degrees of freedom in (1) and (2). For equations (3) and (4) the same procedure is followed. Here MFG is the independent variable and X is the dependent variable.

As regression analysis of time series data is very likely to exhibit auto-correlation among residuals a pre-filtered treatment of all variables was conducted. Sims suggested a filter of $(1 - 0.75L)^2$ where L, L^2 are lag operators. Regarding using this filter Sims argued that "this filter approximately flattens the spectral density of most economic time series" (Sims, 1972, pp. 545) and hoped that regression residuals would be very nearly white noise with this prefiltering". A white noise is defined as a serially uncorrelated process. Hsiao (1979) and Geweke (1979) commented that results of causality tests are

similar and qualitative conclusion are not affected by using different filters.

However, we have used the filters as suggested by Sims and replaced Y_t by $Y_t^* = Y_t - 1.5\ Y_t + 0.5625Y_{t-2}$ and so is variable X_t replaced by X_t^*. Therefore two degrees of freedom are lost to accommodate the requirements of white noise residuals. Another three and six degrees of freedom are lost in equation (2) and (1) and (4) and (3) respectively due to the arrangement of distributed lags.

Empirical Findings:

Looking at the results given in table 8.3 we notice that none of the regression coefficients is statistically significant. Further, introduction of future lags does not improve the explanatory power of the regression in equation (1) as well as in (3). The regression coefficient of future lags in equation (1) are all statistically insignificant. Quoting from Sims in this connection we have "In applying the F - test for causal direction... one should bear in mind the absolute size of the coefficient is important regardless of the F - value. It is a truism too often ignored that coefficients which are "large" from the economic point of view should not be causally set to zero no matter how statistically "insignificant" they are. Thus the fact that future values of the independent variable have coefficients insignificantly different from zero only shows that unidirectional causality is possible" (Sims 1972, p. 545). Using this argument we argue that as the F - ratio indicates a significant causal relationship running from exports to industrialisation, export-led

Table : 8.3

The results of causality test between growth of exports and development of industries in Bangladesh

Eq. No.	Dependent variable	Constant term	Regression coefficients of X_t	X_{t-1}	X_{t-2}	X_{t-3}	X_{t+1}	X_{t+2}	X_{t+3}	F-ratio with D.F.	Causal inference
1	MFG	492.31	-2.7 (-1.23	-6.4 (-1.47)	-2.3 (-0.62) R^2= 0.8062	-3.2 (-0.66)	2.1 (0.77)	4.1 (1.86)	1.5 (1.10)		
2	MFG	60.20	0.98 (0.69)	0.11 (0.85)	3.57 (3.38) R^2 0.9493	0.71 (0.21)				25.61 (4.7)	X→MFG
			MFG_t	MFG_{t-1}	MFG_{t-2}	MFG_{t-3}	MFG_{t+1}	MFG_{t+2}	MFG_{t+3}		
3	X	1003.1	0.2 (0.85)	-30.0 (- 1.47)	-0.5 (-0.28)	0.8 (0.37) R^2= 0.7850	1.6 (1.41)	0.9 (0.57)	7.4 (1.55)		
4	X	142.13	7.88 (1.44)	0.31 (0.41)	0.65 (0.74) R^2 = 0.9317	-0.75 (-0.66)				-1.43 (4,7)	No causality

Note: Value in parenthesis below X/MFG indicates t - value.

growth strategy has a fair chance of success in Bangladesh inspite of statistically insignificant regression coefficients.

Chow has shown that there is bidirectional ($X \rightleftarrows MFG$) causality between export and manufacturing GDP in the case of Brazil, Hongkong, Israel, Korea, Singapore and Taiwan and there is unidirectional causality from export ($X \longrightarrow MFG$) to industrial development in case of Mexico and there is no causality between export and industrial development in case of Argentina.

In Bangladesh two causes might be put forward to explain the absence of causality process from industrial development to export growth. Firstly the industrial development of the country is more export-oriented and secondly the industrial base of the country has not been matured enough to induce export.

The causality runs from exports to industrial GDP which is also supported by the fact that the share of manufacturing exports in industrial GDP of the country rose from 39.32 percent in 1975-76 to 46.21 percent in 1985-86. The unidirectional causality from export expansion to industrial development ($X \longrightarrow MFG$) supports that Bangladesh may follow export-led growth strategy. Her exports will not only promote the growth of national income but also lead to structural transformation of the economy.

8.7 SPECTRUM OF WORKABILITY OF EXPORT-LED GROWTH STRATEGY IN BANGLADESH

The foregoing discussion raises a central question whether export-led growth strategy would work for Bangladesh.

The findings of the study like better performance of exports, growing relative importance of manufacturing exports, its structural change from primary commodities to manufacturing commodities, emergence of some new export items, increasing import capacity of exports, increasing contribution of exports to GDP, rising share of manufacturing exports to industrial GDP, positive association of GDP growth with export growth, operation of export multiplier, the causality between export growth and industrial development and increasing trend of production of export commodities tempt us to have assertion that export-led development strategy should work for Bangladesh. It would not be unreasonable if it is argued on the basis of past performance of the sector that export growth has already been leading economic development of the country. Keeping similarity with export promoting countries some structural changes in regard to rising share of industrial GDP, enhancement of employment in industrial sector and structural change of exports are taking place in the economy.

The income elasticity of demand of her exports is more t than unity in a good number of major importing countries. From this we may hope that demand of her exports in importing countries will be rising with growth of their GNP. Also higher export elasticity of her exports during latter period indicates that the competitive position the country is improving with the passage of time.

But our hopes dismantle when we look at the stangnant stage of production of some major export commodities like raw

jute, jute manufactures and fish. Over a long period of time the productivity as well as aggregate production of these items have remained stagnant. If productivity of raw jute and jute goods increased it could raise her competitiveness in the international market. Above all the possibility to expand export of jute items is very less except specialised textile based on jute and jute carpet. However, the TIP (Trade and Industrial Policy) studies of the Government herald a wide range of product lines with prospects for significant export expansion.

Readymade garments hold promise for further rapid growth through product diversification, market expansion and increasing domestic value added through backward linkages.

Even though Bangladesh has achieved a very impressive growth in shrimp exports, possibilities for further multifold expansion have not been exhausted. Still enough scope is lying in this sector. Considering its potentialities Government has declared it a thrust sector.

The other prospective sections like footwear, specialised textile, leather and leather products, electronics, engineering and electrical goods, jute and woollen carpets etc., seem to possess enough scope for export expansion. But to reap the benefit of these prospective sectors huge quantum of capital will have to be invested in these lines of production. Here the role of domestic as well as foreign capital is inevitable. The domestic capital formation and the investment of foreign capital are conditioned by infrastructural development and finally overall economic policy of the country.

Developed financial institutions, skilled and educated manpower, developed transport, communication and shipping facilities, social peace and security and political and economic stability etc., are the components of infrastructural development. Economic, fiscal, monetary, export and import, industrial and agricultural policies of the Government are important instrument to it.

Among these components Bangladesh has been able to develop her financial institutional facilities with the combination of nationalised and private banks of domestic and foreign ownership. Still she will have to develop them further to meet the growing needs of the advancing world. Her transport and communication network, shipping and port facilities have been developing. However, this process should be accelerated.

Above all the role of government is no way less important. Moreover, the government policy is the ultimate determinant of all factors in a planned economy like Bangladesh.

Government commitment and efforts through different policies to provide effective incentives for export promotion are vital issues for export growth. But our study reveals that prevailing export promotion measures are not sufficient in this regard. The present trade policy of the government gives more incentives for import substitution rather than export promotion. As per World Development Report 1987 Bangladesh has been following strongly inward oriented development strategy. If she follows outward oriented trade strategy she should be able to achieve better export performance. As a late comer she will have

to face competition from export leading countries. Still she will have compagative advantage in labour intensive manufacturing products over those countries due to cheap and surplus labour forces. Empirical evidence of garment industry indicates that if proper training and knowhow is provided, the labour force of the economy can work very efficiently in any assignment. So further more, through skill acquisition and technological development she will be able to reduce her production cost further and improve quality of production. Besides the comparative advantages have shifted from labour intensive production line to capital intensive production in export promoting countries like Japan, Republic of Korea, Singapore, Hongkong, Taiwan, Malaysia and Indonasia which would provide some opportunity for Bangladesh.

Historical evidence demonstrates that Export House has been playing vital role in export promotion in export oriented countries. Though late Bangladesh has decided to establish export house in private and public sectors.

Experiences of export oriented countries highlighted that a good and efficient administrative system of those countries help export growth growth by minimising official formalities and quickly disposing off of matters related to exports.

In this respect Bangladesh lacks an efficient administration. In her bureaucratic system there still exist many elements of redtapsim which elongate the process of export shipment and ultimately hinder growth.

What hinders export-led development strategy are social unrest and political and economic instability. These factors discourage domestic as well as foreign investment.

The improvement of commodity terms and income terms of trade of the country signalises the possibility of export-led growth strategy being effective. Our findings of the improvement of terms of trade in Bangladesh have been supported by the world Development Reports which has shown that Bangladesh terms of trade has improved during 1980-87 over base year 1980. In compliance with Kuznet's (1968) argument that trade involvement of an economy is inversely related to its size, Bangladesh possesses a compact and suitable size for expor-led growth.

Foregoing analysis holds that Bangladesh have both favourable and unfavourable factors for export-led development strategy. Favourable factors are prominant and economic and unfavourable factors are mostly non-economic in nature and may be removed by policy decisions. If the country can remove the hurdles on the way, export-led growth strategy will work for her smoothly.

8.8 SUMMARY AND CONCLUSION

Theoretical, historical and empirical foundation of export and development relation holds that export works as an engine of growth. In the past export had worked as engine of growth in many developed countries and in the present it has been playing the same role in many developing countries. Export not only contributes to GDP growth but also transforms the economy

and brings about a structural change.

The empirical findings in case of Bangladesh confirm that export is playing pivotal role in the development of the country. It is contributing to GDP growth and industrial development of the country. It is bringing structural change by transforming the economy.

The relationship established by empirical findings confirm that the export-led strategy of development is likely to work in the economy of Bangladesh, if she can remove the administrative and other non-economic hurdles.