Chapter - 1

Introduction

1.1 Export and Development:

Export occupies the focal position in reformulated development strategy of Bangladesh since the policy of economic reform and structural adjustment has been adopted by the country. The debate on the issue, that whether the development strategies would be based on Ricardian theory (or Heckscher-Ohlin– the other major theories that have dominated this field) of comparative advantage or on the theory of 'import substitution', is endless and inconclusive (Bhagwati, 1969). Literature both empirical and theoretical on development strategies of less developed Countries (LDC) is enormous. Emphasis on development strategy based on either of these two schools of economic theory, namely outward–looking and inward–looking strategies (Streeten, 1973) is, therefore, largely influenced by the political philosophy of reigning forces of the nation and other global economic and political compulsions of a particular period. During sixties and seventies, import substitution strategies were much more acceptable to planners and policy makers of any developing or underdeveloped nation. Although a study on South–East Asia's economy, commissioned by the Asian Development Bank (Myint, 1973b) strongly recommended strategies of comparative advantage. Little-Scitovsky-Scott (1970) and Johnson (1971) advised on the same line.

Attri (1996), while studying export-led growth in LDCs, classified post-war literature on trade and economic development into two distinct categories – i). Export pessimism; and ii). Export optimism. He argued that the belief in 'secular deterioration hypothesis' of terms of trade, put forward by Prebisch and Singer in the late 1940s, was the reason that the LDCs pursued the policy of import-substitution at the cost of export expansion. This assertion possibly, by and large, is not untrue but other part of his opinion may not be universally true where he concluded that 'this phase of export pessimism was over by the year 1966-67' (Attri, 1996:19). If this phase was over in 1966-67, then how Bangladesh at the time of its independence in 1971, adopted 'import substitution' policy? The belief in 'secular deterioration hypothesis', which allegedly gave birth to 'export pessimism' was still in mind of the policy makers at the time of formulating planning document first time for the country in 1973 . Thus it seems that the choice in national development strategies does depend

more on political philosophy and aspiration of the ruling class than in the advocacy of economic literature. This possibly is uniformly true for developed and less-developed countries. It would not be hard to cite examples from history of economic literature that though two schools of thought in developing strategies have existed from the very beginning of modern economics, countries favoured one or the other according to the best interest of ruling class (Routh, 1975).

On the other hand , the economists of the developed western nations were possibly highly influenced by the proposition which prof. Hicks expounded in 'An Inaugural Lecture' (Hicks, 1953). A series of articles of innumerable economists following Hick's paper, each of which tried to refine the theoretical model of Hicks, proved the influence of his proposition on other economists In that famous paper he emphatically argued in favour of his "provocative thesis that technical change – a major source of growth had been biased in favour of export in the nineteenth century in a way which stimulated trade, while technical progress in this century has been predominantly import–replacing in character and hence biased against trade." (Roychoudhury, 1978) 'Import substitution' strategies being identified as 'biased against trade' , developed nations strongly advocated outward-looking strategies which were bound to go in their favour due to superior technology and infrastructural facilities. Introduction of welfare concept with economic growth and trade, exposes other possible disadvantageous situations, such as 'immiserizing growth' (Bhagwati,1958) and the possibility of siphoning off the benefit of underdeveloped economies to advanced industrial countries (Roychoudhury, 1978 : 81).

The economic compulsion of Bangladesh is not different from that of any other developing countries and , therefore, Bangladesh has to face the problem of large balance of trade deficit identical to any other developing nation. Economic compulsion of capital goods requirement, necessity of petroleum, various developmental input factors and other essential consumer goods, such as food, edible oil, cotton etc. being impossible to be curtailed in the short run makes the import bill ever increasing. So discarding 'import-substitution strategies' and adopting export-led growth strategy has been prescribed as the panacea for all problems of deficit balance

of payments in recent times. The line of argument behind the prescription of export-led growth strategy for Bangladesh is the one which is commonly put forward for all developing countries for overcoming the deficit balance of payment as a consequence of the increasing demand of import of productive inputs. The country needs imports of capital goods, intermediate inputs and technology for rapid growth. Increase of food and other essentials for maintaining health and productive capacity of vast masses of people as well as poverty alleviation program require import of some essentials. Exports earnings of Bangladesh covered only 66.36% of import bill (Bangladesh Bank, 2000). The rest of its import bills are met from foreign aids and grants. As a result not only the burden of its foreign debt is increasing at a faster rate but also it has been creating serious problems of debt servicing. This state of affairs seems unacceptable to be allowed to continue for a long time. It is, therefore, imperative to increase export earnings so that the ever-increasing import bills could be met as far as possible from the nation's resources. The only way out of this situation and elixir of economic growth, as envisaged by a section of the experts and Government planners under new global economic milieu, is to accelerate export.

1.2 From Inwardness to Openness:

Bangladesh, during seventies – as a newly born sovereign and independent state, also favoured the 'import-substitution strategies (Islam, 1973). A few years after independence, the Government of Bangladesh adopted a public ownership strategy in the form of mixed economy to attain a socialistic pattern of society, which was abandoned at the end of 1975. Finally, since early 80's the Government of Bangladesh started liberalising foreign trade and deregulating the economy as an officially declared policy and the policy of import-substitution has been replaced by the strategy of export-led growth (Begum et al, 1998).

But, the process of liberalisation of Bangladesh economy actually acquired momentum in 1991 when a new industrial policy has been adopted in line with the new strategy. There are, therefore, three economic phases in Bangladesh. Among these three, the first phase is the period prior to economic liberalisation. Post economic liberalisation period may be divided into two phases - pre and post 1991. During this entire period of post-liberalisation, steps those are taken by the Govt. of

Bangladesh are mainly in the following area of i) removal of quantitative restrictions ii) tariff reduction and iii) exchange rate adjustment

Removal of Quantitative Restrictions:

The mechanism for elimination of quantitative restrictions (QR) was the removal of large groups of items from the control list in the Import Policy Order (IPO). The IPO (1993-95) did away with import licenses except those on the IPO control list. This had been substantially trimmed since 1990 when almost 25% of all items under 4-digit headings were subject to quantitative restrictions (Economic review, 1995). Table 1.1 represents different phases of removal of quantitative restrictions and show how Bangladesh has reduced the number of items on the control list of IPO gradually.

Table: 1.1
Removal of Quantitative Restrictions: Different Phases
(Number of Items)

Year	Total items under QR	Trade Reasons			Non-trade Reason
		Banned	Restricted	Mixed	
1989/90	315	135	66	52	62
1990/91	239	93	47	39	60
1991/92	193	78	34	25	56
1992/93	93	13	12	14	54
1993/94	109	7	19	14	69

Source: Bangladesh Economic Review, 1995: p-45

Total 4-digit tariff headings under the Harmonized System (HS) is 1240 of which 315 HS–4 digit level were subject to QR in 1989-90. It came down only to 109 items gradually in 1993-94.. Of these only 40 headings are on the list for trade reasons under all category i.e. 'banned', 'restricted, 'and mixed'.

Tariff Reduction:

In Bangladesh trade liberalisation had been selective in the eighties. High tariff rates and some non-tariff measures continued to apply to consumer goods but low tariff rates were imposed on intermediate imports and machineries necessary for increased domestic production and export. Since 1990/91 the incident of import taxation has been brought down by drastic reduction in import duties. The top operative rate has been brought down from 350% in 1990/91 to only 60% in 1994/95 with rates falling into only five slabs in place of 12. (Economic Review, 1995:46). Further in 1997/98 the maximum rate of import duty was effective at 42.5% which

was reduced to 37.5% in 1999/2000 (Khan, 2001:59). The progress in tariff reduction over the last few years are presented in Table 1.2.

Table: 1.2
Trends in Import Tariff

Year	UN Weighted Average(%)	Import Weighted Average (%)
1991-92	57.5	24.1
1992-93	47.4	23.6
1993-94	36.0	24.1
1994-95	25.9	20.8
1995-96	22.3	17.0
1996-97	21.5	18.0
1997-98	20.7	16.0
1998-99	20.3	14.1
1999-000	16.7	13.9

Source: Bangladesh Economic Review, 1995, 1999 and Mid Term Review of the Fifth Five Year Plan, 1997-2002.

It is evident from table 1.2 that an import-weighted average tariff was 24.1% in 1991/92, which was reduced to 20.8% in 1994/95 and further to only 13.9% in 1999/2000. While un-weighted average tariff rate was 57.5% in 1991/92, which was reduced to 25.9% in 1994/95 and further 16.7% in 1999/2000. We can visualise the declining trend of tariff rate of Bangladesh in Figure 1.1.

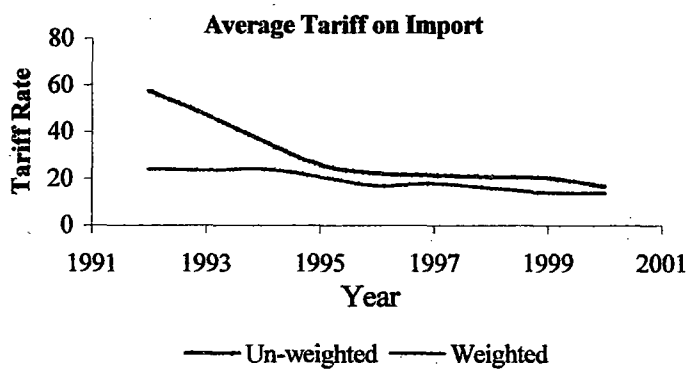

Figure : 1.1

Exchange Rate Adjustment:

Bangladesh had a multiple exchange-rate system until January 1992, when steps were taken to unify the exchange rate. In April 1994, the government of Bangladesh accepted the obligations of Article VIII of the International Monetary Fund (IMF), which implies the significant commitment to current account convertibility and consent to the liberalisation of exchange transactions on current

account. Foreign exchange controls, which had been constraining transaction for a long time, have been lifted for most current account transactions. On the exchange rate, the government has been managing policy flexible to avoid appreciation of the exchange rate and maintain macroeconomic stability. The real effective exchange rate depreciated by about 12% between 1991 and end of 1994, despite a 5.7% appreciation during October 1993 and January 1994 (Economic review, 1995:47). Further Taka depreciated by 11% with respect to dollar during the period of 1997/98 to 1998/99.

1.3 Economic Change at a Glance:

After pursuing the open economic model with greater emphasis in export promotion and trade liberalisation policy for almost two decades, the comparison of some of the national economic parameters may help us to understand broadly the direction of change due to the policy change.

Table: 1.3
Economic Indicators of Bangladesh Economy :1972-73 to 1998-99.

Indicators	Phase- I	Phase-II	Phase - III	Total Period
Average Growth rate of GDP	3.46 (1.15)	4.24 (0.33)	4.93 (0.14)	4.15 (0.60)
Mean Agriculture–GDP ratio	46.44 (0.05)	40.06 (0.06)	33.49 (0.06)	40.48 (0.14)
Mean Industry–GDP ratio	10.67 (0.07)	9.93 (0.02)	11.01 (0.04)	10.53 (0.06)
Average Investment GDP ratio	10.10 (10.35)	13.24 (0.15)	16.76 (0.19)	13.12 (0.30)
Average growth rate of export	9.65 (0.02)	8.79 (0.02)	11.55 (0.01)	9.79 (1.48)
Average share of manufactured goods in exports	54.06 (0.12)	56.72 (0.16)	75.06 (0.05)	60.74 (0.19)
Average share of primary goods in exports	32.08 (0.27)	21.89 (0.20)	10.10 (0.15)	21.87 (0.46)

Source: Calculated by the author from BBS & EPB data.
Figures in the parenthesis indicate Co-efficient of Variation

We have calculated values of such indicators in Table 1.3 by dividing the whole period into three different phases: (i) a period prior to initiation of the openness of the economy starting from independence i.e. from 1972–73 to1981–82; (ii) a period of economic liberalisation prior to adoption of new industrial policy i.e. from 1982–83 to1990–91; and (iii) a period after introduction of said industrial policy-1991 i.e. from

1991–92 to 1998–99. Table 1.3 shows that, some of the economic indicators of Bangladesh show positive changes over the period 1972–73 to 1998–99.

It is evident from the above table 1.3 that average growth of export sector which was 9.65% during the period prior to economic liberalisation, marginally declined in the beginning (phase-ii: 1972-73 to 1981-82) but steadily attained the average level of 11.55% in the next period (phase-iii: 1991-92 to 1998-99). The average share of manufacturing exports in total export of the country increased from 54.06% to 56.72 % in phase-ii and then to 75.06% in the third phase. On the other hand, the average share of primary exports on the aggregate of the national exports, which was 32.08% initially, shows a decreasing trend. In the first period of economic liberalisation it declined to 21.89% and then further to 10.10% during 1991-92 to 1998–99. Furthermore, mean agriculture-GDP ratio was at 46.44% before economic liberalisation but then decreased to 40.06% at early stages of openness and ultimately to 33.49% during the period of 1991-92 to 1998-99. This declining trend of share of agriculture in GDP is compensated by increase in share of industry from 10.67% to 11.01% in those respective periods. The GDP growth and Investment – GDP ratio in both phases of liberalisation indicate improvement.

1.4 Export Financing :

Export sector in Bangladesh had been considering to be a pivotal sector of national economy even prior to its major policy changes of early eighties. But export suffers from the lack of proper support of financial requirement.. This support implies the institutional arrangement of providing finance at the time of the requirement of exporters. This need may arise either at pre-shipment stage or at post-shipment stage. Finance is a resource of cardinal importance to an exporter. In view of substantial financial need to pursue export trade, it is often difficult to arrange the required fund from their personal resources of the exporters and thus demand for institutional involvement to alleviate their financial problem is a longstanding one. The system of institutionalized export financing may broadly be divided into two tiers – a) policy formulating agencies and b) policy implementing agencies. Policy relating to export financing are formulated by the Government with the help of Export Promotion Bureau. On the other hand, the Central Bank i.e., Bangladesh bank is entrusted with the responsibilities of formulating detailed operational aspects of those policies to be

followed by other financial institutions (Bangladesh Bank, 1982). Total number of banks in Bangladesh are 52 (upto 2000). Out of 52, 4 are nationalised commercial banks, 6 are specialised banks, 26 are interest-based private commercial banks(Pvt.^{IB}), 4 are interest-free private commercial banks (Pvt.^{IF}) and 12 are foreign commercial banks.

1.5 Problem of the Study :

There have been several studies on the inquiry into the role of exports in economic development. It has been found that the success of export-led growth strategy in a LDC depends on attainment of some minimum level of development. (Michaely,1977:52). Bangladesh being a LDC has been pursuing the export-led growth strategy over two decades. Supposedly, growth of export sector in Bangladesh primarily depend on this conditionality i.e. attainment of required minimum level of development. Specific studies on this aspect of Bangladesh express views contradictory to each other. While Nath (1997) has failed to find any impact of export on economic growth, Begum et el. (1998) have observed positive impact.

Secondly, Bangladesh being a LDC, its export always suffers from the lack of adequate financial supports. Though there are several types of financial institutions, commercial banks are the main financiers of export trade in Bangladesh. Finance, generally working capital in nature, is required for the support in pre- shipment and post–shipment period to the exporters. However due to risky nature of export trade and uncertainties linked with the extension of export credit, financial institutions are usually hesitant to become involve in export credit business. This impedes the export marketing process and exerts adverse impact on the competitive ability of export firms.

Keeping this in view, the Government of Bangladesh has arranged the extension of export credit support system with the help of commercial banks at concessional rate of interest against confirmed letter of credit. Export policies formulated by the Ministry of Commerce, Government of Bangladesh provides the overall guidelines and incentives for promotion of exports in the country. Bangladesh Bank has created an Export Development Fund for assuring continued availability of Foreign Exchange to meet the import requirements of manufactured items. Sadharan

Bima Corporation, the only export credit guarantee organisation, has introduced Export Credit Guarantee Scheme (ECG) with effect from January '78, through its Export Credit Guarantee wing as per the order of Government of Bangladesh in order to promote national exports. Following the World Bank's prescription, steps have been taken for integration of some of these schemes. Comprehensive study of each of these schemes could reveal the present difficulties with these schemes and could give us idea of any modification, if necessary.

The problem of the study, therefore, is to make a resolution of conflicting findings of the effect of export on economic growth and a comprehensive analysis of present position of export financing, evaluation of different schemes, role of financial institutions in advancing export credit along with problems and difficulties of both financier and recipient of finance in Bangladesh.

1.6 Importance of the study:

The study seems to carry an enormous academic value. Firstly, as we have stated that though there are studies on the first aspect of the problem i.e.; impact of export on economy of Bangladesh, findings are conflicting in nature. But Government has been pursuing the export-led growth strategy for over more than two decades. The success of export-led growth strategy should have a reflection in the changing pattern of the demand of export finance during this two decades. As our focal theme of the study is to know how and to what extent the existing system is supportive of financial needs of the export business, positive impact of export on economy is a precondition of institutional arrangement of export financing being successful.

Thus the study of the first part of our problem is addressed to resolve the conflicting findings on the role of export on economy of Bangladesh in particular. It would also help to extend the general theoretical understanding of the subject with relation to LDC.

So far the second aspect of our study is concerned, there was no systematic and thorough study on export finance in Bangladesh except casual observations made by professional economists, business leaders, planners and policy makers etc. There was no empirical investigation to verify observations made by them. Many aspects of export financing are yet to be understood interrelating facts and figures. In this period

of new economic world order, i.e., under the WTO regime, the openness of the economy through liberalising trade gave birth to a complete new environment of competition with which the entrepreneurs of erstwhile protective country like Bangladesh are not familiar. Both convertibility of domestic currency and abolition of tariff protection have changed the meaning of the requirement of finance. Now, it is not only the quantum of finance, which is important, but the timely availability is also crucial to have an edge in the competition. In this changed economic milieu of the new millennium all aspects of export finance deserve to be studied with the perspective of globalisation, liberalisation and openness.

The findings, therefore, may be helpful to the Government, to the export firms, the export financial intermediaries and the national policy makers who have been making serious endeavour to ensure export-led growth in this country. The study may help in restructuring the bank's export-credit programs for increasing their effectiveness in the ensuing days. The study seems to contribute to enriching the literature on export financing which is an important and rapidly growing branch of finance discipline.

1.7 An Over view of Literature :

Literature review has been discussed in three parts. In the first part, we have attempted to review the empirical studies on the impact of export on economic growth and development of LDCs in general. In the second part, we have tried to summarise the findings of the studies on the same with respect to Bangladesh economy and in the last part, we have dealt with the articles relating to export financing in Bangladesh.

Impact of export growth on economic growth:

Several empirical studies have been reported in recent years on the impact of trade policy reform on the economy of less developed countries. Some of these studies have considered cross-section data to examine the movements of export volume with national product of respective countries. Another section of studies specifically has tried to examine the causal relation assuming export as an independent variable with time series data of a single country or multiple countries.

Estimates obtained from cross-section data are useful in many ways, especially when the number of observations for an individual country is small. Many

existing studies using cross-section data have made useful contributions towards an understanding of the role of exports in economic growth.

Different economists have investigated the effect of growth of export on economy of LDCs over the last few decades from different perspectives and have tried to prove or disprove the relationship with various economic parameters. While some of them have claimed to have observed positive relationship with national income irrespective of level of development [Emery(1967), Vivodas(1973), Sawhney & DiPetro(1994), etc.], a few have observed that exports positively influence economic growth in relatively advanced countries having an industrial base but not the least developed countries [Balassa(1978), Ram(1985), Helliner(1986), Sheehey(1992) etc]. Findings of the later group of researchers actually substantiate the findings of Michaely(1977) who has tried to make the point that export would positively influence the economic growth provided the country has achieved a minimum level of development. On the other hand, Lal and Rajapatiram(1987) have found that export had a positive influence on economic growth even for low-income countries in post 1973 period. Many researchers have judged the export performance with relation to balance of payments effects [Lubitz (1973)], non-export output growth [Heller & Porter(1978)], economic performance or scale effect [Tyler(1981), Kavoussi(1986)], capacity to absorb external shock [Balassa(1985)], export promotion policy [Esfahanai(1991)], structural change [Ram(1987)] etc.

Some researchers have criticized the cross-country study on the ground that it implicitly assumes that causality runs from export growth to GDP growth. Sheely(1990) , Pritchett(1996) have found that the conclusion from cross country test are doubtful as the various trade policy indicators used by those studies are unconnected across country. Critique of the cross-country studies, therefore, have preferred to test the causality directly and have argued that if the direction of causality is found from export to economic growth, then it would prove the positive influence of export on economic growth but not in the reverse direction.

However, the multi-country studies could not prove beyond doubt any specific causation. Different subsets of countries of the same sample have showed different causation in most of these studies - causation runs from economic growth/income growth to export growth, reverse or neither way [Chow(1987), Bahmani-Oskooe et

el.(1991), Ukpolo(1994)]. Several studies have found that export growth caused economic growth for developed countries only but not for non-industrialised developing countries [Marin(1992), Afxentiou and Serletis(1991), Ghartey(1993)].

But there are studies those have observed export caused economic growth in LDCs [Attri (1991)], even in low-income countries depending on primary product export [Love(1992), Ukpolo(1994)]. Conflicting results have been found in case of 'golden boys' of south-East Asia [Darrat(1986,1987), Bahmani–Oskooee et el.(1991)].

In country specific studies also we have found evidences which do not prove any causation in unique direction. Here, we shall confine to the discussion of findings of studies already made on export–growth link with relation specifically to Bangladesh and empirical studies on other countries would be discussed in **chapter-II.**

In the context of Bangladesh, the evaluation of exports-growth link is an under researched area. Roy(1991), Rahman(1993), Nath(1997) and Begum et el.(1998) provide some evidences of the impact of exports on economic growth in Bangladesh.

Roy(1991) has investigated Bangladesh exports performance and has provided some preliminary evidences of the relationship between exports and GNP. Using annual data for 1975-88, Roy has observed a large positive rank correlation coefficient between GNP and share of exports in GNP. In addition, he has found a positive correlation between the export and non-export sectors output. The correlation result is indicative of a strong relationship. However, no firm conclusion could be drawn from Roy's study about the partial impact of exports on economic growth.

Rahman(1993) has evaluated the effect of export on economic growth applying an add hoc regression model on GNP covering the period 1972-73 to 1985 –86. He has also performed Granger–causality test between manufactured exports and manufactured GDP based on annual data for 1972-73 to 1990-91 at current prices and has argued that causality running from exports to industrial development in Bangladesh. However, whatever his findings may be, question may be raised on use of data at current prices instead of constant prices.

Under two-sector framework Nath(1997), has verified the causal relationship between export and non-export sector of Bangladesh economy for the period 1972-73

to 1991-92. Applying Granger causality test, the conclusion drawn by Nath is that '.....there has not been found causal relation in any direction' (Nath, 1997: 26).

On the other hand Begum et el (1998) have performed Granger causality test as a supplementary to verify the key findings of their structural econometric model and have expressed the views that exports growth caused GDP growth at 2.5% level of significance. The period covered by them is 1962 to 1992. We, however, have observed some methodological differences between Nath and Begum et al along with contradictory findings. Nath(1997) has employed log-linear equations while Begum et al(1998) have used the linear equations. Inclusion of time series data for the pre-independence period (1962 to 1971) in Begum et al study, may cast doubts about the actual scenario of Bangladesh economy (Bangladesh became an independent state in 1971). Bangladesh initiated its economic liberalisation policy from 1982 and the process acquired momentum in 1991 when a new industrial policy has been adopted in line with the new strategy. It is, therefore, unlikely that the effect of export-led growth strategy would be reflected in their study. Besides we have found some computational errors and misreporting of results.

Literature on Export and Finance:

No systematic and comprehensive study of export financing in Bangladesh has yet been done. A few literature has dealt with different aspects of export financing in Bangladesh. Alam(1974) has made an attempt to focus on the financing problems of export firms. Further, the study has revealed that it is relatively easy for big exporters to get financial accommodation from commercial banks compared to small sized firm. The author has also made an attempt to highlight the necessity of establishing a separate specialised institution for export financing. As the study covers the initial years of independence of the country when import-substitution policy was being pursued, it has lost its relevance at the development stage of export-led growth of to-day.

Reza(1981) has conducted a study on pattern and prospects of Bangladesh export covering the period 1950-1978. Two main objectives of his study were : (i) an examination of the past export performance of Bangladesh and (ii) the determination

of the income and employment implications of an export-oriented strategy of growth as compared to an import substitution for the country.

Hossian(1983) and Rahaman(1983) have discussed structural characteristic of Bangladesh export and Abraham(1984) has observed rapid rise in manufacturing exports due to liberalisation measures. However, the observation is doubtful for its naïve methodology which measures the economic effect of liberalisation policy just after two years of its adoption.

Nabi and Ather(1986) have made a regional study of the role of nationalised commercial banks in export trade. This study, which covered a period of only two years, dealt with mere export of non-traditional items and has based on a single city. They have observed a few problems in the process of evaluation of creditworthiness of the exporters by the NCB in matter of export credit..

Chowdhury(1986) have intended to examine the state of institutional export service in Bangladesh. In the light of their findings they have drawn the conclusion that the quality and quantity of institutional services in Bangladesh do not conform to the expectations of exporters in many respect. However the services of nationalised commercial banks have been found to suffer from the limitations of official procrastination in processing export credit.

Sood(1989) while studying the problem of trade and economic development of Bangladesh (along with India & Pakistan), has made some passing remarks on the situation of export financing and that also on the basis of data upto 1984–85. Obviously, her comments and observations have lost relevance today with the passage of almost 15 years. However, her observation regarding the inadequacy of the credit guarantee of Sadharan Bima, is still valid in a general way but requires an in–depth study with relation to to-day's needs and requirements.

While exploring the policies and strategies that should be followed in developing export-sector of Bangladesh, Zaman(1999) has opined that inadequate provision of working capital loan is a major hindrance for the development of export oriented industries. Labour intensive export has been found as the most suitable development strategy for Bangladesh in this study of Zaman. Alam(1999) has

conducted also a study to highlight the problems of financing of export-oriented industries in Bangladesh and has observed that there is a scarcity of credit in export sector of Bangladesh.

Ray and Karim(2001) have made an attempt to evaluate the Export Credit Guarantee Scheme (ECGS) for the period 1978 to 2000 and have observed that the objectives of introducing ECG have not been achieved to the expected level. The change of Government policy from import-substitution to export-led growth strategy has not changed the situation. An evaluation of econometric relationship between insurance coverage and export in the period of liberalised economy has not shown any statistically significant difference in estimated parameters.

We will cite a few more studies relating to evaluation of existing export promotion schemes in Bangladesh in **chapter-IV.**

1.8 Objectives of the study :

This study attempts to probe the impact of export on economic growth in Bangladesh and to highlight the export financing practices, performance, problems and prospects in Bangladesh. It intends to focus all important aspects of export financing programmes of the commercial banks. The broad objectives of the study are as follows:

1. To study whether export has significant impact on economic growth of Bangladesh.
2. To analyse the performance of financial institutions with respect to export credit.
3. To evaluate the effectiveness of the existing incentive schemes and policies of export financing
4. To analyse the opinion of the export firms regarding the export credit services by the financial institutions.
5. To analyse the opinion of financial institutions regarding export credit and its problems.

1.9 Research Hypotheses:

For the purpose of the study as elaborated above, the following hypotheses are to be tested :

1. Export has significant impact on economic growth of Bangladesh and thus export-led growth strategy is appropriate to be followed for development.
2. Adoption of new development strategy does not make any difference in the role of financial institutions in relation to extending credit facilities to exporters.
3. Implementation of the existing schemes including Export Credit Guarantee Scheme is not as effective as expected.
4. In case of advancing credit, banks do not discriminate between primary (commercial) and manufacturing (industrial) exporters or between exports and imports.
5. Instituting a specialised export financing organisation may solve the problems of export financing significantly.

1.10 Methodology and sources of data of the study:

The research is based on both secondary and primary sources of information and data. A sample survey has been conducted to know the viewpoints of the banks and exporters. The published documents of the Ministry of Commerce, GOB, the Export Promotion Bureau, the Bangladesh Bureau of Statistics, the National Board of Revenue, the Bangladesh Bank (Central Bank of Bangladesh) and other concerned banks have been consulted for secondary data and information. The collected data are analysed by means of appropriate statistical tools and whenever necessary appropriate hypotheses are tested. Multivariate analysis for identifying the economic factors responsible for credit financing are used. Descriptive statistics are used to analyse and compare distribution of parameters of different categories of banks or exporters. Non-parametric test specially to identify the level of agreement among respondents are used.

1.11 Plan of the study :

The thesis spans over seven chapters including the present one. Chapter – 2 contains an analysis of the causal relation between export growth and economic growth. It also addresses to seek the allocative justice of scarce resources among primary and manufacturing exports.

Chapter–3 deals with the role of commercial banks in Bangladesh with respect to export financing in order to promote export.

In chapter–4 we have reviewed different existing schemes in export financing and evaluated the performance on the basis of expansion of credit under these schemes over the period of study. The chapter also contains the analytical views of the policies relating to export promotion and export financing.

Chapter–5 summarises the data collected through survey among randomly selected sample of exporters. Exporters' view are statistically analysed and interpreted in this chapter.

Chapter–6 deals with bankers' views collected through the questionnaire administered among twelve selected banks of three different categories.

Chapter–7 provides a summary of the findings.