Drawing lessons from RMG export success

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The April export numbers me in. Once again, the results are baffling to some analysts who were

expecting the worst in view of two catastrophic events in 2013 – Rana Plaza tragedy and year-long political turmoil – that should have left exports in a quandary. But belying many pessimistic projections the export story seems to be headed towards a happy ending for the fiscal year. Ten months into the year, exports have clocked a growth rate of 13.2% for the year, very much on target, and, what is more important, month-on-month exports registered a turnaround in April after declining every month since November 2013 as an aftermath of the political turmoil that intensified at the close of 2013. Chances are that we might end the

year with “export resilience” being the lead economic story of the year of which barely two months remain. Make no mistake, this success story masks the fact that non-readymade garment (RMG) exports continued to remain in the doldrums, growing at barely 4.5% for the year, against RMG export growth of l5.5%. Thus our mono-product export basket continues to become more concentrated, with 80% of our exports in the RMG category. Ask the man on the street and he will tell you that we should diversify our export basket. But that is easier said than done. Why? First, let us look at the trend for the past 10 years. In fiscal year (FD 2003, RMG exports made up 75% of total exports, the remaining 25% being made up of footwear and leather products, home textiles, ceramics, agro-processed goods, frozen food, jute goods, and others. Though export diversification has been embraced as a policy priority for long export trends show the opposite result. By FY20l4, export concentration has increased, though good progress has been made in geographical diversification. New regions and countries are growing in importance as destination of our exports, namely, BRICS (Brazil, Russia, India, China, South Africa) and Japan. But product diversification has gone nowhere. To be sure, in order for export concentration to decrease over time, non-RMG exports have to grow at a faster annual rate than RMG exports. Between FY2003-FY2013, we find that RMG exports grow at an annual rate of 16.4%. Despite the fact that non-RMG exports fared a decent growth rate of 12.7%, their share in the export basket slipped to 20% by the current FY. Thus the numbers suggest that for export concentration to decrease, it is not enough for new export products to emerge in our export basket, but non-RMG exports will have to grow at a faster rate than RMG exports. Does that look feasible in the coming years? True, we have a few good performers, such as footwear and home textiles, having average 25% and 33% growth respectively, over the past ten years. The other two leading exports, jute goods and frozen food, average 16.5% and 8.6%, respectively, though their performance was rather erratic, frequently showing sharp declines. Together, these four products make up 10% of all e4ports, or one-half of non-BMG exports, in value terms. But the remaining non-RMG group did not show any sort of export dynamism over the past decade to become major players over time. In particular, some promising exports like ceramics, bicycles, and ocean-going vessels, have not shown any sustained growth, waxing and waning over the years with occasional blips of good performance. At least for the current year, things have not gone well for the non-RMG exports at all. If RMG entrepreneurs and workers could beat the odds and achieve targets. What might be the reason that non-RMG exporters were more constrained by the adverse circumstances? In other words, what makes RMG entrepreneurs more resilient in the face of enormous challenge that the political and external market environment

created. It must be their determination to hold on to export markets in the face of stiff global competition which made them keep production lines open and stick to deadlines often at heavy costs. We me aware that even during daylong hartals RMG factories remained in operation and trucks transported goods to the port city in the dead of night while many consignments were shipped by air to meet deadlines. RMG entrepreneurs have thus earned a reputation for keeping their commitments against heavy odds. International markets like such entrepreneurs. The simple fact is that retention of global markets is not a sure thing exporters have to be on their feet 2417 to keep foreign buyers happy. Is that kind of drive missing in non-RMG exporters? Or, is policy dichotomy the problem? Exporters of Bangladesh are governed by different sets of rules depending on whether they belong to the 100% export-oriented RMG sector or the rest. The provision of special bonded warehouses (SBW) for stocking duty-free imported inputs, back-to-back letter of credit (LC) mechanism that facilitates imports of inputs on credit against master export LCs, and 'green channel' import-export customs clearance make RMG sector operate in something of a "free trade enclave" in an otherwise high-tariff and restrictive import regime. While quotas under the now defunct Muti-Fibre Arrangement (MFA) gave Bangladesh RMG producers initial market access, that is not the whole secret of their success. I would argue with all the backing of trade theory and policy that it was the free trade arrangement that provided the right impetus for global success in an industry that fitted squarely with Bangladesh's competitive advantage in low-skill intensive manufacturing Other exporters (who are not 100% export-oriented) are not so privileged and must plough their way through the cumbersome tariff and duty-drawback regime often coupled with many burdensome regulations as well. Why can't we draw lessons from the huge success of RMG exports? A bit of history becomes instructive at this point. In the late 1970s, a, South Korean company, Daewoo, saw immense opportunities in partnering with a Bangladeshi firm, Desh Garments, in manufacturing readymade garments for export to the global market. Apart from training Bangladeshi workers, Daewoo brought the knowledge of creating free trade passage for export production in the form of bonded duty-free imports of inputs in a high-tariff and restrictive import regime. They realized that exports cannot take off unless it has access to world-priced (duty-free) inputs in order to be on a level-playing field with global competitors' Because, unlike domestic import substitute industries which can be compensated for duty-paid inputs through tariff protection to their output, export production faces zero protection in foreign markets and paying duties upfront on imported inputs undermines its competitiveness. It goes to the credit and farsightedness of Bangladeshi policymakers in those early days to embrace such a unique and unfamiliar policy

of SBW for export. Yet, they took that leap of faith which has eventually produced an industry that Bangladesh can be proud of (in spite of all the flaws that we me all aware of — issues that are not the subject of this write up). What is not readily apparent to many is that RM G's success is also the success of a unique policy that produced phenomenal results by global standards – 4.5 million direct jobs and another 4.0 million in linkage industries today and providing livelihood for some 10 million people in a poverty-stricken country. In view of this exemplary record, it seems paradoxical that policymakers would not draw the lessons from RMG success and try to replicate it in other export sectors. It is often argued that it would be practically impossible to monitor SBW facilities in firms that are not 100% export-oriented. Would that be a fair argument in this day and age of electronic record-keeping and monitoring? To be fair, there has been modest progress in granting SBW facility to some firms that produce both for exports and the domestic market. However, that is not treated as a rule but as an exception. The singular focus on customs revenue from imported inputs is an oxymoron that still deters the National Board of Revenue (NBR) from taking the RMG route for other exports. Instead of accepting and embracing SBW in a high tariff regime as a cardinal principle for export success, the tendency to cling to a dysfunctional duty-drawback system in the hope of protecting revenue remains a major barrier to non-RMG export success and, hence, exports diversification. With the FY20l4-15 budget round the corner, the time is ripe for a careful review of what is a truncated SBW policy that still constrains the growth of non-RMG exports.