The World Bank

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Mr. Noorul Quader
Managing Director
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Dear Mr. Quader:

You may be interested in the attached article which appeared in the March 1988 issue of Industrial Frontiers, a World Bank news letter intended for the use of the Bank Staff.

With best regards,

Yours sincerely,

SKMalik

Surinder K. Malik
Senior Economist

cc: Mr. Abu Sayeed Chowdhury, Joint Secretary, Ministry of Commerce
Mr. R. A. Majumder, Vice-Chairman, Export Promotion Bureau

Private Packages for Export Development

WHAT'S the best way to launch new export industries and foster an outward orientation in the poorest countries? There are no easy answers, but one good way may be to call in the NICs. Consider this example.

Bangladesh's exports of shirts, slacks, and suits rose from almost nothing in 1979 to $300 million in 1987 (see the chart). Now adding a third to the country's expanded exports, garment exports are expected to hit $450 million in 1988.

How did Bangladeshi garment firms manage this? With drastic import liberalization policies or huge export incentives—policies that would equalize the effective incentives for exporting with those for substituting imports? Or with heavy help from the public sector?

No. They did it in an innovative way: through the joint effort of a foreign catalyst with the means (Korea's Daewoo) and a local entrepreneur with the vision (Noorul Quader, and his company, Desh Garments) to take advantage of a policy environment that put him on an equal footing with foreign competitors (see the box).

According to Yung Whee Rhee, who's been working on cases of private export catalysts for the Industry Development Division, something important is not apparent in the growth of Bangladesh's garment exports. What is not obvious is that the garment industry has become a model of success in a country thought incapable of breaking into world markets in manufactures. Even less apparent, says Rhee, is the swelling of confidence in all those taking part—the confidence of managers, workers, and bureaucrats to take on the world.

Lessons for development policy

Of the many lessons beginning to emerge from this story, three stand out for development policy. First, foreign catalysts, like Daewoo, enable rapid startup and learning. Second, rapid learning, like Desh's, can help build the confidence to try more ambitious things—like opening hundreds of plants in 1985 or penetrating OECD markets. Third, a forward-looking orchestrator is usually essential to get the ball rolling.

Foreign catalysts and rapid learning. A reasonable exchange rate helps in getting an export industry going, as do accommodative government policies (for dutyfree inputs and ready access to trade finance) that can put local exporters on an equal footing with foreign competitors. But without the right catalyst—say, a foreign catalyst, like Daewoo—not even the right policies would be enough to launch an export industry and foster an outward view.

Why? Because of the possibilities for rapid technical transfers and learning—and because of the acceptance that Daewoo's name bestows in world markets.

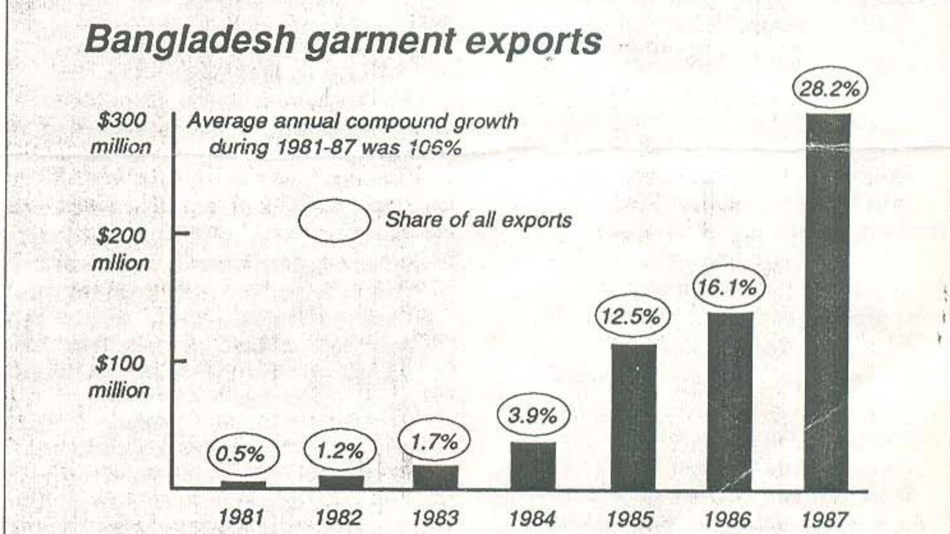
Consider the motives of the players in this innovative development. Daewoo wants to sell machines and fabrics to developing countries by teaching them how to make and sell products that could be exported to world markets. Desh wants to learn what it takes to compete in those markets.

What Daewoo gets from the package deal is a market for its machines and fabrics and a slice of profit from sales to the industrial countries.

What Desh gets is access to skills—in production, management, and marketing—and to a reputation that will overcome buyers' fears about quality and delivery.

The package is compelling because it is in everyone's interest for the local partner to learn quickly—to learn how to run the machines, produce manufactured goods for the world market, and develop a reputation as a supplier.

Rapid learning and confidence. Having quickly learned the production side and having begun to get a sense of the marketing side, many of those trained had the confidence to set up their own garment factories. Desh, too, had



More important than exports of $300 million from one of the poorest countries is the confidence that hundreds of factory owners and thousands of workers have in their ability to compete on world markets.

the confidence after two years to sever its links with Daewoo.

With the model of a few firms doing so well after only a few years' experience in garments, many hundreds of firms had the confidence to start up export production themselves.

The size of the U.S. market must have raised their expectations. But even when that market shrank, the Bangladeshi producers stayed afloat and turned to other markets—taking on, remarkably, producers from the Gang of Four in OECD markets.

The forward-looking orchestrator. Noorul Quader had no experience in textile—or even in industry. But he could see the possibilities of working with a Korean firm.

The glimmer of those possibilities was enough for him to join up with Daewoo in what some would have called a scatterbrained export venture—and to garner some money from local banks for the air fares to send 130 Bangladeshis for training at Daewoo's factory in Pusan, along with the right to import fabrics dutyfree.

His effort—and that of the other Bangladeshis who went to Korea for training—spawned hundreds of exporting firms.

The sequence of events

Korea's giant Daewoo has the growth of its garment and textile exports to the United States blocked by quotas in the late 70s. So, it turns to Bangladesh, a country with little experience in manufacturing for export—and thus not subject to quotas in U.S. and OECD markets—and a country near the bottom of the list in per capita income.

Daewoo does not go in and build a plant. Instead, it teams up with Noorul Quader, a former Bangladeshi civil servant ready to break into the garment business.

July 1978. Quader forms Desh Garments Ltd. to enter an agreement with Daewoo for machinery purchases, training, and marketing.

May 1979. Quader assembles 130 managers, production supervisors, and production workers for about six months of training at Daewoo's main garment factory. They all fly to Pusan, with Desh Garments picking up only the air fares. The training that Daewoo provides is hard, intensive work—mostly on the job, but with classroom sessions to complement it.

November 1979. The trainees head for home, followed by three Korean engineers and production technicians. Some of the trainees leave Desh on arrival—either to start their own factories or to become senior managers in other factories.

March 1980. Nine more Korean engineers and production technicians arrive for a year.

April 1980. Desh starts production, exclusively for export, with 450 machines (from Daewoo) and 500 workers.

June 1981. Desh decides to go on its own and cancels its agreement with Daewoo — but it still hires Korean technicians for product diversification and quality upgrading.

Over the next few years. Many more garment factories open in Bangladesh, most by Desh alumni and some following the Desh-Daewoo model of pairing up with a NIC firm (but without the training at the foreign partner's main plant). Bangladesh's garment exports pick up from $4 million in 1981 to $8 million in 1982, $11 million in 1983, and $32 million in 1984 (all in current dollars).

Early 1985. Now, hundreds more garment factories open for export production, as the profits become obvious to those with access to influence and access to the suddenly open tap of loans from local banks. Exports for the year to mid-1985 surge to $117 million.

Late 1985. The United States slaps quotas on Bangladesh garments, leaving stacks of them in containers on docks in Chittagong and on ships heading for the States. Of the 700 garment factories then operating, 500 close (but 300 later reopen).

Since then. Bangladesh garment firms renegotiate a tripling of their U.S. quotas. They also look beyond their customers in Canada, the United States, and a few European countries to new customers in Australia, the Middle East, and many more European countries. Exports in 1986 rise slightly, to $132 million, and then take off again—to $300 million in 1987 and an expected $450 million in 1988. The Bangladesh garment industry now employs 200,000 people.

Meaning for the Bank

The Desh-Daewoo partnership, and the subsequent spawning of hundreds of export firms, suggest a few things for the Bank.

First, should projects be in parts or in a single package? Imagine, for example, if Quader had to come up with financing in Bangladesh to buy equipment and to find foreign consultants to help start production. Imagine, too, if some workers had to go for training to textile institutes in Britain or other countries—rather than being trained on the job and on the floor of one of the world's leading garment makers. And imagine if Quader had to do his own marketing from the outset.

Second, how can such successes be replicated? And could a Daewoo be induced to jump in if quotas weren't an issue? One way might be to go directly to the world's big export manufacturing companies — whether Korean, Japanese, American, or European—and find out how much they would need to put together a workable industrial development package along the lines of Daewoo's. The idea sounds crazy on the surface of tradition. But crazy is just the word that would have come up in Bangladesh in 1979 if someone suggested garment exports of $450 million.

Third, the notion of getting the players right is cropping up more and more in Bank discussions of adjustment programs, financial reforms, and export drives. When there is talk of successes, there invariably is talk of people. And when the talk is of failure, the absence of the right players invariably is at the heart of the dismay.