

CHAPTER : 9

SUMMARY AND RECOMMENDATIONS

Pre-independence trade of Bangladesh was divided into two parts: interwing trade with West Pakistan (present Pakistan) and foreign trade with other countries. The significant feature of her trade during this period was that Federal Government located at West Pakistan used foreign trade as instrument to exploit Bangladesh (i.e East Pakistan). Bangladesh had a surplus balance of trade in almost all the years while West Pakistan as well as Pakistan as a whole had a deficit balance of trade with foreign countries.

On the other hand Bangladesh had deficit in balance of trade with West Pakistan. The surplus foreign exchange earnings of Bangladesh were used to finance the developmental imports of West Pakistan. West Pakistan's export to Bangladesh was a trade diversion in the sense that they replaced the cheaper imports from elsewhere. This was done by discriminatory trade policy of the government. Trade was used as a mechanism of resource transfer from Bangladesh to West Pakistan. The trade policy was so designed that it restricted developmental imports of Bangladesh and helped industrialisation of West Pakistan. It used Bangladesh a neocolonial market of industrial output of West Pakistan and restricted her industrial development. During the whole period of about 25 years Bangladesh exports were dominated by jute items and no structural change took place in it. "Foreign trade is one of the many indices by

which a country's economic progress can be measured. A increase in a country's foreign trade usually indicates its advance in economic efficiency." (Vershney 1954, p.1). The foreign trade of Bangladesh (the then East Pakistan) indicates her backward stage of economic development during pre-independence period.

During post-independence period Bangladesh exports showed an increasing trend. However, her imports were increasing at a faster rate than her exports. Her imports rose by 20.2 percent per annum against 18.29 percent rate of increase of her exports at continuous compound rate. That is her export was lagging behind her imports with regard to growth. However, the growth rate of import was decelerating at a higher rate than her export. During 1980-81 to 1986-87 the growth rate of export was higher than that of her imports.

Among some Asian countries exports as percentage of imports increased in Japan, Indonesia, Republic of Korea, Singapore and Hongkong and decreased in Bangladesh, India, Pakistan, Malaysia, Sri Lanka, Thailand and the Philippines.

Bangladesh imports were dominated by food items (rice and wheat). The rapid population growth (2.6 per cent) and low productivity of agricultural sector was enlarging the gap between domestic production and requirements of food. To prevent food imports the first and foremost task of the country is to evolve a suitable strategy to increase food grain production and to slowdown population growth. Bangladesh is mainly an agricultural country. There is enough potential for achieving

a high level of growth in agricultural production. With proper management of abundant water resources and land use planning the country can easily become a food surplus economy. If the economy can achieve self-reliance in food production a large amount of foreign exchange can be made available for industrial development. So drastic programme should be adopted to increase food production of the country on priority basis.

Bangladesh's share in the aggregate exports of the world decreased from 0.075 percent in 1973 to 0.049 percent in 1984. Her share, however, was increasing in the aggregate exports of the Developing Market Economies and Least Developed Countries. The insignificant share of the country in World aggregate exports exhibits that Bangladesh possesses easy scope to increase exports in the international market.

Bangladesh occupied 11th position with regards to average annual growth rate of her exports among 12 selected Asian export promoting countries. So her export performance is lagging behind export promoting countries of Asia. She has to expedite further the growth of her export by taking positive measures to increase supply of and world demand for export commodities.

Bangladesh faced an unfavourable balance of trade during 1972-73 to 1985-86. The deficit in her balance of trade was increasing over the period. The average annual rate of increase of deficit in her balance of trade was higher (38.42 percent) during 1972-73 to 1980-81 than that (10.54 percent) during 1981-82 to 1985-86. This deficit in her balance of trade had a negative impact on the growth of national income and investment

of the country. So the economy has to take steps for export promotion and import substitution. "Export promotion and import substitution are neither mutually exclusive nor alternative strategies of development. They represent two sides of the same coin" (M/o Commerce, Government of India, December 1984, p.82). However, preference will be given in favour of export sector. Besides measures should be adopted to reduce import contents of exports through backward integration.

Like food items, import of fuels put heavy pressure on foreign exchange earnings. The country has sufficient quantum of gas deposits and abundant water resources. Development of gas and water resources and multi-purpose use of gas and water power will reduce fuel imports. Moreover, expert opinions hold that Bangladesh has enough deposit of oil resources. So far some insufficient measures have been taken to discover these resources and extraction is going on in one mine area. Extensive measures are needed to exploit these resources for economic development.

The commodity terms of trade and income terms of trade of Bangladesh was favourable during 1972-73 to 1985-86. These favourable terms of trade induce national income and investment in the economy. These favourable terms of trade are not a guaranteed phenomenon. The world is very much competitive and innovative. So the country has to attempt to increase her competitiveness by reducing production cost and improving quality of output further. Skill and technology development programmes will be the pioneer in economy in this context.

Among different types of commodities of Bangladesh exports, the relative importance of consumer goods, capital goods and material for capital goods is rising in national aggregate exports. However, the capital goods and material for capital goods represent very small percentage (on average 0.9 percent each) of aggregate exports. This indicates that the country is still in the primary stage of economic development.

Among BSTC sections the export receipts as well share in aggregate exports of the country was increasing for food and live animals, miscellaneous manufactured articles and chemical and related products NEC. But the share of the last section in national aggregate exports was very small.

Bangladesh export was dominated by jute items immediately after independence as was the case during the pre-independence period. But the share of jute items in aggregate exports of the country was decreasing while the share of non-jute items was enhancing over the period. This was due to the emergence of some new non-jute export items and decline in demand for jute-items in international market. It has been observed that when Bangladesh exports are classified under traditional and non-traditional items, the share of the former was declining by 2.28 per cent per annum while the share of the latter was increasing by 3.96 percent per annum in aggregate exports. Similarly the share of primary commodities was reducing while the share of manufactured commodities was increasing in aggregate export of the country. This shows that some structural changes are taking place in export composition of the country after independence.

These structural changes in exports though slow are appreciable under purview of economic development. To sustain this trend of structural change more massive measures are recommended to increase the production of export commodities at low cost with high quality which possess potentialities for further expansion. Also measures should be taken to diversify production lines by tapping unutilised resources of the economy.

Among major export items the share of raw jute and jute goods was declining while the share of garments, shrimps and prawns, leather and leather products and tea was increasing in the aggregate exports of the country. Here two features of Bangladesh exports are noticeable: the number of export items that are considered as major with regard to their contribution to aggregate exports are very few in number and among them two major export items (raw jute and jute goods) are losing their relative importance due to sharp competition of synthetic products. Apart from competition from synthetics Bangladesh jute will have to face growing competition from the rising output of Kenaf grown in Thailand. So Bangladesh has to formulate a long term jute policy. The country has to increase her competitiveness in international jute and jute goods market by reducing production cost, enhancing productivity and improving quality of production. She should not proceed to increase area under jute cultivation because this will shrink the area under rice cultivation which will again raise food deficit. Here measures to increase land productivity and reduce cost of production are appreciable. Moreover, to avoid the competition the use and production of jute goods should be diversified.

One scientific research has proved that the jute stick can be used as raw materials to produce high quality paper. Besides this jute based specialised textiles and carpets are alternative uses of jute. In this context the available alternative use of jute should be exploited and more scientific research should be conducted to explore further diversification of jute products.

The exports of Bangladesh garments were increasing at a rapid rate. But introduction of quota system by some developed countries along with USA has slowed down the growth of her garment exports. Now the country has to diversify the production of garments and find out markets in other developed countries if she wants to increase exports of garment.

The exports of tea, leather, prawn and shrimps have been increasing during the period under review. Almost all these commodities have potentialities for further expansion.

The share of the following export items of Bangladesh was increasing in their respective world aggregate exports:

<u>SITS code</u>	<u>Commodities</u>
035	Fish salted dried, smoked
036	Shell fish fresh, frozen
074	Tea
264	Jute
611	Leather
651	Textile yarn
658	Textile articles, NEC
642	Outer garments (not Kit)
844	Under garments (not Kit)

The continuous compound rates of growth of these export items of Bangladesh was higher than that of their respective world exports during 1976 to 1985.

This finding suggests that the competitiveness of the country has increased with respect to the above export items. If she can sustain the competitiveness her exports of these commodities will be increasing in future.

The commodity concentration of her exports was declining very slowly with development of the country. Still few major export items contribute the lion share to aggregate exports of the country. The country should try to disperse her export commodities through diversification of export production in the existing potential lines and also explore market for new export items.

When the direction of Bangladesh exports is analysed it is observed that the Asian region excluding Middle East had the highest share in her aggregate exports in 1985-86 which was followed by EEC countries, American region and African region respectively. The share of Asian region excluding Middle East and American region was rising while the share of EEC countries was almost constant. Though the share of some regions in her aggregate exports was declining; total export receipts from each region was increasing. The number of countries whose individual share in the aggregate exports was 2 per cent and above in 1985-86 was 12. The contribution of these countries together increased from 53.95 percent in 1972-73 to 97.99 percent in 1985-86. The number of countries whose individual share in her

aggregate exports in 1985-86 was more than 0.95 per cent was 21. Total share of these countries increased from 70.29 percent in 1976-77 to 80.29 percent in 1985-86.

USA had the highest share in her aggregate exports which was followed respectively by Japan, Iran, Sudan, U.K., Italy and Pakistan in 1985-86. The countries whose individual share ranged between 3.14 per cent and 2.16 percent were Singapore, Belgium, USSR, China and Federal Republic of Germany. The average annual growth of her exports was the highest for Iran which was followed by Pakistan, Japan, China, Sudan, Singapore, Italy and USA respectively. Her export growth was the lowest for U.K. which was respectively followed by USSR, Belgium and F.R.G.

The export of jute manufacturing was increasing in all countries of 12 big importers except USSR during 1972-73 to 1985-86. Similarly the export of raw jute increased in all these countries except USSR. Garments export as well as its share was increasing in USA, U.K., Italy, Singapore and F.R.G., Only in Belgium its share as well as export was decreasing. Garments exports entered Japan in 1985-86 for the first time. The export of shrimps and prawns along with its share was increasing in USA, Japan, U.K., Singapore and Belgium. Its export was increasing with decrease in share in Italy and F.R.G. The exports of leather increased in Singapore, F.R.G., U.S.A., Japan, U.K., Italy, Belgium and China and decreased in U.S.S.R. The exports of tea was increasing in Iran, U.S.S.R., U.S.A. and Japan and was decreasing in U.K., Pakistan, Singapore and F.R.G.

Here two things are noticeable that major export items of

Bangladesh were gaining wider market in some big importer countries and losing market in other countries. The country should try to raise her competitiveness by reducing production cost and improving further the quality of production to sustain her market. Moreover measures should be adopted to expand market in other countries for her export commodities.

Out of 17 countries the average annual growth of Bangladesh export was higher than that of total imports (from Other than Bangladesh) of the country concerned for Japan, Iran Pakistan, Italy, Singapore, Belgium, F.R.G. and Netherlands during 1973 to 1984. It reveals that the performance of her exports was better in these countries than that of her competitors. On the other hand her export growth was lower than that of total imports of the country concerned for USA, Sudan, U.K., USSR, Canada, Australia, Egypt, India and Bulgaria. In these countries her export performance was worse than that of her competitors. Here two steps can be prescribed for Bangladesh: On the one hand the country has to accept measures to hold the competitiveness in the former countries and to increase competitiveness in the latter countries on the other.

The number of importing countries of Bangladesh exports decreased from 110 in 1972-73 to 100 1985-86. At the same time the coefficient of geographic concentration of her exports increased by 1.31 percent from 26.7 percent in 1972-73 to 27.05 percent in 1985-86. It is remarkable that no geographic dispersion of her exports took place during the period. This was so because the absorption of her exports was concentrating in

big importing countries. Geographic concentration of raw jute, jute goods, garments, leather and shrimps increased and that of tea and frozen fish decreased.

This finding supports the argument that the country has become successful in increasing exports only to major importing countries. So the country should have to take measures to increase exports to countries other than the major importers. The share of other countries in her aggregate exports is small. So if necessary measures are taken the country will easily be able to increase exports in the markets of other countries.

In Bangladesh export value index rose due to rise of export price index and quantity index. But export price index was more prominent. The exponential rate of increase of export price index was 4.14 percentage points higher than that of export quantity index. The average growth rate of export price index was higher by 4.49 percentage points than general price index which might have helped shift of goods from domestic market to foreign markets.

The export price of raw jute increased by 10.73 percent per annum with acceleration while its export quantity decreased by 2.03 percent per annum with retardation.

The export quantity and price of tea increased with deceleration and acceleration respectively. But the exponential rate of rise of its export price was 15.19 percentage points higher than that of export quantity. Both export price and quantity increased in case of prawns and shrimps, jute goods and leather. The export price of the above commodities increased

to the greatest extent due to devaluation of Bangladesh currency. In US dollar terms the export price of different commodities increased at lower rate. Our results supported the argument that there is a positive association between the change of export quantity and exchange rate of the country. That is devaluation has been successful, to some extent in increasing the export of the country. Above analysis shows that the quantity demand of raw jute in international market is shrinking. So the country needs to adjust her production level with internal and external demand. This again emphasises the crying need of a long run production plan for raw jute. Horizontal expansion of raw jute production should be restricted and only vertical development in production level may be recommended

Over-valued exchange rates hinder the export growth. So a stable real exchange rate is required to help the growth of export.

The production of and area under jute cultivation was fluctuating with almost static trend. Its yield per acre was increasing at a slow rate with acceleration. The acceleration in growth rate of yield per acre suggests that the country will be able to increase land productivity of raw jute. The fluctuating trend of total production has resulted from the dependence of production on natural rain-fall and climatic conditions. Modernisation and mechanisation of production methods of raw jute will be able to reduce fluctuations. Full utilisation of land productivity with modern inputs will help the economy to increase

production with smaller land area and to release some land from jute production to rice production. So sufficient measures are to be taken to modernise production pattern and to utilise full capacity of land productivity.

The production of tea was increasing in the country. Its production is to be accelerated further because its demand is increasing in the international market. To increase its production both horizontal and vertical expansive measures are to be taken. Because its horizontal expansion will only cover barren land which are not suitable for any other cultivation. The production of shrimps and prawns rose slowly. Their exports were increasing during the period under review by preventing supply in domestic market. This was done by higher price in international market. As sufficient steps were not taken to raise their production the increase in production was slow. But this commodity has tremendous potentialities from supply side and demand side. Recently government has declared this commodity as thrust area for expansion of exports. Also some positive measures have been prescribed. But they seem to be inadequate in comparison with potentialities present in this sector. So more effective and rapid steps are required to exploit the possibilities of this sector.

The production of jute goods was increasing slowly during 1972-73 to 1985-86. But it could not reach the level of 1969-70. Positive measures are to be taken for survival of this industry to increase factor productivity, improve quality of production and reduce production cost. Inefficiency of management and

workers are some of the major causes for an unsatisfactory performance of this sector. So skill development measures are to be taken to improve the situation of this industry.

The dependence of the country on foreign market for production of major export commodities was decreasing slowly during 1972-73 to 1979-80 but again was increasing during 1979-80 to 1985-86. During the latter period export of some commodities was increasing at a higher rate than that of their production. Thus production was lagging behind export. So production has to run fast to remove the constraint of export & growth on supply side.

The instability coefficient of Bangladesh export was declining over the period of time with the development of the country. The instability coefficient of export was less during post-independence period than that during pre-independence period. It was less for manufacturing export than that of primary exports. Similarly it was less during 1980-81 to 1985-86 than that during 1972-73 to 1979-80.

Bangladesh exports have instability on supply side and on demand side. But the instability in supply is more prominent. Fluctuation in production is the main cause of instability in supply. Production plan, mechanisation and modernisation of production pattern will help the economy to reduce instability on supply side of export. Enhancement of geographic dispersion and expansion of commodity markets will reduce instability in demand. Besides development of port and shipping facilities, advancement of financial institution and efficient administration

along with improvement of export quality are positively associated with stability of export. Instability in exports affect national income as well as level of investment of the country. So positive measures are most essential to reduce instability.

The export elasticity of her exports was less than unity (0.8029) during 1973 to 1984. But over the period of time her position in world market improved. Her export elasticity was more than unity (2.5703) during 1979 to 1984 and less than unity (0.5308) during 1973 to 1979. This indicates that export incentives have been successful to some extent in improving her position in the international market. So more effective export incentive measures will be able to improve further her position in the foreign market. This also highlights the possibility that if positive steps are taken then the country will be able to increase her share in world aggregate exports.

Among 12 selected Asian countries her export elasticity was less than that of all countries during 1974 to 1979 and more than that of Indonesia, Thailand, the Philippines, Pakistan and India during 1979 to 1984. This also shows her improved position over some countries of Asia during 1979 to 1984.

The income elasticity of her exports was more than unity in Iran, Sudan, Italy, Belgium, F.R.G., Netherlands, Bulgaria, Japan, Pakistan, Singapore and less than unity in USA, U.K., U.S.S.R., Canada, Australia, Egypt and India among 17 major importing countries. The average income elasticity of demand for her exports in these countries was 2.61. This finding

suggests that the demand of Bangladesh exports will be increasing at a higher rate than the growth rate of income in major importing countries. If Bangladesh can remove the hurdles on supply side her exports are likely to increase. Special measures are desirable to increase production of those commodities whose demand will be rising in the world market.

Trade policy of Bangladesh is heavily biased in favour of import substitution. The difference between real effective exchange rates (REER) and real trade weighted exchange rate (RTWER) reflects the average rate of nominal protection or assistance. This difference was 25.6 percent for import substituting activities and only 8.3 for non-traditional exports.

Little assistance to back-ward integration, inadequate assistance to sales in foreign exchange under international tender, instability in overall assistance level due to fluctuations in the wage earner's scheme (WES) premium, ineffective implementation of incentive measures, weak institutional support and administrative complexity are the major loopholes in the existing export policy. The main policy instruments used viz., the bonded warehouse system, duty drawback and export performance benefit (XPB) on gross exports, are all biased against backward integration. This is so because the exporter receives the full tax offset on the warehouse, imports on duty drawback only when he imports and not when he uses local inputs and because XPB on gross export basis provides no incentive to reduce the import content in such export products. Thus effective encouragement to backward integration of export

industries to increase domestic value added and net foreign exchange earnings is almost absent.

XPB has two drawbacks: Firstly the benefit it confers is dependent on the premium of the WES exchange rate over the official rate and given the current premium, the level of the XPB entitlement needs to be considerably larger if it is to serve the purpose. Secondly it is not a fully reliable instrument as the premium of the WES exchange rate it fetches is not stable. Moreover, the intended purpose of the net XPB system may be foiled if exporters purchase locally what has been imported by others. A major loophole in the bonded warehouse ss system is that it is liable to gross misuse. The main difficulties with the duty drawback system are the lengthy procedures for verifying the legitimacy of claims and the administrative discretion it gives to officials for such verification. The drawback system extended to domestic suppliers of inputs to export units is also inherently defective since it encourages these suppliers to import their own inputs to avail themselves of the drawback privileges.

On the basis of the foregoing analysis following broad recommendations are put forward to overcome the difficulties involved in existing export policies.

Government should proceed to reduce the existing policy bias against exports through an increase of export incentives simultaneously with a rationalization of the general level of ERPS for import substituting industries. It is true that unless the government takes effective steps to move towards a

rationalized structure of assistance for these industries, the heavily protected industries will continue to use a disproportionately large share of the nation's resources at the cost of the relatively more efficient sectors of the economy. Raising ERPs for export industries is not enough without simultaneously moderating the current very high ERPs for many import substitution activities. Also this reform needs to ensure that desirable inter-industrial linkages are established so that export industries do not turn into "free trade" enclaves.

It is necessary to ensure unrestricted access to imports of inputs for export units. To ensure this any restrictions that may apply to imports should cease if such imports are required by any foreign exchange earning activity. So instead of the present case-by-case or product-by-product approach, a mechanism should be evolved which automatically ensures full access to imports of necessary inputs.

The policy packages suggested for raising the ERP and ensuring unrestricted access to imports of inputs for export activities also needs to incorporate an essential feature to encourage backward linkages. If policy measures are so designed that exporters get more benefit if they substitute locally produced materials for imports, then they will be induced to buy locally made materials and pay more for such materials.

All possible arrangements should be made so that the exporters have easy access to bank credit.

Above all, it is recommended that a stability should be maintained in export assistance level so that exporters are

encouraged in these activities.

The performance of Bangladesh export processing zone (EPZ) is very poor and slow. The significant benefits to the country received in the form employment generation and foreign exchange earnings are either minimised or outweighed by heavy public infrastructure investment. So policy measures should be adopted to encourage more foreign investment to increase social benefit.

Different studies conducted by the Government have shown that Bangladesh has export potentials in readymade garments, wool and acrylic sweaters and other knitwears, specialised textiles, footwear and leather, leather products, electronics, engineering and electrical goods, ceramic tableware, jute and woolen carpets, processed fish and processed fruits. To utilise the potentialities in these export lines, the country has to increase production of these commodities at rapid rate in the domestic economy. Professor Deepak Nayyar (1987, p.85) states that "the domestic factors which constrain India's export are the costs of production, the pressure of domestic demand and the infrastructural or sectoral supply bottlenecks which coupled with non-price factors such as quality, have adversely affected the competitiveness of exports". This statement may be endorsed in case of Bangladesh. Production of most exportable commodities is increasing slowly in the economy. The domestic demand resulted from the rapid growth of population squeezed the exportable surplus of the economy. So measures are required to remove supply constraints.

The empirical findings in case of Bangladesh confirm that export is playing pivotal role in development of the country. It is contributing to GDP growth and industrial development of the country. It is also 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 ^{or} hurdles and institutional weakness and can establish social peace, security and political stability. These are non-economic factors. However they are the pre-conditions to create suitable environment for domestic as well as foreign investment.

Both external and internal factors play significant role in the export performance of Bangladesh. But the internal factors and policies are very much crucial and prominent in nature. So the country has to attempt to remove all domestic constraints on priority basis if she wants to follow the export-led growth strategy of development. To do so an integration of export policy with overall economic policy will be required. The performance of export sector is very much a function of the performance of the economy as a whole whether it is growth in the industrial sector and the agricultural sector or an alleviation of infra-structural bottlenecks and a comprehensive management of the economy in both the public sector and the private sector.

Innovation, technological development, continuous improvement of quality and reduction in cost are catalyst to

export promotion. A liberal access to imports of technology along with technological development through R. & D. will be ensured for continuous process of up-gradation of export production.

Export-led growth strategy of development is not an automatic process for economic growth. It will work only when the necessary suitable environment is created. So Bangladesh has to approach the way accordingly.