

## **Economic Policy Paper on Export Diversification Tools**

Diversification of export is a high priority area in the gov't's development strategy. It is increasingly recognized that accelerated development and diversification of country's exports is needed for easing the pressure on balance of payment situation and for the growth of more viable and efficient agricultural and industrial sectors for balanced development. Bangladesh has a sizable burden of foreign debt and is in urgent of foreign exchange resources for debt servicing and financing of expanded development projects. Employment opportunities need to be created through expansion of exports for alleviation of poverty. This will encourage savings and broaden the scope for investment.

In spite of heavy odds, Bangladesh has done fairly well in its export development efforts. Export earnings of Bangladesh have increased substantially over the years. The gov't. has recognized that there is a critical need to fully support and invest in export development and diversification.

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

In 1994/95, export earnings registered a phenomenal growth rate of 37.04%. At that time the gov't. redirected trade policy towards a competitive export oriented economy by liberalizing the trade regime. Taka was made convertible. Trade facilitation was made the centre piece of the reform agenda. Around this time there was a significant shift from jute centric export to RMG centric export. Gradually non-traditional items became more dominant as against traditional and primary commodities. Incremental export earnings have come mostly from the RMG sector in recent years. Concentration of export market is also quite visible with EU and USA accounting for almost 80% of Bangladesh's total exports. Our external sector was under considerable strain in 1998-99 when export growth decelerated to 2.9%, the lowest since 1990s. The devastating flood of 1998 and a slump in the prices of our commodities contributed to this decline. In the aftermath of 9/11, export earnings came down by 7.44% during 2000-2001. A positive development in the structure of export growth, which has important policy implications, relates to performance of the knit RMG sector. This sector has been able to demonstrate robust growth performance over the recent years.

Constraints faced by exporters in Bangladesh are multifarious. Lack of finance is identified as a major constraint. Small and medium sized exporters are found to be more severely affected by this constraint. Infrastructural constraint is perhaps the most serious bottleneck to expansion of export and investment augmenting activities in Bangladesh. Gov't. rules and regulations pertaining to exports are complicated and too much paper work is needed. Senior management's valuable time is spent with gov't. officials over interpretations and changes in laws and regulations. Exporters are required to pay extra money to customs officials for getting their export consignments checked. Payment is also to be made to port officials, power personnel, telephone service and airport personnel. Bribe is also required to be paid to other service personnel. The cost of doing business is very high. Absence of skilled manpower is felt in sectors like RMG, leather, electronics, data entry and information technology.

Most of the enterprises in Bangladesh have neither the inhouse capacity to gather necessary trade information nor the networking facility to access information. Market access issues are becoming increasingly complex and diversified. Bangladesh's access to EU market was jeopardized on ecological and environmental requirements. Environmental conditionalities will continue to pose serious problem to our exporters over time. In

Bangladesh the export base has remained narrow and no breakthrough is visible in expanding the export basket. With the removal of quotas, a process of restructuring of the global RMG sector is expected to evolve when price competitiveness and quality aspects will predominantly dictate the market behaviour. A comprehensive strategy is needed to deal with the RMG sector in the post-MFA era. The rising importance of knit RMG needs to be given special attention. Backward linkage activities need to be strengthened further. Strong political commitment will be needed to pursue a proactive export policy.

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

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

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

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

Asian Development Bank projected slump in exports during 04-05 because of floods and the abolition of textile quota. But this has not happened. Exports amounted to dollar 7.79 billion during July-May(05) as against dollar 7.6 billion in 03-04. This is an increase of 2.3 percent in eleven months. A target of dollar 9.6 billion of export has been fixed for 05-06. The GDP growth rate rose by 5.4 per cent in 04-05 against an earlier projection of 6 per cent. The soaring oil price has come as a boon for Bangladesh jute sector. Because of high oil price, the prices of synthetics are rising. International buyers of raw jute and jute goods are offering higher prices.

Bangladesh's woven exports increased by only 1.93 per cent and knit wear export increased by 34.58 per cent during the eleven months (July- May) of the last fiscal year. Anyhow it will take some time before the full impact of quota phase-out is realized.

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

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

The capability of the private sector has been amply demonstrated in the growth of exports. Exports are mainly led by the private sector. Therefore, some of the regulatory functions may be delegated to the private sector. Govt. has to complement the efforts of the private sector.

FBCCI, MCCI and DCCI may explore the possibility of posting their own representatives in important locations abroad for strengthening the operations of the commercial wings of the Bangladesh missions abroad. Market survey and research and development will be the key components for export diversification. Free trade agreements will be useful instruments for export diversification.

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

## **Recommendations**

### **Short Term:**

- i) Financing facilities for export oriented industries are to be made available on a priority basis. Lack of adequate finance is one of the major constraints for diversification of export. Small and medium exporters are affected more by this constraint. Therefore, providing financial support is a top priority.
- ii) Private commercial banks may be persuaded to give loans to exporters at rates of interest fixed by the govt.
- iii) Existing subsidy for export should be continued. New items in the priority list may be considered for granting subsidy.
- iv) As indicated in the current export policy, an export development fund may be created for providing venture capital, fees for foreign experts, marketing missions abroad and other export related activity.
- v) Delivery time in shipment has to be cut down particularly for RMG. Govt may reconsider their decision for setting up of a central bonded warehouse. World Bank has recommended the establishment of a central bonded warehouse for textiles.
- vi) Gas and power supply need to be ensured for export oriented industries.
- vii) Trade information centre of EPB must be upgraded immediately.

- viii) A cargo plane may be purchased for facilitating export of fruits and vegetables. Finance Minister was pleased to say this recently.
- ix) Govt. may allow duty free import of capital goods for all export oriented industries. This is followed in many other countries.
- x) In view of the demonstrated capability of the private sector, some regulatory functions may be delegated to the private sector.
- xi) Free trade agreements may be implemented expeditiously for boosting exports.

**Medium and Long Term:**

- i) Private sector should take full advantage of the incentives offered by the govt. These incentives should be utilized for the benefit of the exporters. Govt. may ensure full implementation of the incentive structure.
- ii) Both the public and private sector should work as partners in promoting export diversification. Implementation of govt. policies for export diversification must be given priority.
- iii) Although there are numerous constraints to export diversification and can not be resolved all at a time, efforts should be made to remove them in a time bound manner.
- iv) The recommendations of the National Coordination Council on RMG sector should be approved and implemented as soon as possible. NCC's suggestions are aimed at improving the competitiveness of the textile sector. The matter brooks no more delay.
- v) Vigorous efforts should be made for expansion and diversification of manpower export. More and better training facilities are to be organized for upgrading the skill of our workers.
- vi) We have to convince the US govt. to grant duty and quota free access to our products as good number of other countries have done this. We must have some space in the aftermath of quota phase-out.
- vii) Potential investors from outside should be encouraged to invest in export oriented industries. In this context Tata proposals to invest in steel, power and fertilizer sectors are very timely. We should process these proposals expeditiously and in a positive manner.
- viii) There is serious lack of research and development in the industrial sector. Industrial enterprises should develop their own capacity for research and development with assistance from the govt. Govt has to provide adequate support for this purpose.
- ix) Major trade bodies like FBCCI, MCCI and DCCI may undertake research and development and survey work particularly for the benefit of the small exporters.
- x) Investigation has to be conducted for possible anti-dumping action. Tariff Commission as the authority for such action should keep all concerned informed about their action programme.
- xi) Private sector may appoint their own representatives in key locations outside Bangladesh for facilitating export diversification.
- xii) In order to deal with WTO matters more effectively, DCCI may set up a full fledged WTO cell.
- xiii) We must create an enabling environment. Good governance will facilitate creation of an enabling environment.
- xiv) Incentives provided to the exporters have to be comparable to neighbouring countries. It is proposed that a study may be undertaken by DCCI on this subject.

## Main Paper

### Introduction

In 1994-95, export registered a phenomenal growth rate of 37.04%. Exports continued to rise thereafter. At this time the govt redirected trade policy towards a competitive export oriented economy by further liberalizing the trade regime. Taka was made convertible. Trade facilitation was made the centre piece of the reform agenda. Foreign exchange resources rose steadily. In spite of the robust performance by the export sector, it faced with risks and problems originating from domestic supply side constraints and market access challenges. Export diversification and market diversification continue to remain major challenges confronting the export sector. Bangladesh has been facing deteriorating terms of trade. Efficient management of export incentives is critical in ensuring success of export promotion. Inadequate infrastructure has raised cost of export business and reduced competitiveness. Trade facilitation needs to be further strengthened. A trade cadre is to be developed to address the challenges of globalization.

During the last decade there was a significant shift from the erstwhile jute centric exports to RMG centric one with consequent dominance of the non-traditional and manufactured commodities as against traditional and primary commodities. The structural shift in the export sector was underwritten by the faster growth in the RMG exports. Leather, raw jute and jute goods, frozen food and shrimp are the other major commodities in the export bundle of Bangladesh. Almost 90% of export earnings are originating from the RMG sector. Concentration of the export market is also quite visible, with EU and USA accounting for almost 80% of total exports. Fiscal and financial incentives and strengthening of institutional support services have made a significant contribution to the removal of anti-export bias and provided a conducive environment for the rapid growth of export oriented industries. Trade liberalization was also helpful for rapid growth of exports.

Bangladesh's external sector was under considerable strain in 1998-99. Export growth decelerated to 2.9%, lowest for the 1990s. The devastating flood of 1998 and a slump in the price of our commodities in the global market contributed to this deceleration. In 2001-02, export earnings dropped by 7.44% in the aftermath of 9/11 mainly due to fall in demand in the US market. This is for the first time that Bangladesh exports registered a decline. However, exports picked up thereafter. A positive development in the structure of export growth relates to performance of the knit RMG sector. Between 1994 and 2004, export of knit-RMG more than quadrupled but garment export to US market has declined in recent years. The robust growth performance of the knit sector has important policy implications. ADB estimated that in the last fiscal year GDP and exports would come down because of floods and phase-out of the MFA. but IMF thought that there might be no fall in exports and GDP could be only slightly lower. Fortunately, exports increased substantially during the last fiscal year.

MFA-phaseout from first of January, 2005 is a matter of serious concern for Bangladesh. It will take some time to fully assess the impact of quota-phase out. Protection of the RMG sector is needed for maintaining export earnings as well as for avoiding unfavourable impact on the employment situation of the large number of women workers. All out efforts are, therefore, needed for the survival of this sector.

In recent years the incremental growth in exports is originating from changes in the volume index as compared to that of the price index. This trend is a cause for concern. This would imply that the weak growth in prices of our exports in the international market has to be compensated by an increasing volume of exports. The price trend reflects deterioration in our terms of trade. This is the outcome of globalization.

A statement showing year-wise export from 1994-95 is given below:

Year-wise export (in million dollar)

Year	Export earnings	Percentage increase
1994-95	3472.56	37.04
1995-96	3882.42	11.80
1996-97	4418.28	13.80
1997-98	5161.20	16.81
1998-99	5312.90	2.94
1999-00	5752.20	8.30
2000-01	6467.30	12.43
2001-02	5986.09	-7.44
2002-03	6548.44	9.39
2003-04	7602.99	16.10

It will appear from the above table that growth rate of exports was highest in 1994-95. Growth rates declined thereafter although absolute quantity of exports was increasing. The year 2001-02 was an exception when export went down following the terrorist attack in the USA. Commodity-wise export earnings are indicated below:

Structure of Exports (in million dollar)

Item	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04
Raw jute	79.5	90.7	116.3	107.8	71.8	71.6	67.18	61.13	82.46	79.07
Tea	32.8	33.1	38.1	47.5	38.6	17.7	21.5	17.38	15.47	15.81
Frozen food	305.6	313.7	320.7	293.8	274.3	343.8	363.23	276.11	321.81	390.25
Jute goods	318.8	328.9	317.9	281.5	303.9	265.9	230.36	276.11	321.81	246.45
Leather	202.1	211.7	195.5	190.3	168.3	195.1	253.93	207.33	191.23	211.41
RMG	1835.09	1948.81	2237.95	2843.3	2984.9	3082.6	3363.89	3124.56	3258.27	3538.38
Knit	393.26	598.32	763.3	940.3	1035.4	1269.8	1496.23	1459.24	1653.83	2148.02
Chemical	107.62	105.56	108.48	74.3	79.3	93.5	97.18	66.57	100.49	121.46
Total (all products)	3472.56	3882.42	4418.28	5161.2	5312.9	5752.26	6467.30	5986.09	6548.44	7602.99

It will appear from the above table that export of tea is declining. There is fluctuation in the export of jute goods. Currently prices of raw jute and jute foods are rising because of higher prices of synthetics caused by soaring oil prices. Although woven RMG is showing some decline, knit RMG has shown faster growth. Frozen food export is more or less at the same level. Chemical products are also maintaining the existing level.

### Problems of Growth and Diversification

Constraints faced by exporters in Bangladesh are multifarious. Their nature, origin and consequences are different. Some of the constraints may overlap with one another. Although Bangladesh's export sector has registered commendable success, she had not yet been able to utilize her full potential because of under performance in many areas. An analysis of the problems will enable us to understand the difficulties and guide us for taking corrective actions. Performance will have to improve in most of the areas.

### Export Finance

Lack of adequate export finance is identified as a major constraint. Small and medium exporters are found to be more severely affected by this constraint. Most of the exporters are facing the problem of obtaining export finance. High rate of interest on bank capital is also a constraint. Exporters say that rate of interest is higher in Bangladesh as compared to other countries with whom Bangladesh is competing. Export credit is provided at a subsidized rate but there are difficulties with formalities. Decisions are highly centralized. Senior

management has to spend a sizable amount of its time on negotiations with banks. Firms outside Dhaka spend more time on bank negotiations. Abilities of local managers are limited. Most of the loans are required to be approved by the head office for which the parties have to wait, sometimes for six months. Another banking issue which plagues the exporter is the need to pay extra money at every stage of approving a loan.

### **Lack of Adequate Infrastructure**

Efficient infrastructure is the pre-condition for good export performance. Infrastructural constraint is perhaps the single most difficult bottleneck to expansion of export and investment augmenting activities in Bangladesh. Problems continue to remain in spite of the govt. efforts to streamline a number of stumbling blocks. Inadequate telecommunication is a major impediment. Transport and freight constitute yet other major bottlenecks. Congestion is common in Chittagong and Mongla ports due to shortage of equipment, inadequate containerization at the ports and lack of transportation facilities for the containers. There is only one container depot in Dhaka.

Inadequate functioning of infrastructure may adversely affect enterprises in many ways. It hampers production activities, delays movement of goods and passengers, leading to delay in the delivery of goods. It adds to business uncertainty and risk and imposes additional costs. The cost has come to be even more unbearable as profit margins are being squeezed as a result of liberalization. Delay in delivery may result in the cancellation of contracts and the loss markets forever and may demolish the goodwill of the firm as well as of the country. The busy schedule of the port is aggravated by frequent strikes and hartals called by trade unions and political parties. At the Mongla port, feeder vessels are used to bring shipments from mother vessels due to shallow depth of the port channel, making handling charges higher. The port container charge for shrimps is higher at Mongla than that in Chittagong port by \$300-500.

Electric power is a leading infrastructure constraint. Load shedding/power failure is a common feature. Power break-down is experienced several times a day. In order to maintain production during power failure, almost all exporters have to buy generators, but cost of generation is estimated to be two to three times higher. Firms must buy generators, employ operators and buy fuels and other accessories, as well as maintain and repair the equipment. In spite of the failure of electricity, exporters have to pay extra money to public sector electricity suppliers. They must pay for power connections and transformers required for the transmission of electricity to their factories and offices.

### **Bureaucracy**

Exporters are of the opinion that govt. rules and regulations relating to exports are complicated and too much paper work is needed. Considerable amount of senior management's valuable time is spent with govt. officials over interpretation and changes in laws and regulations. Firms engaged in export business have to appoint officers for sorting out matters with the govt. and agencies. Since small and medium size firms are more affected by complications of law and regulations, they are found to be more critical about govt. services.

Customs service has been mentioned as the third greatest problem. Delays and corruption are the two most serious forms of worsening customs service. Most of the exporters are required to pay extra money to the customs officials for getting their export consignment checked. The govt. has made the decision to introduce a computerized system of customs clearance. This system promises to speed up the clearance process and remove some of the discretionary powers from the customs officials. Exporters have difficulties in obtaining import licenses, opening L/Cs and getting bonded warehouse facilities. RMG exporters appear to face more difficulties than exporters in other sectors. The challenges the exporters encounter in obtaining regulatory services include extra time and extra cost, making the exports less competitive.

## **Paucity of Investible Resources**

A fundamental problem of export diversification is the lack of adequate investment in the country, both domestic and foreign. Bangladesh has been following a private sector led growth since 1980s. Capital formation is low in Bangladesh. Inflow of foreign capital is sluggish although it has shown upward movement recently. Tata's \$2 billion investment plan in Bangladesh has generated lot of enthusiasm. The reason that Bangladesh has not been able to attract sufficient foreign investment is not because of lack of incentives offered by the country. A comprehensive incentive package that includes fiscal, financial and institutional support, guarantee by the govt. not to nationalize foreign enterprises. Generous scope of repatriation of profits and other earnings have been designed and put in place. The Board of Investment has explicit mandate to deal with investment proposals expeditiously. In case of investment in EPZs, the investor is offered customized buildings and on-line utilities. Potential investors appreciate the incentives offered by Bangladesh. But they are unhappy about bureaucratic and administrative hassle, political instability, hartal and low quality of utility services which have discouraged them to invest in Bangladesh. Lack of foreign investment is halting diversification in Bangladesh. An enabling environment can lure investors to Bangladesh. But such an environment cannot be created without political consensus which is the responsibility of the politicians.

## **Lack of Access to Information**

Most of the enterprises in Bangladesh have neither the inhouse capacity to gather necessary trade information nor the networking facility to access information. The Export Promotion Bureau (EPB) provides the entrepreneurs with business information and market intelligence but their capacity is limited. It has assisted the exporters by organizing trade fairs and furnishing required information. It helps in formulating export friendly policies. The promotional activities of EPB can not match the increasing demand of the entrepreneurs. There is need for capacity building in EPB. Resources are to be provided to EPB to procure training equipment and trade related publications. Most of the chambers and trade bodies lack capacity to provide training in trade laws, procedures, documentation and in giving assistance to their membership in accessing relevant information on export markets, import sourcing, indenting and investment. Businessmen are constantly in need of business information. DCCI is well equipped to render services to the business community. They organize workshops and training courses on regular basis. Other major chambers should develop capacity in line with DCCI work programme. Internet offers excellent opportunities to gain information. Members of the business community may be assisted in learning to use the internet. This will minimize the cost of collecting information.

## **Market Access Constraints**

Market access issues are becoming complex diversified. The major market access problems relate to i) non-tariff and para-tariff barriers, ii) stringent quality and standard requirements, iii) stringent rules of origin, iv) labour and environmental standards. Bangladesh is facing market access problems in USA (quota, labour standard, quality requirement like HACCP for frozen food and eco-labelling for RMG) as well as in EU (rules of origin, quality and standard requirement and eco-labelling). Similar problems are being faced in Japan, Australia and New Zealand. Bangladesh is also encountering non-tariff barriers in the Indian market in exporting battery and cement. US Trade and Development Act 2000 has been adversely affecting the market access of the Asian LDCs. There has been a shift of order in textiles from Asian LDCs to sub-saharan African and Carribean countries. Market access is the most important issue for the trade negotiators. All countries big or small are continuously looking for better market access in other countries. Tariff and non-tariff barriers obstruct market access. Experienced officials are needed to deal with market access problems.

## **Dearth of Skilled Manpower**

Absence of skilled manpower is felt in sectors like RMG , leather, electronics, data entry, information technology and in many other areas. Although the country has abundant supply of cheap labour, there is a tremendous dearth of skilled labour. Technical and vocational institutions need to be strengthened. Lack of skilled manpower has resulted in under utilization of potential export of services through manpower export as they are catering to only unskilled and semi-skilled needs. A concerted policy on technology assessment, technology acquisition, adoption, adaptation and development and technology diffusion is still lacking. Such a policy would require an effective interaction among research organizations, entrepreneurs and policy makers. Allocation to social sectors need to be adequately addressed. Skill development training should not be the sole responsibility of the govt. The private sector can also play a vital role in this sector. Private organizations should be encouraged in providing development training and formulation of labour and manpower policies. The country's development will continue to depend on the effective use of human resources and their continued upgradation and enrichment through education, skill formation, improved health, sanitation, nutrition and other means.

## **Govt. Support Services**

The role of govt. in promoting export is crucial. Various govt. agencies are responsible for different activities related to export. These are:the Export Promotion Bureau, the Board of Investment and Bangladesh missions abroad. The main functions of EPB are to the govt. to formulate and implement export policy, assist and advise the exporters on product diversification, product development, dissemination of export related information and organization of marketing missions and buyer-seller meets. As far as problems faced in receiving services from the EPB, unjustified delays and corruption are the main complaints of the exporters. BOI is assisting the foreign investors and some of them are connected with exports. The one stop service of BOI needs to be made more effective. Bangladesh missions abroad can play an important role in promoting export. Types of assistance exporters request in clued trade information, trade fairs, technical training, managerial training, linkage with foreign chambers or associations , management and technical services. It is alleged that exporters receive very little assistance from our missions in foreign countries. Inadequate response from public infrastructure services are hampering export performance.

## **Environmental Concerns**

Environmental requirements can obstruct market access. Bangladesh's access to EU market was jeopardized on ecological/environmental conditionalities. EU has stringent rules regarding quality of imported frozen food. Exports of shrimp and frozen food came under sanctions because of non- compliance with EU hygienic and environmental standards. EU has also strict eco-labeling requirements for oven and knit garments. However, these problems have been resolved. Environmental conditionalities are a kind of new protectionism. Developed countries will be using new tools of protectionism. Bangladesh will have to watch such developments and secure our export market.

### **External Constraints**

The leading external constraints faced by the exporters are lack of trade information and market intelligence. There are difficulties in accessing marketing/distribution channels or networks. WTO is required to assist the LDCs to diversify products and improve quality. But such assistance is hardly available . Major importing countries have to apply their rules in a flexible and supportive manner of LDCs according to the WTO agreement.

They must open their markets to our products liberally. Instead, they are blocking our manpower export. This is a serious constraint. Human rights issues are creating problems for our export. The provisions of special and differential treatment have not been implemented by the rich countries. This is a priority issue for the LDCs in the Doha Round.

Bangladesh should pursue this agenda with other LDCs for successful resolution of these issues. Special and differential treatment is the result of negotiation during the Uruguay Round and it is not a gift from the rich countries. LDCs must get a concrete outcome of these provisions in terms of greater market access, technical assistance and preferential treatment in the context of the global trading system. Globalisation should not bypass the poor countries.

## **Export Policy and Strategy**

One of the ways of increasing the wealth of the nation is through increased production and expansion of trade. Increased export earnings could lead to creation of employment opportunities which will encourage savings and facilitate investment resulting in the alleviation of poverty. Govt objective is to strengthen the economy and make it vibrant. Govt is thinking to bring the post-MFA situation in our favour. There is scope for enhancing backward linkage in the textile sector. Bangladesh will have to go for value addition, product diversification and new markets. Duty free access has already been obtained in EU, Canada, Australia , Norway , Newzealand and Japan. Under the Bangkok Agreement China gave tariff concessions to about 700 products of Bangladesh. Thailand and Indonesia have recently announced their offer of tariff concession to Bangladesh in great numbers. . New markets will have to be explored for non-traditional items. Taxes and duties will have to be rationalized for assisting the growth of exports. It is in this context the export policy for 2003-04 has been formulated. The principal objectives of export policy are as follows:

Reorganization and capacity building in export related agencies such as EPB, Customs Department, Sea and Land Ports, Department of Fisheries, BSTI, Tea Board and trade bodies.

## **Diversification of products**

- Upgrading design and quality of products and production of value added items
- To adopt new strategy for expanding markets, to use computer technology and e commerce
- To build up backward and forward linkage for maximizing production of exportables
- To create business friendly atmosphere and provide assistance to existing exporters and induct new exporters
- To develop skilled manpower in business
- To create awareness in trade bodies, businessmen and concerned persons about the global trading system
- Govt. has formulated strategies for implementation of the objectives of export policy which are given below:
  - To assist in the production of exportables by creating product development councils
  - To provide assistance to producers and exporters in respect of market intelligence and value addition
  - To encourage export development by providing institutional support to trade and export houses
  - To assist in setting up seal of quality organization and similar institutions to ensure quality
  - To assist in setting up of international arbitration centre and similar institutions for settlement of trade disputes within a short time
  - To help the producers to use modern technology in the process of design and production
  - To familiarize the exporters with the work programme of the successful exporting countries
  - To provide assistance to the exporters in organizing single country fair and to participate in international fairs for introduction and marketing of products

Previously some items were included under thrust sector and crash programme. These classifications have been replaced . Some items have been categorized as high priority and some other items will be shown under special development sector. High priority items are soft ware and ICT, agro-products, light engineering products, leather products and high value added RMG. Items in the special category are pharmaceuticals, toiletries, luggage , electronics , cards and calendar, stationery, silk cloth , handicrafts and herbal products.

In the light of the objectives and strategies, many incentives and facilities have been made available to the exporters. Some of the major incentives are discussed here. Loans will be provided at reduced rate of interest. There will be an export development fund at EPB. Under duty drawback scheme, 100% loan will be made available. According to income tax laws, 50%of income of the exporters will be exempt from taxes. Bonded warehouse facilities will be provided. Tax holiday will be given for export oriented industries. Leather technology institute will be modernized. Permission will be given for opening offices in other countries. Foreign Trade Institute has been set up to offer training on international trade. An international business centre will be established. Management information system will be set up. VAT will be rationalized. Sick tea gardens will be rehabilitated. Efforts will be made to increase productivity of jute industry. Contract farming will be encouraged for production of vegetables. Steps will be taken to set up an IT village. Product specific incentives have also been declared.

The incentives declared need to be implemented expeditiously. Exporters have to take advantage of these incentives. Where necessary, incentives may be further streamlined.

There is no denying that the incentives provided in the export sector have contributed substantially to the export sector performance. The export sector of the country has demonstrated promising growth pattern.

### **Contribution of Private Sector**

Private sector has played a commendable role in the development of exports from Bangladesh. Their contribution is more than 90% of total export earnings. Govt. support services and incentives have facilitated the expansion of exports led by the private sector. The gradual implementation of export strategy backed by export policy support appears to have salutary effect on the growth of export. Despite many difficulties, Bangladesh's export performance over the years has been quite impressive. The momentum in the export sector must be consolidated. More intense and specialized efforts are needed in the fields of product development, diversification, market promotion and expansion.

Private sector-led growth in a market economy which is the enunciated development strategy of Bangladesh is inescapable in the context of both momentous global transformation and realities and imperatives of growth in Bangladesh. It is encouraging to note that a consensus seems to be emerging among all concerned including major political parties that the nation's economic development requires a dominant role of the private sector in a market economy. A global consensus seems to have emerged that public sector's r should be limited to what it can do well in respect of maintenance of law and order, provision of the public services, investment in human capital, provision of physical infrastructure and the protection of the environment. The economic areas such as production, trade and marketing which can propel sustainable growth is to be the business of the private sector.

It appears quite logical to ask whether the private sector in Bangladesh has the requisite potential and efficiency to perform the onerous task put on its shoulder. Though relatively new and inexperienced, the private sector has already demonstrated its capability and buoyancy in the economy. A new generation of private sector entrepreneurs has emerged in Bangladesh who are well educated, hard working, capable and eager to face the challenges of the global competitive market. They have proven their mettle in all sectors where they had opportunities to work with freedom and where the govt. played the role more of a facilitator than a controller. The booming industries in ready-made garments, knit wear, shrimps,

leather, ceramics, etc are indicators of the latent capabilities of the private sector and they also act as pointers to what the govt. should do in capturing these potentials. Now that the capability of the private sector has been amply demonstrated, some regulatory functions may be delegated to the private sector.

Much has been achieved but much more remains to be done. The private sector needs an enabling environment to survive and thrive. Giving a greater role to the private sector does not mean marginalizing the public sector. Public and private sector should work hand in glove. There has to be an effective partnership between the state and the private sector. The gap between announced policies and implementation needs to be bridged.

### **Anti-dumping and Countervailing Measures**

A product will be considered as dumped if the export price of the product is less than the comparable price of the like product in the exporting country. Because of progressive liberalization in Bangladesh, domestic products are facing serious competition from imported goods. There is unconfirmed report that, among others, ceramic, glass, bicycle, medicine, toiletries, dry cell battery, detergent and electrical products are being dumped into Bangladesh by other countries. Preliminary investigation may be carried out in respect of these products. There are two aspects of countervailing duty. One is to see if subsidized goods are imported into the country. In that case countervailing duty can be imposed after proper investigation. Secondly, we should find out if other countries are imposing countervailing duty on our products. It may be mentioned that smuggled goods are outside the scope of anti-dumping and countervailing duties. Bangladesh was subjected to anti-dumping by US, Brazil and India. But we could not establish any case of dumping in our country.

For the business community, knowledge of the rules regarding anti-dumping and countervailing duties are essential in their capacities as exporters and producers. Their interest may be affected by the unfair price practices of producers in other countries. The affected exporters have the right to petition the national investigation authorities for the levy of anti-dumping and countervailing duties after the due process of enquiry.

### **Understanding Market Access**

Market access is the most important issue for the trade negotiators. The whole WTO mechanism revolves round market access. All countries big or small are continuously looking for better market access in other countries. Market access is to be secured through negotiation. No country is prepared to allow the import of products from other countries if it can afford to do so. Tariff and non-tariff barriers obstruct market access. Market access disputes are ultimately referred to WTO Dispute Settlement mechanism. If bilateral solution is not found. Trade officials should be familiar with market access problems and possible solutions. Experienced officials should be engaged to deal with market access negotiations. Countries have the right to take sanitary and phytosanitary measures for the protection of human, animal and plant life. Phytosanitary (SPM) measures. Such measures should be applied in a transparent manner only to the extent necessary to achieve their objective and be consistent with recognized and equivalent scientific evidence. These measures shall not be applied in such a way as to create arbitrary, disguised or unjustifiable barriers to international trade. It is provided that sanitary and phytosanitary measures should be harmonized on the basis of international standards. It is necessary that a country should be fully aware of such standards and should have the machinery to implement them.

Technical barriers to trade (TBT) refer to application of technical standards. Such standards should not create greater obstacles to international trade than the domestically produced products. These measures should be based on international standards. WTO calls for greater use of science for food safety so that arbitrary measures are not used as non-tariff barriers to trade.

Environmental, human rights and labour standards may create barriers to trade. Developed countries are most likely to use these tools to protect their industries. Developing countries will have to negotiate these issues with their counterparts in the rich countries. Market access negotiations are a continuous process.

### Export Subsidy

Govt. is providing subsidy to encourage exports of a number of products. Subsidies have played an important role in boosting exports. There have been allegations of corruption in running the system and delayed or no disbursement of the incentives. The system has to be streamlined to make it truly efficient. Subsidy policy of the govt. should be made transparent. Subsidy rules have to be consistent with WTO provisions. WTO is to be kept informed about our subsidy system. Although export subsidies are allowed to LDCs the importing countries have the right to use safeguard measures against subsidized export from LDCs if there is material injury to their domestic industry. Product-wise cash incentive facilities are given below:

	Local Fabrics (2003-2004)	10%
	Local Fabrics (2004-2005)	5%
	Agro-processing	30%
	Leather Products	15%
	Vegetables	25%
Fruits		25%
	Handicrafts	10to15%
	Frozen Food	10%
Bicycle		15%
	Jute Products	5%
	Tobacco	10%
	Potato	15%

### Regional Cooperation

Regional economic cooperation has been adopted as a means of expediting the process of economic development by many countries, both developed and developing, across the world. European Union is the most far-reaching regional cooperation arrangement among sovereign states. The main objective of EU is free movement of goods, services, labour and capital. A common policy has also been established for agriculture. The EU has negotiated a large number of preferential agreements with third countries. It took the EU thirty years to agree to accept the formulation of a common market.

It has been suggested that regional initiatives are sometimes pursued due to frustration with lack of progress in the multilateral setting. Over 40 per cent of world trade currently occur within regional cooperation arrangement. Theoretically, it is possible for a cooperation arrangement to be structured in such a way as to create gains for the member countries without harming any non-members. Regional cooperation is taking place through NAFTA, EU, APEC, ASEAN, SAARC and BIMSTEC. Bangladesh is associated with SAARC and BIMSTEC. BIMSTEC which is still in the formative stage.

It will be worthwhile to discuss about progress in SAARC. The bulk of export of SAARC countries is directed to industrialized countries. Intra-SAARC trade is only 4%. Persistence of trade deficits in some countries vis-à-vis a large country is generally construed as benefiting only the large country. It is often noticed that SAARC countries are not always aware of the benefits of cooperation as well as the costs of non-cooperation. Trade liberalization under SAPTA has made progress. An agreement has been signed for putting in place South Asian Free Trade Arrangement (SAFTA). Preparatory work is going on for implementation of SAFTA.

The issue of trade imbalance between SAARC countries has emerged as a major impediment to further trade expansion. Trade flows are often a corollary of investment flows.

Trade creating joint ventures assume special significance. Lower imports from smaller countries has created a real problem. Smaller countries feel that the largest partner India must buy more from the smaller neighbours. The existing rules of origin under SAPTA is being viewed as one of the major factors responsible for hampering trade flows within the region. This is now under discussion.

BIMSTEC includes Bangladesh, India, Sri Lanka, Thailand, Myanmar, Nepal and Bhutan. Technology, energy, transportation and communication, tourism and fisheries are the core areas of cooperation. Air-transportation and pipeline for natural gas are also under discussion.

EU has permitted an important derogation of the rules of origin by granting regional cumulation to SAARC countries. This allows Bangladesh to claim GSP from EU if she uses inputs sourced from other countries of SAARC. BGMEA is of the view that Bangladesh is losing market access in EU market by refusing to utilize regional cumulation. Govt has not permitted importers to take advantage of this facility.

NAFTA has produced a win –win situation. There was steady growth in trade among the NAFTA countries. Mexico's export to Canada shot upto 105 per cent. Net job creation had been positive in all the three member states. Bangladesh can learn how Mexico strengthened its position to enter into a free trade agreement with the US and Canada.

Tata proposal for investment of \$2 billion on steel, power and fertilizer has created lot of enthusiasm in Bangladesh. These proposals are now being examined by Bangladesh side. If implemented, these projects have the real potential for augmenting our exports to India. Tata representative said that they have come to Bangladesh motivated by good investment prospects. The World Bank has already offered technical support for implementation of the Tata proposals. The donor agencies viewed the biggest investment proposal from India positively and committed to provide support in making the proposals a reality. These proposals have to be taken up seriously and should not be allowed to slip. This is for the first time that some concrete proposals have been received from India for enhancing cooperation between the two countries. The Indian investment will attract other potential investors to explore possibilities of locating their projects in Bangladesh.

### **Technical Assistance**

Technical assistance from donors/international agencies is normally received as grant. Experts /equipment/training facilities are provided under technical assistance. Appropriate technical support is needed in Bangladesh for promotion and diversification of export. EPB received technical assistance from ITC in different projects and utilized it for implementation of these projects. Technical assistance has also been used for holding seminars and workshops. Technical cooperation is an area of WTO work that is devoted to helping developing countries to operate successfully in the multilateral trading system. The objective is to help build institutions and to train officials. There is plenty of references of technical assistance in the various WTO agreements. In fact the major players offered the carrot of liberal technical assistance to poor countries to agree to Uruguay Round agreements. In reality technical assistance is not so readily available.

A few years back Bangladesh prepared proposals for trade related technical assistance and sought to enhance her competitive strength. These proposals were designed for boosting export diversification and capacity building in trade related areas. Project profiles were carefully prepared by CPD but there was hardly any commitment from the donor community. In any case we have to continue to mobilize technical assistance to enable us to access global market. Domestic support is also needed for capacity building and skill development. For this purpose, allocation to social sectors needs to be adequately increased. The private sector can also play a vital role in this sector.

## Export Diversification Tools

Export diversification tools refer to the mechanisms through which the problems of diversification can be addressed and solutions found. In Bangladesh the export base has continued to remain narrow. The lack of diversification of exports has led to a situation where the fortune of Bangladesh's export sectors has become dependent on RMG. As quotas will disappear by the end of 2004, a process of restructuring of the RMG sector is expected to evolve. Under quota free regime, China, India, Pakistan, Turkey, and Egypt will be penetrating Bangladesh's traditional markets. A comprehensive strategy to stimulate backward linkage activities ought to be designed and implemented on an urgent basis. Central bonded ware house is needed to reduce the lead time in making delivery although the govt. has not approved this for protecting the local textile mills. There are views that the RMG sector can hold in the post-MFA period. Bangladesh may try to reach some kind of agreement with China, Pakistan and India for collecting fabrics directly. The industry should broaden its product and market range by introducing new products and by targeting the niche market. Bangladesh needs massive preparations to conduct garment exports in the changed situation. BGMEA is working with the govt. for reducing bank interest, insurance premium, port charges. Govt. has already withdrawn VAT from exports.

Bangladesh has the prospect of entering the quota-free post-MFA regime with a changed export pattern as the knitwear, with an estimated 75 per cent local value addition, is set to take the lead in exports by superseding the import dependent woven sector. The knitwear sector has already exceeded the woven garments in export volume although it is behind the woven sector in terms of export earnings. In course of time this sector will establish its supremacy, given the high growth rate it ensured consistently over the past years. In 2003-04 the knit wear export was \$2,148 million compared to \$3,538 million of the woven sector. This was possible due to self-sufficiency in fabric-knitting but we are not self-sufficient in yarn production. Around 80% of the yarns, used in knit manufacturing, are produced locally. Knit wear export may be able to make up the possible short-fall of the woven RMG.

Analysis shows that agro-based products have great potential as a foreign exchange earner. The EU policy of importing 'every thing but arms' could open up significant market opportunities for agro-processed products from Bangladesh. Initiatives need to be taken to support this sector. There is a firm demand in Europe and the Middle East for fruits and vegetables and there is ample supply on a seasonal basis. Govt. will give 30% cash subsidy to 15 non-traditional items. It has been announced that the govt would buy a cargo plane to ease the cargo space problem and facilitate export of fruits and vegetables.

Govt has stressed on diversification of exports to tackle the post-MFA situation and for that emphasis should be put on export of non-traditional items. Export of vegetables, fruits and allied products may slide this year because of floods. Traders urged the govt. to release cash subsidy for fruits and vegetables. Rules and regulations of Bangladesh Bank were reportedly delaying release of cash subsidy. The system of subsidy has to be streamlined to make it truly efficient.

Hides and skins and leather products represent a significant proportion of the value of world trade in agricultural commodities. New technologies create opportunities for the sector to improve competitiveness. Product innovation can improve consumer satisfaction and customer benefit. The most popular exotic leather products are boots followed by purses, belts, wallets, gloves, clothes and shoes. The market for these products has seen steady growth over the past two decades. Bangladesh has prospect of exporting intermediary level finished leather products. If the athletic shoe exporters in Bangladesh can follow the trends (growing female market, growing younger market and baby boomer market) and use their ability to keep costs down and quality up, the US market can become more interesting and realistic for them in future than it has been in the past. Consideration should be given to addressing concerns about unfair trading practices by China.

In spite of some setbacks, the outlook for the shrimp industry appears to be quite strong. The US is the largest consumer of shrimp, followed by Japan, Singapore and Canada. These countries import between 30 and 60 per cent of all their seafood and the market of shrimp and other seafood continues to grow. The world demand for shrimp stands at 2.1 million tons per year while output reaches only 800,000 tons, leaving 60 per cent of the demand unfulfilled. These factors show great market potential for Bangladesh shrimp industry over the next few years. A focus on shrimp farming techniques will help the global competitiveness of Bangladesh exporter. The long-term success of the industry also depends on higher value added, such as 'ready to eat' that is rising in popularity in major markets. Improved marketing efforts, especially in establishing Bangladeshi brands would further benefit the industry. The demand for seafood is increasing both in developed and developing countries. Bangladesh should take advantage of the expanding seafood market. Assembly of electronic components is considered to be of potential importance to Bangladesh because it has typically been the next stage in export growth after garments. The industry is similar to RMG in that it depends on imported components, is labour intensive, requires minimal capital investment and does not require active product development. The situation has changed in recent years with increased automation and use of robots, but certain products and processes continue to be dependent on a high level of manual labour.

The IT sector could be another lucrative export-oriented sector. Software/data transmission export has a possibility to grow fast. Bangladesh has comparative advantage in horticultural products. Toys, jewellery, luggage items, diamond cutting and polishing and artificial flowers are believed to have high export potential. Based on natural gas, an export-oriented petrochemical industry may emerge. Tata's proposal for investment of \$2 billion in power, steel and fertilizer sectors supports this optimism. Pharmaceutical products offer a good opportunity for export. It is reported that 60 countries of the world are importing pharmaceutical products from Bangladesh. Export earnings of this sector stood at TK 502 crores in the first 10 months of this fiscal year. Export-oriented joint ventures may be invited because of lack of capital and management skill in Bangladesh.

Matching grant facility is provided to the exporters for exploring foreign markets, receiving foreign training and utilizing consultant services. Half of exporter's expenditures are eligible to be covered by this grant facility. This facility should be continued for the benefit of the exporters.

Export market of Bangladesh is mainly concentrated in USA and Europe. Therefore, other markets need to be explored on a priority basis. Duty-free market access has been obtained in the markets of EU, Canada, Australia, Norway, New Zealand and Japan. Thailand, India, and Pakistan have also extended duty-free export of selected items. Currently, efforts are under way to get duty-free access to the US market. This is of crucial importance for Bangladesh. Similar negotiations are also in progress with countries like Russia and Malaysia.

The presence of a large contingent of Bangladesh nationals in the Middle East, western Europe and North America has created demand for various non-traditional items. We must cater to their needs. They will constitute a good market segment for consumption of our exports and there will be a spill-over effect on others.

Bangladesh is committed to a policy of economic liberalization and export-led growth. Therefore, market diversification and product diversification efforts have to continue on a regular and priority basis.

Export policy provides a plethora of incentives to the exporters. It is necessary to examine how far these incentives have been effective. It is also desirable to find out how these incentives compare to the facilities provided by India, Pakistan, Sri Lanka, Thailand, Vietnam and countries in a similar situation. In this regard a study may be undertaken by

DCCI for the benefit of the exporters. Govt. will be in a position to take decisions on the findings of the study.

Free Trade Agreements (FTAs) are quite popular these days. Many countries are negotiating such agreements. Bangladesh is also negotiating free trade deals with India, Pakistan and Sri Lanka. Free trade agreements can certainly boost exports provided the agreements are negotiated properly. It is necessary to build up a pool of efficient negotiators.

Research and development and market survey are extremely important for facilitating exports. There is need for sustained research and development. Major trade bodies and large enterprises should develop such capacities. Small enterprises can benefit from research and development undertaken by trade bodies. Upto date survey work has to be undertaken to provide market information to the enterprises.

While Bangladesh missions abroad should assist our exporters in all possible ways, FBCCI, MCCI and DCCI may consider posting their own representatives in important locations to strengthen the operational efficiency of the embassies. Bangladesh should participate in trade fairs on regular basis to explore markets for our products. Where necessary consultancy and counselling services should be utilized to augment the capacity of the exporters.

Huge trade imbalance with India is a matter of concern for Bangladesh. It has recently been reported in the media that the Commerce Minister of India assured his Bangladesh counterpart during the latter's visit to India that trade barriers will be removed prior to his planned visit to Bangladesh in February, 2005. The bottom line is that Bangladesh needs a larger market excess to India. Increased exports to India will mean diversification of our market.

### **Prospect of Export in 2004-05**

The overall export growth last year was forecast to slump considerably from the previous year. . This projection was made by the Asian Development Bank(ADB) because of floods in July and August, 2004. In its outlook for FY2005, the ADB also said that the abolition of textile quota was likely to reduce output and employment. Quota phase-out was likely to affect many of the around 1. 8 million workers in the textile and clothing industry, mostly poor women representing 40% of the manufacturing employment. This may also displace workers linked to the sector. The GDP growth was expected to come down to 5 per cent but it is now 5. 4%. . Industrial growth was adversely affected because of the severe flood damage to the small and medium enterprises including the export oriented garment industry. The overall export growth increased by 2. 3 percent in eleven months(July-May). . According to ADB, global economy would experience a slowdown in 04-05 and Bangladesh will not be an exception. Recovering from the flood losses and macroeconomic management will be the major challenges for Bangladesh.

Raw jute and jute goods prices were increasing in the international market because of higher prices of synthetics caused by soaring oil prices.

### **Experience of Other Countries**

During the last 30 years, success in manufactured exports has been nearly synonymous with rapid economic development. With only a few exceptions, the countries that have achieved the most rapid gains in income per capita have also recorded the fastest growth in exports. The best known examples are the East Asian countries. on the back of labour-intensive exports. Outside of East Asia, Mauritius, Ireland and Tunisia have achieved both rapid export growth and rapid economic growth over sustained periods.

A great deal has been written about the advantages of export-led growth and the possible connection between exports and growth. There is widespread consensus that exports accelerate economic growth. There is also widespread agreement on some of the basic policies needed to encourage growth in exports, including prudent macro-economic management, duty free import of capital goods and rawmaterials, political stability and reliable infrastructure. Export-led growth in developing countries relied heavily on bonded warehouse, export processing zones, special economic zones and duty drawback system.

The basic idea behind an export enclave is to create an atmosphere where the problem of poor trade policies, weak infrastructure and inconsistent rule of law that plague the rest of the economy. are at least partially eliminated so that firms can become more competitive and more fully integrated into the global economy. Korea, Taiwan, Malaysia, Thailand and Indonesia have introduced similar facilities. Export platform(enclave) facilities in Egypt, Colombia, Kenya and Senegal have achieved relatively little success.

Almost all developing countries that have recorded rapid growth in exports have also experienced rapid economic growth. A large and growing body of empirical research has consistently found strong positive linkages between more open trade policies , exports and economic growth. Tariffand quota protection on imported capital goods were essentially zero in Korea, Taiwan, Hongkong and Singapore. in the early 1960s. This was true of Mauritius and Tunisia. Success in exporting has important spill over effects on other sectors of the economy. The successful exporting countries recognized that they could not realistically solve all problems at once, so they created innovative programmes and institutions to support exporters. China relied almost exclusively on special economic zones.

One of the most common problems cited by exporting firms in almost all developing countries is customs clearance. Customs procedures can be time consuming, unpredictable, frustrating and expensive. A number of countries that recorded rapid growth in export also recorded increase in wages . Women tend to make up a large share of the labour force in garment factories and a lower share in electronics and machinery activities.

Several countries(Mauritius, Tunisia , Indonesia and Dominican Republic) have had trouble shifting from garments to electronics. Electronics is a higher skill production and need reliable infrastructure. The transition is not automatic. The extent of backward linkage varies by the type of export activity. It is very high in Malaysia for rubber and food products. It is also high for furniture exporters in Indonesia but much lower for electronics and lower for textile. Close proximity helps but it is not absolutely necessary. Asian exporters were not particularly close to their major markets. Landlocked countries face prohibitive shipping costs.

Exports from China surged in recent years accompanied by high GDP growth rate. The transition economies of Central and Eastern Europe showed strong export performance and output growth.