

Budget 2015-16 targets higher growth sans exports

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The proposed budget for the coming fiscal year (FY) has been delivered. Higher growth is the ultimate goal. It is a complex document, to say the least; the outcome of painstaking efforts and long hours of civil servants primarily in two Divisions of the Ministry of Finance – the Finance Division and the Internal Resources Division – with inputs from all the government ministries. The delivery of an annual budget to Parliament by an energetic octogenarian Finance Minister is itself no mean task. Now comes the time to take stock of its wide ranging implications on the economy. Not surprisingly, the business community by and large showered a lot of praise for this budget that was dubbed business and investment “friendly”. Not to be outdone, the usual critique was not far behind.

No doubt this Budget has covered a lot of ground, in trying to address just about everything that is needed to put the economy on a path of higher growth, from strategies for stimulating private investment to modernization of land market, creating Special Economic Zones, fast tracking several transformative infrastructure projects, adoption of National Social Protection Strategy, and spending on skill development. Coming as it does after a period of strife, these measures are promising. Most important, I agree with business leaders that it is on the whole business-friendly. And the presumption is what is good for business should also be good for the economy, except for a few wrinkles that I will allude to later.

To be fair, the budget deserves careful introspection before any sensible judgment can be made on its qualitative and quantitative goals and visions, of which there are many, considering that it took the Finance Minister a good four hours to deliver his budget speech. One wonders if it is time to break this tradition in favour of a shorter presentation.

As expected, this budget returns with renewed commitment to scale the wall of 7.0% gross

domestic product (GDP) growth for the economy, after years of drifting in the periphery of 6.0% growth. This is in keeping with the target of the Seventh Five Year Plan (FY2016-2020) whose launch coincides with the present budget. The goal of moving to a higher growth trajectory might appear ambitious to many though it is well within the economy's potential as recognized by most analysts of the Bangladesh economy. But there are preconditions to achieving such growth. One needs to look deep to see if the budget contains policies and strategies to fulfil those prerequisites of high growth in the coming year.

The first challenge comes from the investment requirement. At first glance the business community feels the budget is investment friendly. Spending on infrastructure and Special Economic Zones, supported by a stable political climate, are expected to fuel private investment, domestic and foreign. But the challenge will be to raise investment by 2.0% of GDP, from 28% to 30% in a year. The list of fast track transformative plant like those of the Padma Bridge, Deep Sea Port, and Matarbari Power project is impressive, but they have long gestation periods.

Meanwhile, all-out efforts to lift foreign direct investment (FDI) from a pitiful 0.5% of GDP to 1.0% would be a big shot in the arm. Commitments to human capital development and raising the rate of female labour force participation are the other strategies bound to yield good growth dividends over the medium term. Raising total factor productivity (TFP) by making labour and capital more productive through the wider application of information communication technology or ICT has been listed as a means to achieve higher growth but if past record is any guide TFP growth is slow in coming.

That brings us to the next challenge of fuelling the economy's major growth driver – exports. On the plus side, projections by International Monetary Fund (IMF) of global economic prospects for 2016 indicate a modest boost to our economy coming from the external sector. Global growth is projected at 4.0% for 2016 with a stable outlook over the medium term. It would have been better if global growth outlook were brighter. Yet, even a modest up tick should help our exports, domestic economic activity, and revenue mobilisation in FY2016.

But is the budget export friendly? To take advantage of positive global trends and seize export opportunities, we would have liked to see the budget dwelling more on how it proposes to address the export challenge to support 7.0% GDP growth. Agriculture and

services are not the sectors that will be the drivers of high growth. It will have to be the manufacturing sector – and export-oriented manufacturing sector – that must grow at upwards of 10.5% per annum for the next five years to sustain 7.0%+ growth over the period of the Seventh Five Year Plan (FY2016-2020), whose launching coincides with this budget.

For the long-term, theory and historical evidence supports the contention that Bangladesh should continue on a path of export-oriented development. Going forward, export markets, rather than the limited domestic economy, will also be the main driver of employment for the vast number of labour force entering the labour market as an offshoot of the demographic transition the country is experiencing. In addition to creating jobs for 2.5 million workers entering the labour force every year, there is a huge backlog of under-employment that needs to be addressed.

The domestic economy, now about \$200 billion and growing, is still miniscule in comparison to the global market of \$75 trillion. Courting export markets does not mean ignoring the domestic market. It means keeping incentives equally attractive for both domestic and export markets. With export of manufactures making up 95% of our export basket, slapping a withholding tax of 1.0% on all exports sends the wrong signal. Export taxes are imposed mostly on agricultural commodities to restrict exports in order to lower domestic prices or meet domestic demand. Taxing export of manufactures is rare around the world. We understand this is merely a revenue imperative warranted by the sluggishness in mobilising revenue from domestic taxation.

The budget, as a statement of public policy regarding Bangladesh's external trading relations, should have come out more comprehensively on what the short-term and long-term strategies were in turning around the protection incentive mechanism that sustains relatively high profitability of import substitute production and discourages exports. To promote exports of non-ready made garment (RMG) products that is also a strategy for export diversification, the first challenge will be to scale back some of the protection.

This is easier said than done. For all the commitment to trade openness, the appetite for lowering the protection regime is not there yet. If and when there is a decision for a change of direction in policy it would still call for a long drawn out battle. The beginning could have been made with this budget in view of the growth target of 7.0% that can only be delivered

by export-oriented manufacturing industries. Now that has to wait for another day.