Identifying and Overcoming Constraints to Exports: the Case of Bangladesh

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**ABSTRACT**

Like many other third-world developing countries, Bangladesh relies quite heavily on exports to provide the needs of its large population with high density. Though the growth of export is now widely considered one of the key determinants of economic development in a developing country like Bangladesh, the export sector of this country is, however, not yet well-developed and Ready-Made Garment (RMG) has been the single most exportable item in the country, as indicated in Table 1. The export sector faces insurmountable obstacles to its development and growth. This study, therefore, aims to investigate the constraints that exporters face in exporting and suggests measures in overcoming the constraints to export development and growth in this country. It treats the factors perceived to affect the performance of the export sector of the country and presents an understanding of the strategies that are needed for enhancing export business of the country. Survey data were collected from 50 exporting firms to investigate problems and evaluate the effectiveness and relevance of the government policies and programs as perceived by the exporters. Secondary data was also used for this purpose. The findings indicated that to the extent that exporters were provided with technical assistance and incentives for export, political strife was eliminated, productive political climate in the country ensuring a sound political system was instituted, lawlessness character of political parties was totally extinguished, rule of law and political stability were established and enforced, a sound transportation system was firmly established and cemented, garment workers’ rights and safety were guaranteed, the export sector of the country would emerge as an instrument to broaden the base of production as well as diversification of exportable goods. This study implies that a positive political environment and positive reinforcement of a stable socio-political climate for a sound market economy will foster a positive climate for the development of export sector in Bangladesh. Implications and conclusions are drawn.

**INTRODUCTION**

Formerly known as East Pakistan, Bangladesh came into being in 1971, when the two parts of Pakistan split after a nine-month long bitter civil war, which drew in neighboring India. With 150 million people in an area of 55,598 square miles, Bangladesh is now the eighth largest in the world in population with high density (CIA World Fact Book, 2008). Some 40% of the population lives below the poverty line, according to the U.S. government and many of its 150 million residents survive on less than $2 a day. With such a large population, poverty is rampant, and there is a lack of educational and medical resources. There has been a lack of good governance because of political strife since its inception in the 1970s and consequently the country has remained one of the poorest. The adult literacy rate is 43.1 percent (53.9 percent for males) and the average life expectancy at birth is 64 years (CIA World Fact Book, 2008). The country, because of the growing globalization of business and subsequent openness of markets, is trying to diversify its economy, with export sector development a priority.

Though the substantial amount of research in this field has been devoted to investigate the relationship between export success and export marketing strategy (e.g., Abby & Slater, 1989; Cavusgil & Zou, 1994), export determinants as firm’s structural characteristics, market orientation, market characteristics, managerial attitudes (e.g., Chetty & Hamilton, 1993; Slater & Narver, 1993) and the effects of perceived export barriers on the export expansion of the firms (e.g., Ford & Leonidou, 1991), the studies investigating the issues challenging the exports from developing economies have been very scarce compared to the large amount of vast amount of...
studies conducted in the context of developed economies such as the United States and Europe. This type of situation calls for the need to identify the problems and explore the variables associated with the growth of export trade in developing countries like Bangladesh. The present study, therefore, explores the factors that impede the export growth and the prerequisites for an enhanced export performance in export market in Bangladesh.

Built on theories and researches this paper captures the essence of identification of the constraints facing exporters and facilitating the identification of implementable strategies and approaches necessary for overcoming the constraints for the promotion and strengthening of export sector, thus constituting an aid to the policy makers, researchers, and businesses for improving the various aspects of exports in Bangladesh in particular and in developing countries in general.

Export Scenario of Bangladesh:

Historically Bangladesh export trade is featured by the dominance of few commodities in a narrow market. The main components of Bangladesh exports are ready-made garments (Knitwear and Hosiery products), raw jute, Jute goods (including carpet) fish and shrimps, leather, tea, agriculture products, ceramic and melamine products, handicrafts and engineering products. Among these, ready-made garment is the largest single commodity exported (Chowdhury, 2004). In 2012 -2013, it constituted nearly 79.63% of the total exports (see table 1 below)

Table 1: Comparative statement on export of Ready Made Garments (RMG) and total exports of Bangladesh.

<table>
<thead>
<tr>
<th>Year</th>
<th>EXPORT OF RMG (IN MILLION US$)</th>
<th>TOTAL EXPORT OF BANGLADESH (IN MILLION US$)</th>
<th>% OF RMG'S TO TOTAL EXPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>4583.75</td>
<td>5986.09</td>
<td>76.57</td>
</tr>
<tr>
<td>2002-03</td>
<td>4912.09</td>
<td>6548.44</td>
<td>75.01</td>
</tr>
<tr>
<td>2003-04</td>
<td>5686.09</td>
<td>7602.99</td>
<td>74.79</td>
</tr>
<tr>
<td>2004-05</td>
<td>6417.67</td>
<td>8654.82</td>
<td>74.15</td>
</tr>
<tr>
<td>2005-06</td>
<td>7900.8</td>
<td>10526.16</td>
<td>75.06</td>
</tr>
<tr>
<td>2006-07</td>
<td>9211.23</td>
<td>12177.86</td>
<td>75.64</td>
</tr>
<tr>
<td>2007-08</td>
<td>10099.8</td>
<td>14110.8</td>
<td>75.83</td>
</tr>
<tr>
<td>2008-09</td>
<td>12347.77</td>
<td>15565.19</td>
<td>79.33</td>
</tr>
<tr>
<td>2009-10</td>
<td>12496.72</td>
<td>16204.65</td>
<td>77.12</td>
</tr>
<tr>
<td>2010-11</td>
<td>17914.46</td>
<td>22924.38</td>
<td>78.15</td>
</tr>
<tr>
<td>2011-12</td>
<td>19089.69</td>
<td>24287.66</td>
<td>78.6</td>
</tr>
<tr>
<td>2012-13</td>
<td>21515.73</td>
<td>27018.26</td>
<td>79.63</td>
</tr>
</tbody>
</table>

Data Source Export Promotion Bureau Compiled by authors

It is observed from the above table that exports volume of Bangladesh has been gradually increasing from the period 2001 to 2012 (see table 1 above). From the analysis of the table it is also seen that trend value of export volume was gradually increasing over the last 12 years. It may be said that export position of Bangladesh during the period of 2001 to 2013 is indicating an increasing trend. This is, perhaps, due to significant policy reforms in the last two decades undertaken by the government for promoting investment by providing generous incentives to the development of export. For example, to stimulate the growth of the country, it has adopted an open door policy to attract foreign investment. In addition to this, the Bangladesh Export Processing Zone, an official organ of the government, is devoted to promoting, attracting and facilitating foreign investment in the Export Processing Zones.

Though the effectiveness of these incentives and other industrial policy measures continue to be debated (Pack, 2000), export-processing zones have been effective in Madagascar, Mauritius, and Mexico. Moreover, Sriman and Manu (1995) suggest that changes in economic and political environment in many developing countries bring opportunities for multinational corporations. Several authors (Kaynak, 1984, Leonidou, 1995) have argued that developing countries have several particularities that compel companies to integrate its characteristics into international marketing program. This means that firms should align their strategies with the characteristics of the export market, and thereby, it would be of interest to determine the key factors to be considered by companies in this export market.

Despite tremendous growth in its export development strategies during the last decade, (Mridul, B, 2000), Bangladesh, where foreign trade is mainly import based, faces serious balance of payment problem because of large dependence on limited number of export items and import of capital goods, industrial goods, fuel, and a wide variety of consumer goods. In such a case the increased exports may become the prime mover in the economic development cycle in a densely populate of Bangladesh. Unfortunately, Bangladesh exporters face insurmountable obstacles to expand their operations and indeed a clear understanding of the market and the problems it encounters is essential for smooth growth of the export sector of this country.
The present study deals with the impediments that are encountered by the exporters in Bangladesh. The impediments refer to a variety of market imperfections that exporters are especially prone to. These include infrastructure, political climate, financial intermediation, trade and industrial policies, market information and knowledge, policies and institutions to support faster export growth, such as customs, rule of law, workers' rights and safety, quality, standard and logistics.

3. Methodology of the Study:

Data and information relating to this study were collected from both primary and secondary sources. Personal interviews and field investigation techniques were adopted in collecting data from primary sources. It was carried out by conducting several interviews with export managers of major exporting firms of Bangladesh. Two of the researchers actively participated in the interview process. A structured questionnaire was designed on the basis of the objectives of the study and was distributed to the sample population of the study. The respondents were requested to indicate their perceptions with regards to series of factors likely to affect their export performance in foreign markets. The listed items were identified from related literatures of the firms’ export behavior (Chetty & Hamilton, 1993); export performance, (Katsikeas et al, 1996) as well as information pertaining to the firms expansion in export market (Robertson & Wood: 2000). Concerned managers were asked to rank the importance of the listed items on a 5-point Likert scale ranging from “not at all important “to extremely important. These items are identified in table 2

The collected data were summarized and interpreted with the help of, 5 points Likert scale in order to identify and measure the significance of different variables for increasing export business of Bangladesh. Arithmetic mean and standard deviation were used for analyzing data set.

Sample Population:

The study included a survey of 50 exporting firms of the country to investigate into problems and evaluate the effectiveness and relevance of the government polices and program as perceived by them in doing export business. 40% of the sample enterprises were partnership business. 50% were sole proprietorship and the rest belonged to private limited company. We achieved responses from 100 subjects (managers and assistant managers) from these fifty (50) exporting companies. One in every five had Master Degree, 48% had Bachelor Degrees in various branches of knowledge and the rest had high school and some college education.. They were all the managers and assistant managers of the exporting companies that were interviewed. Most of these establishments have occurred in nineties given the development of substantial demand and the increasing competitive pressures. 80% of the respondents have reported the behavior of their companies as proactive and accordingly these firms are strongly committed to develop their exports rather than reacting to the stimuli they are receiving. The importance of such an exploratory study, therefore, stems from a strong desire and commitment of firms for enhanced export performance.

4. Findings & Analysis

Despite the differences in the degree of perceived importance, the responding managers have considered most of the listed items as affecting significantly their export performance in international market (results exposed in table 2; overall mean score 3.2). Any item listed in the table that falls below 3.2 has been perceived by the exporters as less important in degree as opposed to those items that are above the mean score.

Table 2: Factors impeding exports.

<table>
<thead>
<tr>
<th>Nature of problems</th>
<th>Mean Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Government Support</td>
<td>2.38</td>
<td>1.27</td>
</tr>
<tr>
<td>2 Bureaucratic procedural delays</td>
<td>3.09</td>
<td>1.22</td>
</tr>
<tr>
<td>3 Political situations and corruptions</td>
<td>4.76</td>
<td>.57</td>
</tr>
<tr>
<td>4 Law and order situations</td>
<td>4.87</td>
<td>.33</td>
</tr>
<tr>
<td>5 Information and Market Research</td>
<td>3.64</td>
<td>.77</td>
</tr>
<tr>
<td>6 Transportation</td>
<td>3.95</td>
<td>.77</td>
</tr>
<tr>
<td>7 Good governance</td>
<td>4.40</td>
<td>.56</td>
</tr>
<tr>
<td>8 Language</td>
<td>1.79</td>
<td>.80</td>
</tr>
<tr>
<td>9 Export Education &amp; training</td>
<td>4.03</td>
<td>.85</td>
</tr>
<tr>
<td>10 Warehousing</td>
<td>2.86</td>
<td>1.23</td>
</tr>
<tr>
<td>11 Finance</td>
<td>3.24</td>
<td>.82</td>
</tr>
<tr>
<td>12 Export diversification</td>
<td>3.59</td>
<td>.49</td>
</tr>
<tr>
<td>13 Foreign representative</td>
<td>2.64</td>
<td>.48</td>
</tr>
<tr>
<td>14 Garment workers’ rights and safety</td>
<td>2.99</td>
<td>2.11</td>
</tr>
</tbody>
</table>

Perceptions are indicated on a 5-point Likert scale ranging from 1 not important to 5 very important. Most of the barriers in the study were perceived by the respondents to be significantly important (equal to or larger than the mean score). Respondents were asked to give their opinions on the factors that contribute to increase export business. They placed highest priority on political stability, good governance, and eradication of
corruption from the society (4.40) followed by adequate infrastructure facilities. However, they also revealed that financial help, research and development, education and training, technological assistance have significant impact in the development of exports of the country. Discussion of some of these impediments runs as follows:

**Political Situations and Corruptions:**

The managers perceived political and economic climate as the most significant encountered problem. A favorable political and economic climate is a pre-condition for the development of any business in any country in this world. Unfortunately economic and political environment in Bangladesh are too much polluted. Political structures remain confrontational. Personal and political enmity between political rivals, frequent hartal (strikes), lack of respect for elementary principles of democratic governance have become the principal characteristics of political system of the country. A series of prolonged hartal affect the socio-economic and political condition of the country. The average cost of hartal during 1990s to Bangladesh economy was 3 to 4 per cent of GDP ( Gross Domestic Product) of the economy (UNDP cited in New Age: 2005). Because of the frequent and prolonged hartal from July 2012 to February 2013, the loss in GDP was 1.56% ( see Roy and Borsha, 2013). Funny thing in this country in regard to hartal, sieges and blockades is that the government itself calls for hartal and blockade of the capital city to prevent the opposition parties to gather in capital city from within and outside the city banning the movement of all kinds of transportation (public and private) to move in and out of the capital city, practically putting the city under the siege of law enforcing personnel ( police, paramilitary), thus displaying a true undemocratic and autocratic character by the government. The recurrence of the hartals (strikes) in the country affects the efficient performance and operation of the factories. Political corruption is widespread in Bangladesh. Citizens perceive political parties (62%) and the Parliament (40%) as some of the most corrupt institutions of their country ( Transparency International, 2011). Lack of political character of the political parties leads to strikes, demonstration and other destructive activities and is a big permanent concern for development and shipment of exports just –in-time. Deterioration of law and order situation is often cited as impediments for increasing export business. It is alleged that in Export Processing Zones (EPZs) exporters enjoy legally approved special protections and privileges. But the main problem lies outside the EPZs where law and order situation is not satisfactory.

A number of respondents reported that there is a pervasive lack of confidence in the legal and regulatory framework of the country, which is characterized by weak and non-transparent administrative and judicial systems, inconsistencies in enforcing laws, bureaucratic interpretation of rules, lack of firm political commitment, lack of accountability, hooliganism and political musclemanship, lack of rule of law, lack of control of corruption. These are significantly hindering the growth of exports in the country. The result is in accordance with the findings of Robertson & Wood (2000) where information related to legal considerations such as tariffs and non-tariff barriers, laws affecting agents and intellectual property protection were roughly equally considered in importance by a multicultural sample of international managers.

**Bureaucracy:**

The attitude of public officials and bureaucrats is not conducive for increasing export business in Bangladesh. Rules and regulations pertaining to exports are complicated and too much paper work is needed. It takes more time for getting permission for export. So the exporters are required to go from office to office for obtaining clearance. It is a matter of regret that there is the lack of proactive attitude among the government officials and businessmen of our country. We argue that our businessmen are not so much interested to involve in export business due to least possibility of becoming become millionaire overnight. Different facilities and incentives provided by the government for export business are not properly executed and government patronization is not also up to the acceptable standard.

According to many, the growth of the apparel export industry has also led to the proliferation of bribery and corruption in Bangladesh. The official view of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is that the garment entrepreneurs are innocent victims of corrupt customs and tax bureaucrats. Some participants in this study reported that the sum of monies paid as bribe to the bureaucrats at all levels by this sector alone exceeded $40 million each year. If this is true, that definitely indicates the massive costs of corruption to this industry and the economy.

Bangladesh is obligated to follow guidelines of World Trade Organization (WTO) regarding its trading policies, and therefore, is currently in the process of reducing tariffs. Foreign investment spending, however, has not improved adequately. Corruption especially deters foreign investors from investing. In essence, Bangladesh must stop corruption to bring about significant increase in foreign investment, thereby enhancing export business of Bangladesh.

**Infrastructure:**

A good infrastructure affects the strategy of the firms in export markets and acts as an incentive for market entry. Lack of a good infrastructure is seen as a hindrance to the realization of the export objectives (Robertson...
& Wood: 2000). Such hindrance is likely to be greater in the context of Bangladesh. Infrastructure facilities in Bangladesh are inadequate. 50% of the respondents reported poor transport facilities, inadequate telecommunication services, Telecommunications reduces the need for traveling and thus saves time and money for businesses. Telecommunication is both an industry and an infrastructure, helping other infrastructure to grow. Absences of good telecommunications deter access to information and opportunities for entrepreneurship (McDowell: 1997), especially in export industry.

Transportation system of our country is very faulty and insufficient. The communication system between Chittagong port (the country’s main sea port) and other ports of the country is very undeveloped. As a result, the supply of various goods to the port in time of necessity becomes interrupted. It becomes very difficult to export perishable goods like vegetables, fish etc. It is often found that for lack of sufficient right transports, these goods get rotten long before reaching the port. Even delay in arriving goods in port also hampers exports. It is harmful both for the country and for the exporters. Moreover, we have to depend on foreign ship in case of sending goods because we have an acute shortage of sea-vessels. For this reason the transport cost becomes high. It is undoubtedly a big barrier in expanding export trade. In 1990’s, railways covered approximately 1800 track miles and paved roadways covered approximately 8,500 total miles with a majority (approximately 5,00 miles) being paved in 1992 (CIA 1999; ITU 1999; World Bank Group; 1999 as cited in Camp & Anderson: 2000).

Another infrastructure problem relates to availability of information about the foreign market. With respect to the unavailability of information about the foreign market, the responding managers have emphasized the significance of a set of impediments related to the lack of information (mean score 4.2). Thus this set of items is perceived as a major deterrent for implementing efficient marketing strategies given the fact that the companies are required to gather, apprehend and monitor information relative to a wide array of aspects in order to achieve higher levels of performance. Most of the enterprises in Bangladesh have neither the in- house- capacity to gather necessary trade information nor the networking facility to have access to information. The chambers and trade bodies also lack capacity to provide documentation and in giving assistance to their membership in accessing relevant information on export markets, import sourcing, indenting and investment. Information is very cost intensive business and businessmen are constantly in need of businesses information.

All of these infrastructure bottlenecks make “just-in-time” delivery impossible. For example, because of poor infrastructure, the purchase order to delivery cycle (or lead time) of the garment industry is one month longer than in major competing countries. (Asian Development Bank Outlook 2005). Poor transport infrastructure or inefficient transport services mean higher transportation costs and longer time of delivery, which create bottlenecks to the development of healthy entrepreneurship in this sector since profit opportunities would become limited.

Financial Support:

It was found that exporters faced problems in obtaining financing from financial institutions. For them, the greatest handicap is the supply of capital. These include “initial capital” to cover preliminary expenses; “working capital” to purchase raw materials or merchandise for resale and supplies. and reserve capital not only for unexpected contingencies but also for personal and family maintenance. They pointed out that the unhelpful attitude of the officials and government agencies in financing exports were barriers to obtaining finance.

The conservative attitude of the financial institutions act as deterrents to the availability of working capital requirements to purchase raw materials in time. Furthermore, it is difficult to get access to institutional finance without any network or political lobby. Political patronization is required to get loan from financial institutions. So new exporters as well as general businessman will not get it in a country where there is a very limited financial resource.

Workers’ Rights and Safety:

Factory owners intimidate and threaten workers for organizing trade unions, and prosecute those responsible for attacks on labor leaders. Human Rights Watch interviewed 47 workers in 21 factories in and around Dhaka. The workers claimed that some managers intimidate and mistreat employees involved in setting up unions, including threatening to kill them. Some union organizers said they were beaten up, and others said they had lost their jobs or had been forced to resign. Factory owners sometimes used local gangsters to threaten or attack workers outside the workplace, including at their homes, they said ( see Human Watch Rights News, February 6, 2014).

Bangladesh amended its labor law in July 2013 after widespread criticism following the collapse of the Rana Plaza building, which killed more than 1,100 garment workers. but since the law still requires union organizers to get the support of 30% of the factory’s workers (as reported in Human Watch Rights News) before registering a union, employer threats and intimidation make it a difficult task, especially in factories employing thousands of people.
Governmental Initiatives and Assistance:

Tough the bottlenecks are many and varied, some important to help export trade in the country are worth mentioning, as was evidenced during interview process. These are:

(i) Income tax exemption;
(ii) Financial incentives including cash assistance;
(iii) Export loan on easy term and lower interest rate;
(iv) Air transport facility with reduced transport fare;
(v) Tax return bond facility and duty draw back system;
(vi) Assistance for setting to infrastructures and related units to reduce production cost.
(vii) Expansion of institutional and technical facilities for developing product quality and quality control.
(viii) Assistance in marketing products;
(ix) Assistance in exploring markets abroad;
(x) Assistance in foreign investment

The Ministry of commerce has also taken initiatives to seek duty free, quota free market access of Bangladesh products in the markets of developed and developing countries. To familiarize our products in different countries Export Promotion Bureau (EPB) organized Bangladeshi single country trade shows in Moscow, Yangon, Paris, Toronto, Sydney, Milan, London and Kathmandu during 2003 to 2005. (Mir, M: 2005).

With a view to encouraging the exporters to export more and make the prices of the products competitive internationally a package of cash incentives had been accorded which includes frozen shrimps and other fishes (10%) Bi-cycle (15%), Agro products and agro-processed products (30%) TMG wade of local fabrics (5%), Jute products (7.5%) Leather products (15%), Potatoes (20%), Handicrafts (15% 20%), Bone crusted (15%), Tobacco (10%) and Hatching eggs and one day old chicks (25%. (Mir, M: 2005, p 62).

Despite, the country’s exports are not expanding as expected. Lawlessness character of the political parties is accountable for it. For example, 90% of the respondents interviewed reported that the country’s port cities’ transportation must remain from political siege, strikes and lockouts. If the political parties do not refrain from this kind of destructive political and economic activities, whatever policy, support and incentives for the development of exports might be there for exporters, it will simply remain in black and white. Lack of political character of the political parties is a great deterrent for increased performance of the export sector of the economy. Therefore, it implies that the government must enact and enforce laws ensuring garment workers’ rights and safety, declaring political activities like siege of the ports and the country, strikes (closure of offices and business) illegal and establishing a free and fair democratic society politically and economically.

Conclusions:

Export business plays a pivotal role in economic development of Bangladesh. It is one of the main sources of foreign exchange earning and a means of reducing deficit of balance of trade of the country. Effective measures and supportive policy decisions along with incentives provided by the Government have contributed positively towards the rapid overall export growth of the country. If exporters are provided with technical assistance and incentives for export they may be able to broaden the base of production as well as diversification of exportable goods. By undertaking proper policy directives exportable environment can be made in the country through rapid growth of export business. In fact, this would properly change balance of payments and socio-economic scenario of Bangladesh. It is expected that if the above recommendations are implemented the current issues will be resolved and the performance of export business of Bangladesh will significantly increase in near future.

REFERENCES


