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IN SPECTRUM

Ceramic Industry and the Budget

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When you look into the proportion of traditional and non-traditional items in the basket of exportable in Bangladesh, you definitely observe a twist in the proportion, non-traditional items such as readymade garments, leather and leather products constitute over 60 percent of our export earnings. There are also some non-traditional items such as medicine, processed food products, prawn and shrimps in this category that constitute roughly 20 to 25 percent of our export earnings. The diversification of exportable is important for steady export earnings and to maintain a sound balance of payment position. One of the potential items in the non-traditional items is the

ceramic products. Currently, Bangladesh export ceramic products to over forty countries in world. The export earnings from China/ ceramic table ware was \$1961 million in 2009-10 and in 2013-2014 it stood at \$ 3401 million, almost 74 percent increase in export earnings. Ceramic sector thus possesses immense potentialities not only in the foreign market but also in the domestic market. With the cumulative growth and the graduation of the country to lower mid- level developing country status, the positive income elasticity of domestic demand of ceramic products such as ceramic tiles, tableware and sanitary ware is now considered to be normal goods. The country might witness tremendous growth in this vital sector given an appropriate policy environment. Since the production activity is labor intensive and Bangladesh is a labor abundant country, Bangladesh's factor endowment is very supportive of the ceramic industry the way it supports the readymade garments industry. The industry gained momentum after 2004 and when you visit any ceramic shop in Bangladesh you would be surprised to see the finest quality of the products by renowned manufacturing units such as RAK Ceramics, Monno Ceramics and Shinepukur Ceramics, a concern of Beximco Group and the product by many other fledgling units such as Akij, X Ceramics, Paragon, Protik and FARR Ceramics. Ceramic constitute a very important input in the construction of building both residential and official and elegance of interiors and exteriors is enhanced thorough well designed ceramic ware. The most important contribution of the ceramic sectors is in the labor absorption in a labor abundant country where job creation is in a dismal state. Moreover, the art of work endow even very unskilled worker to a specific traits that could augment the earning capability. There are certain issues that warrant cautious steps to help this industry to grow and gain competitiveness in the world market. The first issue is the protection of the nascent industry. The second issue is the domestic policy environment on the supply of essential inputs. Economists use the concept effective rate of protection to look into the real extent of protection to a burgeoning industry. Given a nominal tariff of  $\chi$  percent and no duty on imported raw materials indeed enhances the effective rate of protection. The effective rate of protection is a function of the change in value addition due to the nominal rate of tariff and the value addition without duty on the raw materials and with duty on raw materials. Consider a simple example; a 10 percent nominal duty on a product sold in the domestic product at \$ 100 and the input cost roughly 40 percent. The effective rate of protection in this case will be 16 percent because there is no duty on inputs. Now consider the same example with 10 percent nominal duty but 20 percent duty on imported raw materials, the effective rate of protection in this case will be – 11 percent. It is evident that though the nominal rate of protection is still 10 percent, the duty on imported raw materials reduced the value addition. There are two crucial factors in this calculation; the nominal rate of protection and the extent of value addition that hinges on the duty on imported raw materials. Indeed, duties on imported raw materials nullify the positive impact of nominal rate of protection. When the production of a commodity rests heavily on imported raw materials, even a marginal duty on imported raw materials could nullify a higher level of nominal rate of protection. The imported raw materials constitute lion's share of costs in many ceramic products and may often go beyond the 85 percent of total production costs. Therefore, even a marginal duty on imported raw materials and value added tax on the finished product in the domestic market might substantially reduce the rate of return on investment in the nascent industry and impair the health of this industry. The existing manufacturing units cannot meet the entire domestic demand; roughly 25 percent of the demand is catered by the foreign producers. The local consumption of porcelain tableware witnessed accelerated growth and in the future the market of porcelain tableware may exceed \$ 125 million. We were using the ceramic products from China only a few years back. United Kingdom, Germany and Japan dominated the export of ceramic products to world markets. Now the comparative advantage due to relatively cheap labor cost opened an opportunity for Bangladesh in this virgin enterprise which the government can nurture and nourish through prudent policies. The budget should look into the competitive aspect of pricing of both the imported ceramic products through appropriate

nominal duty as well as the domestic product with the value added tax so that the interest of domestic manufacturers gains an upper hand for smooth expansion of this important sector. Another important aspect is the restoration of GSP facilities in United States Market, because currently the profit margin is squeezed because the exporters were forced to reduce the product price to keep the market share intact. Moreover, ceramic industry is mainly gas based industry. Uninterrupted gas supply is essential for the existing units and also for further expansion. The writer is a Professor of Economics, United International University

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