Prising open non-traditional export bonanza

M. Abu Eusuf

The present high level of export growth that Bangladesh has achieved is exclusively the success story of RMG sector (both Knit and Woven clothes) which continued to grow since early 1990s. It was undeniably true that in the 1990s global market forces contributed positively to the growth of this sector. The market forces remained no longer friendly after MFA phase-out on 1 January, 2005. After the expiry of the MFA regime, it was anticipated that the RMG sector would face fierce competition from major players like China and India, whose exports had thus far been severely restricted due to the quota system. The abolition of the MFA was, therefore, predicted to have far reaching implications for the national economy. But the performance of RMG sector export during last three years shows that though growth was uneven for the sub-sectors, in aggregate RMG sector has been able to maintain its export size and also achieved moderate growth rate. Although it is too early to make comment on the outcome of the new policies, the initial signs speak of minimising the anticipated risks and establishing the sector on a strong foundation. This success, of course, opens a new horizon of hope and possibility for other export sectors also if it is possible for RMG sector, this also can be done for other sectors.

Now, what are these other sectors? The Industrial Policy 2005 has provided a list of thrust sectors which have export prospect as well as high human development potentials. The sectors are agro-processing, generic spare parts/light engineering, herbal medicine and medicinal plants, home textiles, diversified jute products and handicrafts including handmade paper. The constraints, recent developments, trends and demands of these sectors are discussed below. We also looked at the neighbouring countries' experiences in solving these problems.

Agro-processing Leather industry

The high potentiality of agro-processing sector in Bangladesh has become a buzz word for about last two decades but very little has been achieved so far. This is because the overemphasis of government on increasing food grain production to ensure food security for the country. Recent food grain price inflation in world agriculture market this year has made the government more resolute to increase foodgrain production, even at the cost of cash crop production. Since there is little sign that foodgrain inflation in world market will ease in the near future, surely the government will emphasise more and more on foodgrain production. So, a grim picture may awaiting for vegetables, fruits and other cash crops.

Among the sub-sectors, a bright prospect is emerging for leather industry. Until now, the industry has grown because of cheap labour cost, lenient environmental regulations and increasing production of livestock by the mass of poverty-prone households. But the country usually exports processed leathers to China, Italy and Japan where it was finally turned into leather products footwear, bags and other clothing items. China is the world's largest manufacturer and exporter of footwear and leather goods. On 7 October 2006, EU imposed 10 to 16.5 percent antidumping duties on footwear made by China and Vietnam. This forced many Chinese and Taiwanese companies to consider moving the production lines to other countries. On January 2007, Paolo footwear, a Chinese and Japanese footwear joint venture, invested around $6.6 million in Karnaphuli EPZ, Chittagong. This factory is now in the process of importing and erecting machineries and hopefully will start operation from June 2008. They have already made agreement with Apex, the largest leather processing house of the country, to supply the necessary processed leathers.

However, the other foreign footwear companies did not come to Bangladesh because of political uncertainty and 'inefficiency' at Chittagong port. They shifted production mostly to India. So it seems that the country lost the golden opportunity to attract FDI in footwear but in other ways it finally produced a boon for the local entrepreneurs. The continuous appreciation of Indian rupees against US dollar in 2007 forced most of these factories in India to remain close. Many of our local entrepreneurs - Akij group, Bay leather, Leatherex footwear, Crescent footwear, Dhaka footwear etc. cashed in on this opportunity by establishing footwear units in 2007. This boosted the price of processed leather in the country which in turn stopped smuggling of raw hides to India and make available more raw hides to leather processing houses. Thus the international market force is positively shaping the local leather industry. International trade experts assume that this positive market force will continue for at least 5 to 8 years. So, it has now become the job of private sector, economists, trade experts and government to sit down and shape the requisite policy to foster the sector as the next success case for the country.

Generic spare parts/ light engineering

This industry employs around 0.8 million labour force and supplies machineries and parts to local agricultural, manufacturing and construction sectors. Various studies by development partners identified this sector as one of the most potential for future development. These studies identified several key constraints to achieve that goal lack of adequate training and skill development, imperfect raw materials and lack of metal testing and R&D facilities. In this regard, development partners in 2006 assisted BUET in starting hands-on training course for machine operators and also in establishing a material testing facility. This has improved the quality of the engineering products and increased the exports at least twofold during last fiscal year. Most of the exports are destined for African countries and neighbouring India.

Another key constraint identified by these studies is the small size of these companies which means further investment is costly to them and the supply chain is widely scattered. To solve this problem, establishment of an industrial park was proposed here small companies can collaborate on various projects, product quality will be enhanced considerably as some companies will exploit the expertise of other companies and supply chain will become integrated with very minimal further investment by the companies. Though the government agreed to the proposal, yet the industrial park has not materialised.

The studies also identified costly finance is restricting the growth of this sector. In a press conference on March 2006, the members of the multi-stakeholders' Light Engineering Business Promotional Council, under the Ministry of Commerce, strongly urged for providing cheap and collateral free loan. To help them overcome this constraint, IFC brought together key stakeholders from the industry and the financial sector to form a Core Group that will guide the financial sector and the Bangladeshi government to provide suitable policy and funding assistance to the sector. The first Core Group meeting which took place on November 28, 2007 at the IFC office decided to set up a lease registry to encourage financing of moveable assets and revise the upper limit for collateral free loans. IFC believes that they will able to make available cheap loans for the light engineering companies by mid-2008.

Most experts, trade analysts and entrepreneurs believe that making available cheap loan may provide some immediate boost to the performance of this sector, but for long term growth and sustainability setting up of an industrial park is the utmost necessity. Hopefully, the current government will take this into consideration and set up the industrial park within the earliest time possible.

Herbal medicines and medicinal plants

Currently the country meets 90% of the annual demand for medicinal plants by importing from neighbouring countries. Various development agencies felt that it may not be possible to promote medicinal plant cultivation as cash crop at least for now. So, the key idea is to boost this high export potential sectors by enabling establishment of high quality herbal processing factories. Initially the factories will source raw medicinal plants from neighbouring countries; at later stage the farmers drawn to the cultivation of medicinal raw plants as there is a ready market for it.

Since the herbal preparation and processing in our country are almost similar to that of India, we need to look at their strategy in promoting this sector. The Indian government targeted to increase herbal medicine export to Rs 12000 crore in 2012 from Rs 3000 crore in 2006. The government asked the herbal medicine exporters of India on what type of assistance they needed. In this regard, the exporters on June 2007 asked the government to set up an industrial park with research and development facilities for herbal medicine processing. The government agreed primarily about the proposal and decided to work with the exporters in setting up the park. So, the best option for our country is also to follow this similar policy for the local entrepreneurs and also attract FDI to those parks. The most attracting thing about Bangladesh is that companies can source medicinal plants from the eastern states of India and Burma at cheaper rates.

Home textiles

Export earning from this sector has almost quadrupled during last six years (from 1999-00 to 2005-06) and more potential for further growth remain untapped. The major policy recommendations by trade experts was to assist such entrepreneurs to participate in international trade fairs and establish linkages between suppliers at grassroots level and lead producers. However, the industry leaders in Home textiles argue that Ministry of Commerce mostly selects the large RMG exporters in lieu of them for participating in these fairs. Recently, the entrepreneurs are asking more support in technical cooperation (hiring technical expertise in designing new items, quality controls, capacity building of workers etc.) than marketing.

Diversified jute products

The once golden sector has started to revive itself but at a much slower rate. The sector has diversified its product type from jute yarn and canvas to jute cloth, shoe sole, and complete shoes, geo textiles etc. The recent closure of four government-owned jute mills spurred much debate. The wage of jute mill workers in India is almost double that bring to the jute mill workers in Bangladesh. India is importing quality raw jute from Bangladesh at high cost. Then why jute industry in India is flourishing and our jute industry is dying. It is because the jute industry in India are getting too much support from government - (i) 20% cash subsidy on capital investment, (ii) cash subsidy in the name of External Marketing Assistance (EAM) on export quantity in certain countries, (iii) Duty Entitlement of Pass Book (DEPB) Scheme which provides electricity and other utilities at less than market rate, and (iv) cheap loan from Technology Up-gradation Scheme for modernising machinery.

Therefore, in a well-thought-out decision, the current government decided to lease out eight state-owned jute mills to the private sector and foreign investors. Two jute mills in Chittagong have already been leased to foreign companies. To many experts and analysts, this will provide the much necessary vigour and boost to the sector. This decision also came at the right time when many consumers in developed country are spending more for environment friendly products. Recently some policymakers are stating that government needs to prohibit raw jute export to ensure the availability of cheap raw jutes for these mills.

Handicraft

Experience shows that handicraft exports worth 1 million USD usually provide employment and income for 13000-14000 village women, while similar size of RMG exports generates only 300-400 jobs. So, this sector has the most potentiality in directly improving the livelihood of rural poor. The government and policy makers must view the sector from this perspective and assist the entrepreneurs and exporters to search for new market, innovating new products and boost export volume.

Look at India as to what they are doing to boost this sector - the ministry concerned has developed a GIS based handicraft website. The artisans can form a group and register themselves through this website. The website provides space for each group. The local officials assist the groups in uploading the pictures of their handicrafts and designing the web page. Then the ministry assist them in four dimensions capacity building of the group, financial assistance at zero interest rate, technological assistance (design, raw material and improved equipments), and marketing assistance (regularly arranging sales cum exhibition at tourist points). Because of this scheme, the handicraft export increased from Rs 5058 crore in 1998-99 to Rs 13032 crore in 2004-05. The group formation has not much implication in case of our country as most artisans have direct linkage with exporting institutions. Technical assistance, marketing support and cash subsidy are the necessary policies to boost this sector. The government may also build a shopping mall exclusively for handicraft products at Dhaka (this exists in case of computer products at IDB Bhaban) to boost sales and production for local consumption.

It can be said that the interim government has been trying to eliminate most of the generic supply side constraints: port cost, weak utility service, invisible cost of doing business, lack of information, etc. since January 11, 2007. It is high time we provided all necessary support to promote the non-traditional sectors. Growth of these selected sectors will not only diversify the export basket of the country but also will reduce our poverty considerably.

....
The writer is an Assistant Professor, Department of Development Studies, University of Dhaka.