Economic Policy Paper
on
Financial and Investment Services in a Changing Environment

Chapter 1

1.0 Introduction

Bangladesh economy experienced 6.24 per cent GDP growth in the first fiscal year (2001) of this new millennium. This growth is attained with the blessings of nature's successive favorable bestow in the agricultural sector. During the same time, the world economy started experiencing the chilled effect of downward moves in trade cycle. Especially the leading nations in the world economy are feeling the primary impact of slow economic activities. At a time, when worldwide preparation for the new WTO is getting its final shape to foster changes in the world economic order; this global recession can affect the preparedness of the most LDCs. In Bangladesh, the preparedness for the WTO based new world economic order is significantly affected since the external economic balance of the country is at a vulnerable position for a number of reasons. Given the overall economic and industrial sectors scenario, the present paper addresses some of the issues relevant for the development of the industrial finance and other support services required for sound development of the industrialization process of the country. The analytical framework of the paper is developed keeping in mind that the world economic order has been experiencing winds of changes towards globalization through liberal approaches to trade and industry now.

1.1 Industrial Development – Different Policies and Approaches in the Past

In the pre-liberation period of Bangladesh, the development policies of the government emphasized autarky in food production through 'Green Revolution'. In the industrial sector the government adopted; just like most other developing and least developed countries of the world, import substituting large-scale industrial enterprises both in private as well as in public sector. The primary thrust area for such policies were to overcome the pressure of unemployment, unfavorable terms of trade and external imbalances (Huq & Love, 2001). Therefore, the post second world war orthodox economic philosophy pioneered by Prebisch (1950), Singer (1951) and others economists was the basis of industrial policy.

As the country emerged as an independent country in the early seventies, the initial orientation of economic policies of the country was a socialist one. With the change in political leadership, the country experienced rapid shift towards market based open economic system. During early eighties, the industrial policies focused more on private sector led economic development strategy. During this time gradual shift from import substitution to export based industrial development started to getting priority through different incentive packages. However, effective changes in economic policies and strategies through structural adjustment program with emphasis to trade liberalization and other economic reform packages started in mid eighties with the support from World Bank (Ahmed, 2001).

1.2 Recent Industrial and Economic Development Scenario

In the last decade, Bangladesh economy grew at a moderate rate of 4.69 per cent[1]. Among the different major sectors, the agricultural sector had a growth rate of 2.24 per cent, manufacturing had 6.49 per cent and service had 5.27 per cent annual average growth rate during the same period. The leading economists as well as international agencies like World Bank on different

[1] Average annual growth rate of GDP from 1989-90 to 1997-98.

occasions estimated that, in order to have a development thrust and to minimize the mass poverty level of the country, the GDP of the country must grow at 7 to 8 per cent per annum[2]. However, attainment of such hi-growth centered development requires major structural reforms. These reforms must ensure composition of the overall contribution by different sectors of the economy with sustainable high growth in the industrial vis-à-vis manufacturing sector. In addition, the level of domestic savings and investment must be sufficient to ensure sustainable growth. The agricultural sector is one of the most dominating sectors of this country in terms of its contribution to GDP. Since output in this sector depends significantly on favorable natural condition and producers already have utilized almost total arable land in the country, so directly agricultural sector dependent development strategy may not lead us to the long-term sustainable growth at the desired higher rate. Consequently, major development thrust must come mostly from the manufacturing sector including agro-based industry to pacify the take-off stage for the economy.

As the overall economy of Bangladesh grew pretty moderately during the nineties along with a slightly higher growth rate in the manufacturing sector, so the economy performed far below from required attainments toward the eradication of mass poverty level of the country. The domestic savings and investment scenario was also not that satisfactory, as domestic consumption rate remained very high in comparison to those of our neighboring countries like India, Srilanka, etc[3].

Despite that the manufacturing sector had average growth above that of the overall GDP growth in the last decade, the share of manufacturing sector in overall GDP remained closer to one-tenth of it. Here it is worth mentioning that, in all of the five-year plans, the government envisaged huge investment in the manufacturing sector to ensure significant growth but the actual outcome was never satisfactory. The reasons for such poor actual attainment in manufacturing sector's development remained a big unanswered question.

The above discussion provides a brief assessment of the industrial investment sectoral performance over the years. Understanding the current state of economic condition and industrialization scenario of Bangladesh, we can attempt to find the cause of such poor attainment in development targets. Once the causes are properly identified, appropriate policies suitable for this country can be indicated in the light of those problems. In this paper we examined the current state of economic vis-à-vis industrial sector's development in Bangladesh given our financial and other support services in a rapidly changing world economic order. Understanding its social, political, infrastructural and administrative setup for industrialization, appropriate policy recommendations are made for consideration.

[2] The World Bank estimates suggest that a minimum GDP growth rate of 7 to 8 percent is required per annum to lead the country out of poverty line by the year 2020.

[3] The comment is based on growth estimates of reported prior to 1998 -99 period. The growth estimates reported by the government in the year 2000 indicates significantly different scenario. The reliability of the year 2000 report is questionable Khan(1995) expressed doubt over the relatively low estimates of pre 1995 reports on the ground of poverty alleviation indicators.

Chapter 2

Current State of Bangladesh Economy

2.0 Introduction

Bangladesh economy has experienced different forms of political philosophy over the last 3 decades. Starting from centrally planned economic system towards free economic regime. Nevertheless, her economy could never indicate some sustainable growth pattern during all these years. Given this understanding, in this chapter, we will look at the current overall economic condition of the country.

2.1 GDP: Growth Rate and Composition

The overall economy of Bangladesh has experienced some structural changes over the years. Although the Bangladesh economy is still predominantly dependent on agriculture sector but share of agriculture is declining over the years. The table 1 and 2 in the Appendix shows that, the predominance of agricultural sector is diminishing as different service oriented sectors like trade; financial services, real estate etc. are together becoming the largest sectoral component as contributor to GDP. The agriculture as a single group is contributing now almost quarter of the overall GDP down from almost half in 1972/73 periods. Accordingly the GDP of the country remained significantly vulnerable to growth in agricultural sector. The strong economic performance of industry and other sector was out weighted by poor or negative growth in agricultural sector in mid nineties while bumper crops in late nineties resulted in more than 5% GDP growth even though other economic sectors were not performing well (specially industrial sector had poor growth).

Different service related sectors of the economy together contribute almost half of the GDP now, while another quarter of GDP is contributed by the industries sectors. In this sector, there are some sub-sectors, which are service oriented in nature but are accounted for as part of industry as per government policy direction. Some of these industries include construction, power, gas, and mineral exploration activities. The contribution of the manufacturing sector remained more or less static. As we can see from Table 1 and 2 in the Appendix that it remained 9 to 11.35% during 1972/73 to 1997/98 periods. These indicate the poor achievements in this area after 31 years of liberation. In the manufacturing sector, the contribution of the large and medium industries (LMI) to the overall GDP of the country is higher than that from the small and cottage industries (SCI) sector. The LMIs are mostly capital intensive while the SCIs are primarily labour intensive firms. Therefore, in terms of employment generation, the SCIs are contributing more than that by the LMIs in Bangladesh.

2.2 Savings and Investment Scenario

As stated above, the country has several deficiencies in creating favorable conditions for industrial investment. One of these deficiencies is caused by low level of domestic savings and investment. Although the country is showing some signs of improvement lately (Table 1 in Appendix) the average domestic savings rate was less than 5% of GDP before the last decade. Domestic savings rate started growing since 1990-91 fiscal year and crossed 5% in 1992-93. It continued to grow over the years and reached around 14% during 1999-00 fiscal year. Although the new National Accounting System with 1995-96 as the base year indicates our domestic savings and investment rate as much higher than the previous system. The table 1 in the Appendix shows that, according to new system the domestic savings rate of Bangladesh reached almost 20% with national investment rate of more than 22%. If the effective investment and savings rate is as high as indicated by the new accounting system, it is an encouraging sign for our future growth rate. If the current nearly 6% GDP growth rate (as per new accounting system) sustained, with a more than 22% savings and investment rate, the future GDP growth rate can be expected to be more than 7% provided all other investment and production environment remain unaffected[4]. In that situation, country will be able to minimize its incidence on poverty significantly. Consequently domestic markets for consumption will be widened creating further provisions for industrial development.

2.3 Governmental Financial (Fiscal) Management

The national savings and investment of a country significantly depends on public sector savings and investment management. Beside public sector savings and investment, the taxation policies and revenue and expenditure also affect the private sector savings and investment. In Bangladesh, the National Board of Revenue the Ministry of Finance and Planning are jointly responsible for the fiscal administration of the country. Bangladeshi fiscal management is traditionally deficit budget oriented creating continuous negative public sector savings. The public expenditure pattern is primarily divided into two broad heads namely revenue heads and development (capital expenditure) heads. The internal resources are generated from taxes, duties and other administrative sources. The revenue collection is predominantly dependent on indirect taxes and generated mostly from imported commodities. In case of revenue and development expenditure, it is observed that bulk of such outlay is made for salaries and other fringe benefits. Another significant area where unproductive revenue outlay goes is the losses incurred by the state owned enterprises. Every year, several thousand crore taka is spent to bear the losses incurred by these enterprises.

The trade liberalization drives starting from early nineties slashed import duties significantly. However, such revenue drops for import duty cut was replaced by a dynamic taxation approach – value added tax (VAT) at the same time. As a result revenue collection improved in the early nineties reducing the budget deficits over the years.

The improvements in budget deficit were evident in the GDP-Deficit ratio of this period. The achievements in early nineties started eroding again with the up surge of administrative expenditure pattern in late nineties. During this period the growth in revenue collection also declined with the failure of broadening the tax net in the country. Table 1 in appendix highlights the scenario. The budget deficit, which came down to 3.9 per cent in 1996-97 again started soaring and reached to 5.2 per cent in 1998-99. If such trend continues, the countries macro-economic balance will be seriously affected. Moreover, such high deficit budgets are now a day financed through borrowing from the banking system. The bank borrowing has two-sided impact. First; the bank loans are to be repaid with interest creating additional debt servicing burden, and second; the public sector borrowing has crowding out effect on private sector borrowing. This will ultimately bar the bankers to advance long-term debt to industrial sector thwarting industrialization of the country. Therefore, the government must be careful in planning and implementing its budgets as the vision of current development drive is focused on private sector led economy. Too much emphasis on public sector can affect the desired growth of the private sector. This aspect is specially important as the security market of the country is not yet developed enough to mobilize necessary funds for the private sector and yet have not overcome the shocks of unprecedented irregularities of 1996-97 period. As a result, initial public offers (IPO) for raising new capital have significantly dropped in the recent years. This decline in number of as well as volume of IPO indicates the security market's weakness in mobilizing resources for industrial development

[4] In this regard a note of caution must be kept in mind that, there is a wide difference in the national accounting system for which a jump in investment and savings figure is evident from these estimates in Economic Reviews of Government in 1999 and 2000 publications. Thus the actual growth figures and its incidence on poverty line in future can justify the effectiveness of the new system. Otherwise there may be some temptation to call it a eye wash to represent facts and figures. Similar feelings were expressed on Bangladeshi savings and investment data in 1995 when the growth, savings and investment estimates were much lower than the current form of estimates (Khan, 1995)

2.4 Financial Markets and Private Sector led Savings and Investment

In order to encourage growth of overall savings and investment scenario; the financial market must come forward to mobilize savings and investment especially from the private sector and general households. The financial market is considered as the vehicle for the financial development of a country. The different banking and non-banking institutions in the financial market are the vehicles for systematic financial development of a country. Our financial markets have started moving towards a more liberal competitive one since early nineties. The Financial Sector Reform Program initiated a number of agenda for reforms. The overall banking sector development and the security market development are the two of the most important areas where major emphasis were laid. In the banking sector, credit risk management (with lending risk analysis, credit monitoring, credit classification and credit provisioning), capital adequacy requirements, interest rate liberalization, introduction of bankruptcy law and financial court, establishment of credit information bureau of Bangladesh Bank, closer monitoring and supervision by the Bangladesh Bank are some those important measures.

After the passage of one decade, the IMF and World Bank is not yet happy with the pace of reform while the progress made in minimizing default risk and improvement in the quality of credit disbursement remained an unanswered question yet. With the development of a sound banking and security market, the volume of business and coverage of activities (depth and resiliency in the market) should be attained. The security market segments failed to reflect signs of such depth and breadth. The market remained shallow over the years as the market capitalization in Bangladesh is only 2.42 per cent of GDP against 27.43 per cent in India, 99 per cent in Taiwan and 138 per cent in Malaysia (Imam, 2000; Chowdhury, 2000). This is evident from the Financial Deepening Ratio of the country. The ratio remained more or less within the range of 28 to 31% of GDP. Whereas, in case most of the developing and developed countries, this ratio is increasing or have reached as high as 90 per cent (Malaysia) or more during 1990s. In case of the developed countries, the ratio is observed even as much higher than 100 per cent of GDP.

Financial Services and Banking Sector – In the introductory discussions, we have mentioned that the financial sector of the country is not well developed. The market is very shallow in comparison to the size of GDP (low financial deepening ratio). The informal and quasi-formal sectors (NGO based credit market) are covering a significant segment of financial market activities. In the recent years (in the year of 1980, private sector financial institutions were allowed to operate beside the public sector enterprises. At present 48 local and foreign banks are operating in this country. Of these banks, 5 are public sector banks, 27 are locally owned private banks 12 are branches or subsidiaries of foreign banks. In addition, there are 4 DFIs as specialized banks with primary objectives to finance specialized sectors like agriculture and industry sectors of the country. Beside these banking organizations, there are now 28 non bank financial institutions including leasing, general financing merchant banks and other specific purpose services.

These financial institutions are profit-making organizations. Nevertheless, the organizations under the public sector are plagued with massive debt default crisis causing huge loss for bad debt write offs. The huge loss owing to high debt default forced the private sector financial institutions (both local and foreign) to be highly conservative in lending and concentrating in the safer urban-based retail banking on trade and commerce. The bad debt problem is affecting the public sector banks more than the private local and foreign banks. The foreign banks are in the best position in this regard. One of the reasons for high debt burdens of the local banks and especially of those of the public sector banks is the supply leading credit programs of these banks (Khalily, Khan, Islam; 2001, Chowdhury; 2000, Sobhan, 1989). Beside the credit targeting issue, political intervention in lending decision, and inappropriate credit appraisal for lack of expertise along with illicit collusion by some bankers are also responsible for the poor credit performance. The banking reform agenda as professed by the Financial Sector Reform Program (FSRP) attempted to address some of these issues. The IMF team suggested some modalities and guidelines for appraisal of projects along with analyzing the lending risk of the potential applicants. Credit monitoring and loan scheduling practices are modified and banker's responsibility regarding poor performing credit is addressed. In addition, new Bankruptcy Law is enacted along with some Financial Courts are established in the county. However, the assessment of impact of all these development needs careful observations over time. One visible impact is cited in a recent work of Khalily et.al (2001), where it is mentioned that, the bad debt ratio or poor performing loan ratio have declined in the recent years. Nevertheless, conclusive remarks in this area needs further investigation since some changes are also visible in the banking loan portfolio, which might contribute this improvement. The changes in the bank portfolio is caused by shift in emphasis to commercial loan as industrial credit declined significantly over the years. Moreover, the bankers have already written off a lion part of poorly performing loans causing the relative size such loan to decline.

Among different major developments initiated by the FSRP include the enactment of Bankruptcy Law and the establishment of Financial Courts. The law determining and declaring bankruptcy requires scrutiny over time to find any lapses, which may enable deliberate defaulters to escape liabilities at the cost of financial scarce resources of the economy. The Financial Courts are also equipped with appropriate facilities including Judges and Court Room to conduct the cases against financial irregularities with in the purview of these courts.

Beside these legal reforms to bring the default culture under control, other issues need careful consideration. One important such issues include the interest charged on the borrowers. It is observed that, the average lending rate charged by the bankers in Bangladesh is higher in comparison to the inflation rate prevailing in the country. A look in the Table 9 in Appendix shows that, in comparison to other country, the real interest rate (market interest rate minus inflation rate) is higher that that of the other countries. This relatively high interest cost is considered another hindrance to industrialization process in the country.

Security Market in Bangladesh: The security markets segments of the financial sector are also poor in Bangladesh. As can be seen from Table 10 in the Appendix, the market capitalization (market value of all tradable securities) is only 2.64 per cent of the GDP in Bangladesh while similar country like Pakistan the ratio is 8.48 per cent and more than 11 per cent in Srilanka. In case of India market capitalization is more than 27 per cent while that for Malaysia is as high as 98 per cent of GDP. This shallowness of the market is indicating that, the local firms are marginally dependent on capital financing through security market. The bond market is almost non-existent. There is dearth of quality securities or institutional investment provisions. Although the Securities and Exchange Commission was established in 1993, its role as a market watchdog did not become effective, as allegations of market manipulations are rampant in the country. The obnoxious market manipulations in 1996 and subsequent short term market manipulation allegations were not appropriately handled resulting in no legal actions against the alleged manipulators even after 5 years of the occurrence of such mass level manipulation incident. It is also accused that, political intervention thwarted the speedy settlement of legal procedure against the alleged manipulators.

2.5 Export: Trends and Composition

In foreign trade sector our economy has experienced some structural shifts in terms composition and destination of trade. In the early seventies, Jute and Jute goods were the most significant commodity group accounting for more than 80% of total export. In recent years the share of jute and jute goods have significantly declined and have reached to less than 10% of total export while it is declining further. The decline of one single commodity –Jute– is now replaced by another almost single commodity group – Ready-made Garments and Knitwear (RMG&KW) products. The RMG&KW now comprises of almost 77% of overall export from the country. The market for export also remained similar. Major importer countries are few. Primarily the USA, EU countries, Japan and few other countries are the major destination for our exportable commodities. Beside the RMG&KW, other major export items are leather and frozen foods and a few non-traditional items. Most of these export items are however originating from industrial sector of the country. During 1972/73 period about 55% of the total export (of which 51% was Jute Goods) was originating from industrial sector while in 1998/99 period the share of industrial export reached more than 95% of the total export. Although the nature of industry involved in export business are primarily processing in nature and not advanced or hi-tech in terms of processing and usage pattern.

2.6 Global Recession and the Export Performance

The world economy is in a recession from early 2001. The world economic giants like USA Japan and lately the EU countries are experiencing the downward syndrome of trade cycle. The recent higher rate of unemployment and low level of growth experience of these global economic leaders are affecting the LDCs most as their export market is continuously squeezed. Just like any other LDCs Worldwide recessions are also affecting Bangladesh, as her export market is primarily concentrated in 15 countries of the world. Moreover, absolute dependence on a few exportable items, which are not considered as essentials commodities having high-income elastic characteristics, the country is facing very low level of demand potentials in the face of global recession. Consequently, the major export items like RMG&KW, frozen fish and tea are declining in the current fiscal year. In the year 2001-02 fiscal, the decline of all these exportable items are apparent both in terms of quantity and price. Exporters are loosing orders or are exporting at a very low price for survival. In this situation, some firms are forced gradually to lay off production, which is creating extra pressure on the economy with higher level of unemployment and causing social unrest. The situation is further aggravated after the September 11 incident in USA. Where Bangladesh being a Muslim majority country may face adverse market response or be considered as a country in the risky zone. These entire negative images may affect our export market significantly.

Moreover, the country is facing stiff competition from Caribbean and Sub-Saharan countries as USA has recently granted duty and quota free access to a number of exportable items including RMG&KW products in favor of these countries under Trade Development Act 2000 Bill. Accordingly the Bangladeshi exporters of RMG&KW are finding the US market very much difficult to maintain at lower margin rate but also are in difficulty to meet the quota even.

In addition to this preferential treatment by the USA to some competitors of Bangladesh, the EU has also changed its provisions for GSP facilities to Bangladesh with some new terms and conditions. These include, among others, a condition of GSP grant with SAARC-Cumulation provision. Under the new SAARC Cumulation Provision, the Bangladeshi exporters will get GSP grant if the raw materials are produced or created in any of the seven SAARC member countries. In the past such GSP grants would be given to exporters who use fabrics and other raw materials produced only in Bangladesh. The proposed GSP facilities with SAARC Cumulation have not yet accepted or endorsed by the Government of Bangladesh for there exists a strong opposition from the producers of textile products in Bangladesh.

Under the SAARC-Cumulation provision, the local RMG&KW sector can enjoy GSP facilities if fabrics or Yarns are imported from any of the SAARC countries beside Bangladesh. In this regard, the entrepreneurs of the local textile industries are strongly opposing this option on the plea that, this will ruin their investment as they are not yet in a position to compete with already matured textile industry in India. In other words, textile entrepreneurs of Bangladesh expect that they should be given opportunities to withstand competition in a plain level field. Already, most of the major textile sector enterprises are facing negative impact of slow economic activities in the country. On the other hand the association of exporters of the RMG&KW are of the opinion that, the local enterprises with high quality products can meet only about 15% of their needs and hence they are dependent on imported materials for the rest 85% of their needs. Given this supply-demand gap for inputs, the RMG&KW can gain significant support through EU accepted GSP facilities without affecting local textile sector. This group believes that, such policy will help them significantly in overcoming the loss sustained for global recession.

2.7 Other External Sources of Funds

The failure to spur export performance in recent years for changes in world economic order put a pressure on the over all foreign currency reserve condition in the country. With a slow growth in export and a continuous growth of import of different commodities over the years the balance of payments of the country failed to improve in the recent years. Moreover, remittances from expatriate Bangladeshi, foreign aid and soft loan disbursement from multilateral aid and development agencies either remained flat or declined over the last few years. Flow of FDI in Bangladesh is marginal in comparison to other countries in the SAARC region. In recent years there was evidence of some growth in FDI flow. However, such growth was due to some investment in the selected areas like natural resource exploration and power sector investment. Other than the energy sector, the flow of FDI in Bangladesh did not increase significantly. Moreover such flow is only less than two percent of GDP of the country.

The remittances made by the expatriate Bangladeshis constitute one of the most important sources of earning foreign currency for Bangladesh. For the last two decades such remittances were increasing every year. However, it is apprehended in the 2000-01 Annual Report of Bangladesh bank that, the employment markets of Bangladeshi workers abroad are squeezing sharply. Moreover, the existing expatriate Bangladeshis are gradually loosing their confidence in the efficiency of the overall banking system and are making remittance in the form of some illegal instruments – Hundi – which is basically used to make payments for unlawful foreign exchange transfer to facilitate illegal trade and smuggling. There were some studies in this regard, which indicate the extent of illegal border trading with India (Ghafur, A. 1990; Alam & Cookson, 1995; Rahman & Razzaque, 1998). These studies provide different estimates about the size of such illegal trading and monetary transfer, the magnitude of which can be more than the official trade between the two countries. Thus the actual remittance potentials that could add to the external reserves of the country are now used for importing commodities illegally without paying taxes and also some time threatening the existence of some of locally produced commodities that pays taxes and become less competitive to smuggled tax free commodities.

2.8 Foreign Currency Reserve Situation and devaluation

All these factors relating to our foreign trade aggravated the over all Foreign Currency reserve situation in the country. The foreign currency reserve position went up to more than 3 billion dollars in 1994-95 sessions afterwards it gradually slipped and it came down to almost 1 billion dollar level by October 2001. This low level of foreign currency reserve is considered to be at risky level since it is below the safe limit of atleast 3 months average import bill of the country.

However, the reserve situation could further be worsened, if the government would not have deferred the payments for the bills of some international companies involved in exploring natural gas under PSC. Along side these payments for natural resources; there are some other obligations created by the purchases made during the last few years, using suppliers credit arrangements. Beside these short-term contractual obligations, the long-term debt service installments for both principal and interest is also increasing day after day. This debt servicing against long term soft loans are also creating pressure on reserve position requiring the government to defer some of those payments as far as it will be possible. Nevertheless, any long-term delay or failure to meet these commitments will affect the credit worthiness as well as ability to attract FDI inflow severely.

Given the erosion in reserve position along with slowing down of export and aid flow growth; the government of Bangladesh adopted the policy of devaluation repeatedly. During the last 12 years, the taka is revalued 40 times against US dollar. During 1991-96 period 22 times from taka 40 a dollar to taka 45 a dollar and during 1996 to 2001 periods 18 times from 45 taka a dollar to 57.40 taka a dollar. All the times the arguments were that, the devaluation would boost export and remittance from expatriate Bangladeshis. Beside these arguments, similar actions by the neighboring countries in this regard also prompted such devaluation. It is justifiable always to keep the external value of home currency at par with its real value. However, for Bangladesh caution is required for a number of reasons. The industrial sector in Bangladesh is significantly dependent on imported inputs like capital machinery and raw materials. The devaluation makes those inputs costlier. Moreover, the prime export commodity – garment sector products uses almost 70 to 85 per cent of imported inputs (depending on nature of product). Therefore the devaluation can influence the domestic components in RMG&KW export. On the other hand it is observed that the elasticity of exportable commodities from Bangladesh is less than the elasticity of demand for imported commodities (Rahman & Basher, 2001). Therefore, devaluation in net effect may not bring about the benefits from export market rather it can worsen the situation for inelastic import demand. The area that can reap maximum benefits from devaluation is the foreign exchange remittance from Bangladeshi expatriates working abroad.

The review of current state of Bangladesh economy in the context of current global recession and the forth coming vigorously competitive global market under the WTO arrangements indicates the lack of preparedness of Bangladesh economy to tap the opportunities on the one hand and to face those challenges on the other. Given the scenario of overall economic status we are moving to a more rigorously analyze the industrial investment scenario of Bangladesh along with other essential conditionalities for such investment.

Chapter 3

Industrial Sector of Bangladesh: Composition and Conditions

3.0 Introduction

Given the overall economic background for savings investment and other issues, it is now appropriate to have an in depth look at the conditions of the different components of the overall industrial sector of the country. First we shall examine the contribution of different components of industrial sector in the GDP. Then along with its overall contribution of different components, the problems of those sub-sectors are also highlighted here.

3.1 Share of Industrial Sub-sectors in GDP

The share of the industrial sector in overall economy of Bangladesh is almost 25% now. However, the composition of industrial sector include among others the Mining, Power Gas Utilities etc activities. Among these different sub-sectors of the industry, the contribution of manufacturing sector is the most significant in the overall industrial sector's contribution to GDP in Bangladesh. The power and mining activities are adding less than 3% of the GDP indicating dismal state of the energy sector – one of the most critical factors for industrialization.

a) **Construction Sub-Sector** The construction sub sector is the second most important contributor to industrial sector GDP in Bangladesh. This rapid growth this sector is considered crucial as major infrastructural development is attained through construction activities. The roads network with bridges and culverts, railway system, housing sector and other physical structure developments are essential precondition for sustainable growth and development. However, as the Table 5 in the Appendix reveals, the share of this sector remained almost stagnant just like the share of the other sub sectors in Industrial sector category for GDP estimation.

b) **Power Sub-sector:** The share of power gas and mineral exploration in overall GDP is also not changing over the years. The less than 3 percent share of these crucial sub sectors also bears the testimony of poor condition of our overall level of development. The power sector itself should grow at a rate faster than the current situation in order to provide uninterrupted power supply to different economic activities, vis-à-vis manufacturing sector ensure desirable economic growth.[5] Lately the decision to allow the private sector to participate in the power sector through build own operate (BOO) or build own transfer (BOT) is expected to contribute significantly to this direction. A number of power generation contracts in the form of BOO are signed between the government and the international companies in this regard. Already some international or joint venture projects have started transmitting power to our national grid under this agreement. By the end of November 2001 the private power generation companies in Bangladesh have started generating and transmitting more than 650-megawatt power (according to a government press release). With this addition to our power sector, the capacity of the industry shall be raised to more than 4000 megawatt and effective generation in the neighborhood of 3000-megawatt power. Nevertheless, such power generating capacity can cover 13 to 15 per cent of the area of the country. Moreover, five of these six new power-generating firms are using Barge-mounted furnace oil based power generation system. These units will sell power to the distribution agency (Bangladesh power Development Board) at a rate much higher that the other power generation facilities in the

[5] A recent study of world bank suggested that, at present only 13% of the population has access to power supply. If the present rate of 200,000 new connections is doubled now, than it will take another 25 years to provide power supply 50 percent of the population.

country causing the overall cost of electricity dearer. This higher cost of power generation will ultimately raise the cost of production in the manufacturing and agricultural sector along with overall cost of living of the society.

The power sector of the country is in poor shape not only because of low power generation capacity but also for the faults in power transmission, distribution and overall administration of the agencies. Given the current level of customer demand, the production of power is considered sufficient. But the load distribution, transmission, maintenance and administration is so faulty that, every year almost 35 to 40 per cent power and related tariff is lost in the name of 'system loss'. Of these huge system losses, around 20 percent is due to technical faults in transmission and distribution system. Rest is lost for system losses caused by man made pilferages through illegal connections, tempered billing collusions etc[6]. Beside these, system losses, the country's power distribution organizations, Bangladesh Power Development Board (BPDB) and the Dhaka Electric Supply Authority (DESA) have uncollected bills worth more than one year's revenue of the these agencies. The relative collection position of the Rural Electrification Board (REB) is better than those of BPDB and the DESA.

If massive drive for industrialization along with electrification of the overall country is envisaged; the power sector of the country must be developed with quicker pace of investment. However, care must be taken to the facts that, such investment will require inflow of huge foreign investment as the country lacks necessary inputs to build its own power generation capacity while if these are not cost effective as the cases of barge-mounted facilities, the real economic benefit to the society may become obscure one. Beside cost effectiveness, if these plants are installed on suppliers credit arrangements, there may involve extra cost of debt service in relatively short period. Consequently, it will put extra pressure on our foreign currency reserve, unless long-term soft loans are used to make these investment decisions.

c) Natural Gas and Other Quarries: The gas is the major natural recourse in Bangladesh. Beside natural gas deposit of coal is also available in the northwestern belt of the country. The Sylhet-Brahminbaria belt and the Bay of Bengal basin are the major areas where natural gas reserves have so far been identified or are being extracted. There exist some controversies over the size of potential reserves of gas that can be availed from Bangladeshi deposits. Some geologists are of the opinion that the size of reserve is some where near 12 trillion cubic feet (tcf)[7]. Another estimate suggests that, the size of recoverable reserve shall be slightly above 16 tcf (Petrobangla, 2000). Another study by the Geological Survey Department of the USA suggested such reserve in the neighborhood of 39 tcf. One of the attractive aspects of our gas sector is that, the exploration well to success rate in Bangladesh is significantly higher than most other countries in the world (Shamsuddin, 2001). Therefore, the international oil companies (IOCs) are highly interested in participating into the exploratory operations in this country. On the other hand the current level of consumption in Bangladesh is very much low. Currently on average 350 to 400 billion cubic feet (bcf) gas is consumed[8] by different consumers of natural gas (power, fertilizer and household consumption are the major heads).

The current unexhausted gas reserve of 12-16 tcf will exhaust in 32 years at the current level of consumption at the rate of 400 to 500 bcf per annum. On the other hand, the IOCs

[6] Professor Sadrul Ula of Electrical Engineering Department, University of Wyoming, USA mentioned this in a paper presented in a recent seminar held in Dhaka.

[7] Professor Hossain Monsur of the University of Dhaka and past Chairman of Bangladesh Petroleum Corporation (Petrobangla), in a recent seminar reported this figure.

[8] Bangladesh Economic Survey of 2000. Op.cit.

might have found our current level of consumption as insufficient incentive to explore more wells, as this may not bring sufficient financial benefit to their investment. Accordingly they are pressing for export of gas to India through pipeline to be installed using investment ultimately to be realized from Bangladeshi resources. In this regard two questions must be raised before settling down the issue. First, how much additional gas can be explored by the IOCs beyond current 12 to 16-tcf gas already discovered, and how much those additional explorable gas will worth after paying for the pipeline installation costs which will ultimately be the investment burden of Bangladesh. Secondly, what shall be the progressive level of demand for consumption in Bangladesh given our increasing network of pipeline for domestic household and industrial usage? Beside these economic and financial return estimates, the gas exploration and export issues will require political consensus from all the major stakeholders in the country. Finally, the issue must be evaluated carefully, since prospect of our FDI and development of our power sector may be affected significantly by this decision.

Beside natural gas, the country has some deposit of rich bituminous coal in northwestern zone. At present a Chinese firm under credit provisions from the Chinese government is developing the Barapukuria Coal Mine in Rangpur - Dinajpur area. The mine was initially reported to have coal deposit sufficient to supply out long-term coal demand for 70 years. These coals are primarily planned to be used for a coal-burning pow er plant to be established beside the quarry by the Chinese Government. This power plant is expected to minimize the power supply shortage prevailing in this region significantly. At present, the northwestern zone of the country is dependent on a few furnace oil based power plants along with some 200-megawatt power transmission from the Eastern zone through the East-West Inter-connector developed during late seventies. Another transmission line is commissioned recently after commissioning the Jamuna Bridge in 1998. But such power supply is insufficient to the total power demand of the region and become vulnerable during summer when the country sufferers from massive power shortage. On the other hand, the Barapukuria Coal Mine Project is already facing some setbacks as some technical difficulty in approaching the coal deposit under several hundred feet below ground has already made the project's completion deadline deferred for a couple of years. This delay has also enhanced the cost of the project.

c) Telecommunication Sub-sector: The telecommunication sector is another week point for the country. Access to telecommunication facilities with Internet access is considered as one of the essential utilities for doing business in any country. Although the Bangladesh Telephone and Telegraph Board (BTTB) was lost partial monopoly to wire less telephone system (mobile phones) in 1992-92, in the land based telecommunication and also in licensing administration of VSAT communication, the BTTB is still holding its monopoly causing free and fair development of this sector. Only in a Dhaka city, there are a quarter of million applicants are not getting access to telephone connections although they are required to pay the highest rate of service charge even in the SAARC region.[9] On the other hand the wireless telephone companies (only 6 are operating now) are enjoying massive growth with limited service area, as people are demanding telecommunication service as one of the essential commodities. Same problem is being faced by the business houses for whom doing business without telecommunication means living in dark era creating scopes for illegal arrangements for getting telecommunication facilities.

[9] In a recent seminar in Dhaka organized by the Computer Science Department of Ahsanullah University of Science and Technology, it was mentioned that, the cost per connection in Dhaka is $300 against that of Country like Bhutan is only $15 and yet around 300,000 applicants are waiting for years to get telephone connection.

Internet connections are also another essential service for doing business specially for those who are involved in international markets or are using internationally produced inputs. Our existing systems are dependent on VSAT-telephone or radio link based connections. This system is slow and cannot dispatch huge data in reasonable speed. Although attempts are made to introduce broadband connections to Internet users, the ultimate flow of internet information remained dependent on satellite communication creating extra noise and slower performance. In the last year (2001) the government initiated a process to establish a submarine cable connection with Singapore to get into the surface link connecting Asia-Europe and the America. This cable connection along with fiber optic connection in the countrywide communication system can bring about global standard communication base for the country. Otherwise the country's business sector will remain far behind the rest of developing countries of the world.

Chapter 4

Contribution of Industrial Sector in Bangladesh Economy

4.0 Introduction

The review of the current state of industrial investment scenario has identified the strengths and weaknesses of the industrial sector of the country. Given the situation, the needs for and potentials of development depend on expected contribution the sector can make in different areas. In this section we will look at the different contribution of the industrial sector in Bangladesh. However, major emphasis our analysis will be in the area of employment generation and export sector growth.

4.1Contribution in Employment Generation

One of the major contributions beside value addition by the industrial sector is the creation of employment opportunity for the masses. In Bangladesh, the majority of the industrial units are labour intensive. However, as we can see from Table 6, the employment generation by the industrial sector in Bangladesh is not yet very high in comparison to agricultural and other service sectors. Further the proportionate absorption of labour force by the industrial sector declined from 13.5 per cent in 1991 to 9.3 percent in 1995-96 periods. The employment opportunities in the manufacturing sector during 1995/96 period was merely 7.7 per cent of overall workforce in the country. On the other hand it is observed in a study that, the employment cost of the firms are increasing at a rate of 6.78 per cent (Bhattcharya, 2001) while aggregate industrial productivity in Bangladesh increased at 6.25per cent during the same time (Bakht, 2001). Thus the contribution of the industrial sector in employment generation is not satisfactorily increasing, nor the workers are adding more values to industrial sector over the years.

The Table 6 in the Appendix also shows the agricultural sector as the primary sector absorbing most of the labour forces prevailing in the country. However, the agricultural sector in Bangladesh is already over employed as marginal productivity has reached to a minimum level. It is observed in a recent study that, larger farms, which are dependent on hired labour force, have lower marginal return from employment than the smaller farms having minimum or no hired labour (Khalily et.al. 2001). Thus, in case of farms having ability to employ hired labour are already over employed leaving little room for further employment opportunity creation. Accordingly, it can be concluded that, the industrial sector is one of the most important economic sector that can absorb the huge already unemployed and future labour forces of the country.

4.2 Contribution of Industrial Sector to Export Sector Growth

The country is predominantly dependent on agricultural sector for its economic development as well as for absorption of working force. But when we look at the export sector, we can see that, export commodities are mostly industrial commodity. The Table 7 in the Appendix shows that, during early eighties till late eighties, the export of primary commodities were near about 30 per cent of total export. However, since 1990-91 the export share of industrial commodities rose sharply and by the year 1995-96 it reached almost 90 per cent of total export. If such trend continues along with growth of overall export from Bangladesh, it can be expected that, there shall be a massive surge in the export based industrial sector in the country.

The above discussion relating to our current state of industrial sector gives us the understanding about the present situation and contributions of the industrial sector in the country. In terms of employment generation, the sector's role is not yet satisfactory. The share of manufacturing sector in the overall GDP of the country is also marginal in comparison to other sectors. The export sector of the country is the only area where the share of manufacturing sector is the dominant. This situation also indicates the potentials of other sector in the export market as well as tremendous possibilities of the manufacturing sector to grow if world market remains equally competitive.

Chapter 5

Environment for Industrial Sector Development in Bangladesh

5.0 Introduction

In the previous discussions we have highlighted the current state of industrial sector in Bangladesh along with contribution of the sector in overall economy, employment and export sector development. Now we will address some of the industrial environmental issues that can affect as well as dictate the nature of policies and frameworks required for industrialization in the country. For this purpose, we shall look at the industrial policies, infrastructures and other auxiliary issues that are influencing and or are affecting the industrialization in the country.

5.1 Industrial Policies and Industrialization

The industrialization of a county among many other issues depends significantly upon the different policies of the government. In Bangladesh, the governments over the years have been declaring all the policies under one compressive package called – Industrial Policy. Since 1973, the Bangladesh Government has formulated a number of policies. In these policy documents the government declared its objectives, strategies and packages of incentives offered to the potential investors at home and abroad. It is observed on several occasions that, the incentive packages offered by the government of Bangladesh are highly attractive in comparison to most other countries in the neighborhood and yet it failed to attract adequate investment from home and abroad. Even among the different SAARC countries, the share of FDI flow in Bangladesh is much less than that of India, Pakistan and Srilanka (Huq & Love, 2001). There are a number of reasons for the poor attainments by these policies. Among these reasons, the lack of appropriate agencies to provide effective investment support is one.

5.2 Support Services and Organizational Setup for Industrial Development

In Bangladesh, industrial development and other economic activities are supported by some laws and regulatory organizations. In the following section we will look at the current framework of those regulations and their implementing agencies. Later on we elaborated the activities of some of the major institutions in this regard.

5.3 Regulatory Framework for Different Economic Activities

In Bangladesh, the economic activities are regulated under different legal and organizational framework. Bangladesh Bank being the guardian of most of the economic activities is the agency for implementing most of this legal set up. The banking sector, non-bank financial institutions and foreign exchange transactions are the primary area of regulation from Bangladesh Bank. New banking and non banking financial institutions are created, operated and monitored by the Bangladesh Bank under different laws like Banking Institution Amendment Act of 1999, Non-bank Financial Institution Act of 1993 and Merchant Bank Act of 1999. These laws allowed inspecting and approving different activities of all the financial institutions in Bangladesh. In addition to monitoring, the central bank is empowered to remove any senior officials (MDs, Chairmen and Directors) of the different financial institutions if their activities are ultra-vires to prevailing economic laws. The foreign operations are also within the jurisdiction of Bangladesh Bank. In Bangladesh, Taka was made convertible for current account in1993-94 period. However, it remained subject to official control for capital account. This partial convertibility of taka is considered as a bold step towards trade liberalization regime. The other SAARC countries followed this step to remain competitive.

Beside Bangladesh Bank, the Securities and Exchange Commission regulates the securities markets under a host of legislation. One of the major regulatory laws is the Securities and Exchange Ordinance of 1969 that governs most of the relevant security trading and issuance rules. The foreign investment activities are gov erned by the Board of Investment. BOI registers regulate necessary laws and provide facilitatory services to local and foreign investors. The Industrial policies of the country are also prepared and implemented by BOI. In case of small and cottage industries, the facilitator's role is played by the Bangladesh Small and Cottage industries corporation. The export promotion, export policies and regulation of export related activities are performed by the Export Promotion Bureau of Bangladesh. The Controller of Import regulates rules and in some cases provides licenses for some restricted items in Bangladesh.

The National Board of Revenue (NBR) or the Internal Resources Division of the Ministry of Finance, Government of Bangladesh, looks after tax administratio n and duty frameworks for different economic activities in the country. The NBR is supported by an independent Tariff Commission to determine Tariff structure of different commodities imported in the country. Thus, different regulatory bodies are operating in different capacities to control, regulate and monitor different economic activities in the country.

5.4 Highlights of the Core Functions of Some Major Institutions

In Bangladesh a number of institutions are established to support the industrial entrepreneurs to do their business in better way. Among these, the Board of Investment (BOI), Bangladesh Export Processing Zone Authority (BEPZA), the Export promotion Bureau (EPB) and the different sector corporations and the Privatization Board.

- **Board Of Investment:** The Board of Investment (BOI) was established in 1989 to foster investment in the industrial sector of the country. The BOI is headed by an executive vice chairperson with very high stature (in general a very senior bureaucrat). The BOI was created to ensure development and smooth functioning of the industrial sector in the country.
  The BOI when created from the of Industry Division, it was supposed to be the most effective center for promotion of industrial sector in the country, different studies (Huq, 2001, Ahmed 2000) have found BOI as merely a facilitator. Virtually it failed to come out of bureaucratic grips to become the agency for promotion.

Box 5:1 Major Activities of the Board o Investment

* *To promote our industrial sector at home and abroad,*
* *To ensure availabilities of infrastructural and other required utility services to both local and foreign investors through 'One-stop Service',*
* *To make registration of industrial ventures for maintaining records of flow of capital and credit, technology and expertise*
* *To provide work permits and permissions for royalties, profit and salary transfers by the expatriate investors and workers, and*
* *To provide technical and conciliatory services in order to make the industrial investment process hassle free.*

- **Bangladesh Export Processing Zone Authority:** Bangladesh Export Processing Zone Authority (BEPZA) was created in the early eighties along with the renewed drive for industrialization. During the Second Five Year Plan, the government laid especial emphasis on the industrial development through export-oriented industrial parks to boost local and foreign investment. The Foreign Private Investment (Protection and Promotion) Act of 1980 and the Bangladesh Export Processing Zone Authority Act 1980 were enacted to encourage DFI in the country. The export processing zones are developed as special zo nes to provide tax and duty free areas where foreign and local entrepreneurs set up manufacturing plants and export the out put to other countries. The zones are equipped with Offshore banking provisions; to facilitate smooth flow of foreign funds and trade.

The first of such Export Processing Zones (EPZ) became operational in Chittagong in 1983. The second one was established in Savar, near Dhaka metropolis and started operation in late 1993. Both of these two EPZs were expanded significantly from the initial size to accommodate more than expected level of firms. In the late nineties, new law is enacted to allow private sector and foreign firms to establish such EPZ. At present one Korea based private EPZ and three BEPZA sponsored public EPZs are under development process in different areas of the country. Of these one in Syedpur is declared open but with little success in attracting investment since the EPZ lacks major amenities and advantages required for establishing an export processing and re-exporting provisions. If government keeps planning EPZs in this way to ensure regional balance, the very concept of EPZ will be defeated. Another aspect of EPZ is that, these provisions although are successful in Dhaka and Chittagong, but relative size of investment in these areas are not yet significant in terms of GDP or total private investment in the country. Table 8 in the Appendix highlights this aspect as we can see share of investment in EPZs are 0.11per cent to 0.20 per cent during 1990 to 1997 period against a total private sector investment in manufacturing sector as per cent of GDP were with in the range of 1.80per cent to 2.81per cent during the same time. Thus, in terms of overall GDP of the country, the role of the EPZ investment appears almost negligible in magnitude.

- **Export Promotion Bureau:** Bangladesh Export Promotion Bureau (EPB) is another important out ward oriented industrial support provider in Bangladesh. EPB was established in 1977 to promote export, develop plans and polices for facilitating exporters in private sector, searching new markets, monitoring export performance and to provide all other support services to local entrepreneurs for fostering export from Bangladesh. In order to do all these activities, the EPB arranges local and international trade exhibitions, participates and facilitates participation of local exporters to international trade events and provides trade related information in different forms. Previous studies on the performance of EPB indicate that lack of adequate and appropriate manpower and bureaucratic tangles contributed much of ineffectiveness of services provided by this organization.

- **Bangladesh Small and Cottage Industries Corporation:** The Corporation was created during pre-liberation period to provide support services to the small and cottage industries of the country. The corporation is entrusted with the responsibility to provide,
    a) industrial infrastructural services through creating 'Industrial Estates' for small scale industrial enterprises, at concessional price,
    b) general and technical counseling services to improve quality of output,
    c) linkages with the large-scale enterprises for sub-contracting opportunities, and
    d) any other services required for removing barriers to small enterprise development.

  During its early stage of operation, BSCIC was also given additional responsibility to assess the financing needs of the small enterprises and to arrange such financing. The financing arrangements could not be handled by the corporation appropriately gradually such provisions are withdrawn. At present, the corporation has atleast one industrial estate in almost all the districts of the country. In some districts, there are number of such estates. The selection of those estates is made in a number of cases not on economic justification but by political considerations. As a result those estates remained grossly underutilized or undeveloped.

- **Sector Corporations and Privatization Board** - A large number of industrial units in Bangladesh were nationalized during post liberation period. These enterprises were brought under different sector corporations. With the changes of industrial policies and to minimize the pressure on public exchequer for the chronic losses incurred by these public sector enterprises, some of the units were privatized. But the allegation of wide spread corruption and slow pace of privatization process, a privatization board was created during early nineties. The Board is headed by a Chairperson with the rank and status of State-Minister of the government. But yet, the Board has failed to show any remarkable achievements in the direction of privatizing significant number of loosing enterprises under public sector.

The institutional arrangements so far elaborated explain the conditions of the industrial sector. Beside these major institutional arrangements, the country has some additional legal and administrative aspects that influence industrialization process significantly. These additional aspects are highlighted below.

5.5 Other Auxiliary Conditions for Industrial Development

We have so far addressed some of the major regulatory and institutional setup in Bangladesh, which are considered as directly contributing to the industrial development process of the country. Beside those directly related institutional and regulatory set up, some other organizational issues and factors are frequently cited as factors influencing industrialization efforts. These issues or institutional aspects are briefly presented below.

a) Law Enforcement: One of the major preconditions for smooth industrial development is to ensure good governance and impartial and effective law enforcement. In the recent years, the law enforcement agencies are blamed to be corrupt for different reasons including excessive political influence by the parties in power. It is blamed in different studies that, poor law enforcement, political and criminal disturbance to business operation and deals (toll collection, strikes, blockades, obstructions in ports, threats etc are alleged) affect the industrial investment in Bangladesh in the recent years (Mintoo, 2000; World Bank 1999).

b) Trade Union Law and Practice: In Bangladesh, right to involve into trade union activities is recognized in the constitution. The Industrial Relations Ordinance, The Factories Act and the Settlement of Dispute Act are the three major laws governing the trade unionism activities in the country. Although, direct political involvement by the collective bargaining agents is not approved by the law at factory level, it is frequently observed that, national level political parties are getting involved in to it making the operations of the large farms difficult. In recent years, the port activities, the activities at most of the public sector enterprises including banks and other utility services are aligned to major local political parties affecting peaceful productive environment.

c) Bureaucracy – Structure and Norms: The bureaucracy in Bangladesh is carrying the legacy of British Empire. The bureaucrats are permanent in job and influential in policy issues. They belong to the core elite groups that make and implement almost all the major policies and regulatory frameworks for the country. It is alleged in a number of times by the foreign investors or multilateral agencies that, the bureaucrats in Bangladesh are prone to create hindrances and like to exercise authoritative role in most cases instead of being facilitator. Moreover politicization and corruption of the bureaucracy have also affected efficiency and led them to arbitrary decision-making (World Bank, 2000). Thus bureaucracy is alleged to be one of the major obstacles for foreign investment in Bangladesh (World Bank, 1995).

d) Transportation Services and Road Network In Bangladesh, the road network is not yet well developed. On the other hand, a strong transportation system comprising road, railway, air and water transport provision can facilitate industrialization process smoother.

A survey conducted in 1999-00 periods under the Bangladesh Road Development Master Plan reported that 66 per cent of inland commodities and 73 per cent of inland passengers uses the road network. In Bangladesh, the road transportation system has made significant achievements through the construction of the Jamuna Multipurpose Bridge. The southwestern region will get the total road system with the completion of under construction Khulna–Rupsha Bridge, bridge on river Padma in Kuhstia – Rajshahi area. Beside these bridges, a bridge on Padma in Dhaka –Barisal road the under construction bridge on river Meghna near Bhairab will connect the national highway totally. At present, there is a road network of more than 20 thousand kilometer road of different categories. Of the present network, more than 15 per cent is considered as part of the national highway while another 8.36 per cent road is considered as part of regional highway.

e) Railway Services In addition to road network, there are 1833-kilometer of railway network connecting almost all the segments of the country except the Barisal division. The completion of the Jamuna Bridge railway link line of about 42 kilometer length with Dhaka will enable direct railway link between eastern and western region of the country. Beside the internal linkage, the railway will become initially a passageway for eastern and western regions of India in near future and the gateway for Trans-Asian Rail Line connecting the Fareast of Asia to Middle East. Thus it will open the door for tremendous growth option for not only to Bangladeshi commodities but also to all the countries in the region.

f) Inland Water Transport System Water transport and air cargo and passenger carrying system also plays important role in Bangladesh. There is not yet any survey as to how much of inland passenger and cargo are being carried by the water transport system in Bangladesh. However, it can be considered the air passenger and cargo movement with i the country is very much limited. As such it can be concluded that 20 to 25 per cent of inland passenger and 30 per cent or more cargo goods are being handled by the water transport system. The inland water transport system is regulated by the Bangladesh Inland Water transport Authority. It owns all the ports, licensing authority and regulations in this regard.

g) Port Facilities – Problems and Prospects In Bangladesh there are two seaports, one located in Mongla near Khulna while the other in Chittagong. Both the ports are located on rivers and so very big ships cannot enter these ports. Both of these ports are controlled by two autonomous authority of the government. The Chittagong port conducts almost 80 per cent of imported commodities and 75 per cent of export commodities while the rest are performed through Mongla port and the land ports located in Benapole, Hili, Bhomra Sylhet Akhaura and other places all around the country. The Chittagong port can handle both general cargo and container-based cargo while the Mongla port handles general cargo. These ports are becoming busier every year as the country's foreign trade volume is increasing every year.

Beside our own foreign trade, the land locked western Indian states and northern region of Myanmar can save significant cost by using port facilities of Bangladesh. However, such external users access is possible only if an expansion of capacity to Chittagong port is made. In the same way, the Mongla Port can serve two other land lock countries Nepal and Bhutan if India allows free access to Trucks over its land. All this port usage will not only benefit the land lock countries and states but also through Bangladesh can earn huge foreign currency and market access in these countries.

While the ports can bring about significant foreign currency by allowing neighboring countries and states of India to use our port facilities, the present state of port condition can become a big threat to Bangladesh's own foreign trade. These threats are coming from a number of reasons. Some of the most important threats are as follows:

A) Politicization and unwarranted trade unionism made the smooth operation of the ports very difficult. During 1994-95 and 1995-96 period the port operation remained suspended for a prolonged period for national political movements making the foreign vessels to remain stranded for long period. Such political movement caused the local exporter to bear high congestion surcharge for many days.

B) Both of the ports are located on the banks of rivers requiring movement of ships in narrow river channel. For this reason, ships with deep draft cannot enter the port. The bigger ships are required to remain in the outer anchorage while smaller cargo barges are used to unload those ships creating high risk of pilferage.

C) The port areas are not well guarded making the outer anchorage a den of pirates. Consequently Bangladeshi seaports are now ranked number two risky ports in the world, which enhanced the shipping cost relatively higher for exporters of Bangladesh.

D) The port capacity is not well developed for number of years. Infrastructure and equipment basis are also not sufficient. Although during 1994-95 period the port authority started allowing private operators to supply cargo handling equipments, but such piece-meal effort cannot meet the ever growing demand of the ports.

Concluding Remark:

The discussion in this section highlighted different institutional provisions and physical facilities prevailing in Bangladesh or are deemed necessary for smooth industrial development. If these issues are properly taken care of, the country and its industrial sector can benefit tremendously.

Chapter 6

World Economic Order Trade Liberalization and External Competitiveness:

6.0 Introduction

We have so far addressed different prevailing situations with in the country. Now we are going to focus on globalization issues and Bangladesh's preparedness in this regard as follows:

6.1 WTO and World Economy

In the post world war trade development era, The General Agreement on Tariffs and Trade (GATT) was considered to be the basis for free international trade and development. The prime objective of the GATT was based on vision of a world with world wide free access of all types of commodities in an environment of least possible tariff and duty barrier. The Uruguay Round (UR) talks for global understanding on these issues created the basis for formation of the World Trade Organization (WTO) in 1995.

At the UR talks, it was understood that most of the developing countries (DCs) and the least developed countries (LDCs) would find it difficult to abide by the terms and conditions of free trade flow. Accordingly, it was decided on different meetings that, some special treatment and differential tax/tariff provisions would be given to these DCs and LDCs. This understandings were reached on the ground that, the free trade regime with minimum trade barrier would make most of the DCs and LDCs vulnerable since the industrial sector of these countries are neither matured enough nor equipped with the necessary skills and technologies to compete with those of the leading nations in the world. Moreover the overall trade volume of the LDCs comprises of only 5 to 6 per cent of global trade volume. Therefore to create a level play ground for all the members of WTO must be supported by appropriate preparedness of these countries. This preparedness can come from technical support, market diversification, product diversification and fulfillment all other preconditions to gain some competitive advantage in the global market.

Accordingly in different successive meetings, the developed countries proposed different provisions for enhancing technical capability of the LDCs. But in terms of such assistance for capacity building for the LDCs, no strong commitment did come from the leading nations (Bhattachariya, 2000). In addition to technical support to the LDCs, the developed nations, before and after the Seattle meeting, offered to have a general agreement for extending the 'grace period' for full compliance of the WTO rules on the LDCs during which time these countries (LDCs) would be treated with sympathetic attitude to enable them more room for preparedness. Thus, after the recent WTO meeting held in the Middle East in late last year, paved the way for establishing the fully operational WTO in 2004-5 sessions.

6.2 WTO –Trade Liberalization and Bangladesh

With the emergence of WTO, LDCs like Bangladesh will face major challenges and threat. Bangladesh is a country with dependence on almost a single commodity on export arena while absolute dependence on wide range of imported commodities will find it difficult to coup with the free global trade market. The current major exportable items in the broad category of RMG&KW were developed with the trade opportunity created by the special quota provisions for the LDCs. Whenever, the quota provision is with drawn along side equal duty structure, the ability of Bangladeshi producers to compete with the other countries will be a difficult job. This issue is especially adverse for Bangladesh since her RMG&KW industry is developed on the basis of imported inputs. Once the other countries will be able to export the same product in a quota free trade regime, it will not be possible for Bangladesh to compete with those countries. Bangladesh can remain competitive in the world market if the industry is vertically integrated. That is a backward linkage industry with world-class efficiency and quality assurance can enable Bangladesh to remain competitive in this industry.

6.3 Trade Liberalization and State of Preparedness in Bangladesh

One of the preconditions for WTO is that, the member countries must liberalize its trade regime towards a restriction free import system. Bangladesh in the past had the policy of import substitute industrialization. Different strongly restrictive policies in the ideology of 'infant industry protection' were professed by the political economists here. Almost all types of restriction to import – licensing, banning, effective rate of import tariff and foreign exchange restrictions were in practice in Bangladesh. World bank classification on trade orientation for the developing countries put Bangladesh in the category of most restricted countries in 1963-73 as well as in 1985-87 list (World Bank, 1987). From the year of 1992, Bangladesh started liberalizing its trade regime effectively to accommodate as per the requirements of WTO.

6.4 Current Trade Liberalization related policies in Bangladesh [10]:

Reforms in trade policy of Bangladesh consist of both tariff and non-tariff barriers. In the matter of tariff barrier, duty structures for most of the imported commodities were slashed significantly since 1991-92. In 1986, there were 24 slabs for tariff protection. In order to ease tariff system, these slabs were drastically reduced and it reached only to 6 slabs in 1996-97 periods. There were 2406 items of import in 1990-91, with 100 per cent Customs Duty. This number came down to only 39 commodities in 1993-94 fiscal year and to 24 items by 1996-97 periods. The average rate of tariff was more than 57per cent during 1991-92 period while that average came down to 22.32 per cent in 1995-96 and further down to 20.80 per cent in 1997-98 period. The effective nominal rate of tariff protection for local manufacturing sector was estimated to be 89 per cent in 1990-91 and 25 per cent in 1995-96 fiscal. These data reflect the degree of removal of tariff barriers during early nineties in Bangladesh.

In addition to tariff barrier removal, the non-tariff barriers were also significantly removed in Bangladesh during the same time. The non-tariff barriers used in Bangladesh included licensing requirements, indirect differential treatment of exchange rate for import and export and other quantitative restrictions. The licensing requirements started to be eased from late seventies through. The steps toward simplifying the import procedures also started from this time. However, the real pace of liberalizing the import procedures and other trade related non-tariff barriers started to be eliminated from 1991-92 period. There were several hundred banned or restricted items in the import list for industrial protection, religious and social beliefs. This list also slashed down to only 40 items by the end of 1995-96 period. Taka was made convertible against current account since 1993 to allow restriction and protection free import regime. The bold steps initiated in 1992 were considered a remarkable leap forward towards reforming economic structure of the country (Ahmed, 2001). In order to evaluate the degree of trade liberalization implemented, Ahmed (2001) used some economic measures and estimation process. These measures included Trade Ratio, Import Penetration Ratio,, trends in Nominal Rates of Protection etc. Using various relevant data, Ahmed concluded that in Bangladesh increase in neutrality of the trade regime along with enhanced level of liberality was attained through out the early nineties.

---

[10] The tariff and other trade related data cited in this section are adopted from report of World Bank (1996), and from Bakht (2001).

6.5 Trade Liberalization and Macro-economic Performance

While Bangladesh was persuading a policy of rapid trade liberalization, the macro economic indicators indicate a slow but positive dimension of move toward stability. The inflation level remained under control, budgetary deficit as per cent of GDP declined (up to 1998), external reserve position improved significantly (up to 1994-95), the GDP grew at higher rate than pre ninety average rate of growth continuously. This level of achievements however started eroding since 1996-97 period (except that for level of inflation) as the overall budget deficit and trade deficit started to be widened gradually. However, an unprecedented continuous bumper growth in agriculture sector kept the consumer price index significantly lower as in case of Bangladesh, rice is the major component of the basket of consumption items for most of the population living below poverty line.

6.6 Trade Liberalization: Export and Industrial Growth in Bangladesh

With the changes in trade regime – from import substituting country to outward oriented country, the volume of export and size of industrial sector grew significantly. Bakht (2001) used the Quantum Index of production volume for Bangladesh and found that, the aggregate industrial sector as a whole grew at an average rate of 10per cent from1989 to 1996 period. However, if export oriented industrial sector is excluded from the production value index, he found that the average growth rate was 64 per cent during that time. On the other hand, Ahmed (2001) has observed that, for the import substituting industrial sector, few industries like paper and cotton yarn manufacturers experienced negative growth. Thus along side the withdrawal of industrial protection and tariff barriers; the industrial sector of the country survived the scar successfully. In the matter of export growth, the achievements were also significant. From the year of 1991-91 to the period of 1996-97, the country's export grew at an average rate of 16.5 per cent per annum. In this growth achievement, the RMG&KW contributed almost 70 per cent. This indicated a weakness of the achievements made in this sector. Another weak part of the export growth achievements is the concentration of market. As the Table 13 in the appendix shows, export from Bangladesh during 1981 was fairly distributed in a wide range of countries. The major industrialized countries were the market for roughly 34 per cent of our total export. This situation changed drastically in 1996, when more than 85per cent of export from Bangladesh was destined for the few industrialized nations. The share of the ASEAN nations declined from more than 11 per cent to roughly over 4 per cent. In contrast, the neighbors of Bangladesh maintained its dispersed export market. Both India and Pakistan enlarged the share of ASEAN market remarkably. Thus the concentration of Bangladeshi export market in to a few countries indicates a potential threat for the country.

6.7 FDI, RMG, Natural Gas, Power Sector, Telecommunication in BD

Although Bangladesh made significant progress in liberalizing its trade regime, reforms in other economic agenda was implemented at a slow pace. Especially such reform process almost stopped in a number of areas like deregulation of state control over a number of activities like power distribution, port and telecommunication and other public utility services. The denationalization of public sector commercial ventures both loosing and profitable enterprises were minimum. Moreover, in a number of occasions, transparency was lacking on the part of government in the matter of handling gas exploration, power, telecommunication and port issues. All these factors might have affected the flow of FDI in Bangladesh when it remained the leader in a number of other reform agenda over India – a country with strong inward restriction in trade, even now a day. During the last decade, the FDI flow in Bangladesh was higher than any other time in history. But such FDI flow was mostly directed towards gas power generation and telecommunication sector. In the manufacturing sector, the FDI flow remained negligible as the country failed to establish confidence among the foreign investors. Moreover, as the World Bank report cited earlier, the administrative and enforcement practices in the country failed to become pro-investment to meet the requirements of the potential investors, no matter how good incentive package is offered by the government. Therefore, the country's trade liberalization drive failed to put significant impact in this area.

6.8 Regional perspective and Trade Liberalization

When almost all the countries in the world are trying to foster regional trade through developing trade zones. In Europe, the EU and other regional trade alliances, in the North America, the NAFTA, in South Asian region ASEAN are the glorious example of such regional cooperation for development. The SAARC countries have remained far behind its schedule for establishing its 1993 accord for preferential trade agreement (SAPTA) – nonetheless the free trade zone issue (SAFTA) is not yet dead. One of the major difficulties in implementing the SAPTA is the reluctance of India – the biggest but most restrictive member of SAARC. In case of SAPTA, the SAARC countries agreed to offer preferential tariff structure for selected trade items for the member countries. Bangladesh just like the case of WTO requirements provided almost all the tariff facilities to other countries. But India the biggest trading partner in the region remained unmoved in this regard. Rather in some cases it imposed supplementary duties (the case of RMG orders, Batteries, dress materials like 'Sarees' etc) creating significant restrictive measures upon Bangladesh. The consequence of this unilateral tariff imposition and non-compliance of SAPTA provisions made the trade imbalance of Bangladesh further worsened. The export from Bangladesh declined while export of India to Bangladesh increased significantly over the last few years.

For a long time, India wants to get transit facilities through Bangladesh for economic movement of goods between eastern and western regions of Bangladesh (it is already in operation through water routes over Bangladesh since 1978). She is also interested to use the Chittagong port for its eastern zone's land locked states. But during the same time, it gave very much restricted permission (daily for limited hours and for a limited number of trucks) to Bangladesh and Nepal – land locked member of SAARC region – use the Mongla port.

6.9 Concluding Remark

The discussion on trade liberalization in Bangladesh and its impacts on export and industrial development indicate primary level success. The real and dependable success can be attained only if the reform agenda in some other areas are complete. Beside the completion of reform in other areas, the regional cooperation issues also need careful attention. If such reforms are made under complete reorganization program, the true effect of these changes can be felt in the economic arena. In the coming years, if the new government remains committed and continue to move through the road ahead with some strong actions (swallow the bitter pills of reform) the economy of Bangladesh is expected to grow with full potentials.

Chapter 7

Policy Issues and Strategic Recommendations

7.0 Introduction

In the general analysis of the state of economy of Bangladesh in the recent years are vividly analyzed. The focus of all those reviews was directed towards industrial investment and associated financial aspects of Bangladesh. Keeping in mind the major findings from review, the following section will present some policy recommendations for further review for appropriate considerations.

7.1 Economic Reform Agenda and Political Commitment

The economic reform agenda is a ongoing process. In Bangladesh, economic reform was initiated in late seventies. However, the reform packages initiated in the early nineties can be considered as effective economic program. The reform in trade issues, financial sector, fiscal management and overall administrative structure must be viewed as a total package. It is always true that, during the early stage of reform, almost all the parties subject to reform will face some hardship. These groups will therefore create some degree of resistance in order to maintain status quo. On the other hand a half-hearted reform may not bring about the desired result as reform means making things free from repression. Bring things subject to market force. Whenever, there is some degree of lacking in transparency, some people will reap benefit out of it. Ultimately, the cost of such unwanted benefits to few people will be borne by the masses.

It is therefore essential to realize that, reform of economic activities and regulatory arrangements must be viewed as a complete package and must be implemented with strong political commitment. Any partial reform effort with incomplete action may make things worse. If possible all the major political forces should make joint decision before launching any reform.

7.2 Identification of New Thrust Area for Diversification

As we have seen in our previous discussion on our industry scenario and especially in the composition of trade, that the economy is not well diversified in terms of economic activity level. The foreign trade of the country is almost dependent on single commodity (RMG&KW) to only a very few OECD countries. This concentration made the future of the country highly risky since after the full implementation of WTO by the year 2005, all the countries in the world will have unrestricted (quota free) edge in export market. As a result for a country like Bangladesh major and quick steps must be taken to broadening the base of our domestic as well international markets. This is possible through exploring the following options:

a) Searching new markets for our existing products is an important step to minimize the risk exposure of existing concentrated market. New markets can be developed in the countries within the economic zones or regions like ASEAN, SAARC and NAFTA beside the EU countries. Moreover, Japan and the countries in African and Russian peninsula may become new markets. Beside these new countries, the market base in the Central and Eastern Europe can also be expanded. Since the WTO will provide quota free access to all the member countries; the current apparently secured market of Bangladesh will not remain so. The major industrialized countries where more than 87 per cent of our exportable items are destined shall become the arena of all other countries including Bangladesh. But countries with similar production capacities (factor costs) but with bigger degree of factor endowment and economies of scale as well as scope in terms of vertical integration of production functions (strong backward linkage) will push Bangladesh exporters out of race. As the preparedness of Bangladesh in this regard is very poor, there is strong chance that the quota based the exporters of Bangladesh may not hold current market.

b) Besides searching new markets for existing exportable markets, Bangladesh must also find new product or service groups to diversify existing product groups. The concept of the WTO is to develop world trade on the basis of comparative advantage of the countries. So it has become imperative on Bangladesh government to create environment and provisions so that the entrepreneurs can diversify the product mix of Bangladeshi export items. Since the entrepreneurs will be working in a strongly competitive market, there shall be high risk involved in trying with new products. The potential areas can be agro based product market search namely vegetables, fish flowers, jute, fruits etc. In this regard special incentive packages for import and usage of appropriate technology for storing, packing and shipping must be ensured. Special drives for quick delivery arrangements through cargo flights in the private sector must be permitted. Pro-market steps and investment in this area must be ensured looking at future perspective since these products need efficient handling, sophisticated packing and refrigeration, and speedy delivery at destination at scheduled time. Beside agro based product market search, the government can also explore the market for gas-based products like electricity, fertilizers, concentrated gas etc. This will enable the usage of natural gas inland without creating any political controversy on gas export. The Bay of Bengal can be the ground for exploring fish for export market. Beside these, potentials for cultured pearls, gems and jewelry industry is also tremendous since the country has reach tradition in this area.

   The country must try to expand its efforts to build up electronic assembling plants from the countries whose labour costs are higher but depends on human labour for production. A large number of expatriate Bangladeshi workers are working in electronic assembling plants like those of Sony, Matshushita etc in Malaysia. Why not such provisions be developed in Bangladesh? For this reasons the business environment must be enabling and supportive. The bureaucracy must not be a deterrent factor for rapid development of industries. But at the same time it must also ensure that, the entrepreneurs remain accountable to the nations since they will also be using scarce resources of this country. For this reason quick but effective investigative study must be conducted what affected the development of appropriate backward linkages in Bangladesh in the previous 20 years when the garments sector grew at more than 50 percent rate per annum. Appropriate policy and its implementations can be made possible if the findings of those studies are taken in to cognizance.

c) Appropriate technology based development must be ensured so that the output from Bangladesh can compete with those of other countries with equal footing in terms of price and quality. The adoption of new technology, necessary incentives to adopt those and protection from the losses due to high rate of obsolescence must be addressed in case of hi-tech industries. Specially the markets relating to IT based products and services are subject to these types of risk. There the government can protect risk exposure in order to keep the sector least risky for the entrepreneurs.

7.3 Improvement of Financial Services

The banking system continues to be dominated by the nationalized commercial (NCBs) and specialized development banks (DBs). However, financial sector reform and liberalization has not brought any significant behavioral changes in the NCBs and DBs. Low recovery rate continues to be the major problem. It is significantly low for industrial credit. In the study of Khalily et el. (2001), it is documented that default costs of the Private Commercial Banks (PCBS) was Tk. 0.32 per Taka of loan as against Tk. 0.45 for the NCBs. Revolving and recycling of funds are limited with high default costs. Khalily et el have also observed that the performance of pCBs is better than that of NCBs and BDs in both industrial finances and short-term loans. This possibly indicates that privatization and financial liberalization have brought some quality changes in the banking system through its effects on private banks.

We need to recognize that conditions in the bank-based system are unpalatable in the sense of huge non-performing loans, high degree of classified and default loans, capital inadequacy of banks and the like. These are causing the banking system in Bangladesh to maintain widespread between lending and borrowing rates. The irony is that we live in a country where rebate and other rewards are offered to those who defaulted on bank loans but the timely repayers are not, which further encourage defaulting. As quoted by Dr. Farasuddin, ex-governor of Bangladesh Bank, if the banks are able to realize half of their bad loans, it would add at least two per cent to the country's GDP. It is, therefore, need of the hour to streamline the banking regulatory and supervisory frameworks particularly in the wake of financial deregulation.

Given the scenarios in banking system, a stock-market-based system (Anglo-American model) instead of a bank-based-system (Japanese-German model) is required to be emphasized for financing economic development. Of course, the choice of the system is crucial in evolving a financial system and developing appropriate incentives and institutions. An active and vibrant securities market, which offers positive real returns on a variety of financial instruments, provides an alternative investment opportunity selecting the best portfolio through diversification of risk according to investors' preferences. The banking sector can react to match this by offering alternative investment opportunities.

In the above context, it is suggested that debt management companies be set up to get rid of the defaulted loans of the banking system in the country. Debt management companies can raise funds from the capital market against loan portfolio bought from financial institutions through asset securitization. In Indonesia, the country was hit hard by East Asian financial collapse in 1996 and recovered well, as it reduced the bad loan to six per cent from a staggering 50 per cent with the help of debt management company.

7.4 Improvement of Investment Climate

The institutional as well as administrative environment for smooth and rapid industrial development is poorly present in Bangladesh. Because of this poor administrative support along with insufficient infrastructural provisions, desired outcome in industrial sector development could not be attained. In this regard a number of issues should be addressed as follow.

- **Road Infrastructure Development –** Road and railway network must be developed to facilitate smooth flow of commodities at competitive prices. Private sector investment and management must be ensured to foster investment in this sector. The telecommunication system must be developed on priority basis so that efficient communication from any region of the country become hassle free. The present conditions of extreme high tariff for telephone connection along with unprecedented delay in getting connected must be removed. For this purpose, the monopoly of the T&T Board must be removed even in surface telephone through converting the board in to a publicly held company preferably with international joint venture to inject new capital and technology in the sector. Other private enterprises can be encouraged to launch similar firms in parallel with the existing T&T Board. Necessary legal framework and authority can be set up to regulate the legal and other aspects required for smooth development of the sector.
- **Air Cargo Capacity, Efficiency and Safety** _ Both Marine and Air cargo handling capacity of the country must be enhanced in technical as well as in physical perspective.

For this purpose, private sector must be encouraged with appropriate incentive packages. The current system with Biman Bangladesh's regulatory authority must be withdrawn to make the airline a participant and not the authority in the airline industry. Biman and other private sector airline with cargo facilities must be allowed to enjoy same rights and advantage to ensure healthy completion in the sector. Beside these, the cargo handling must be efficient in order to ensure quick dispatch of both incoming and outgoing commodities. The customs and civil aviation administration must be supportive in this regard so that the overseas trade orders are met in minimum possible time frame. The air cargo system is used for perishable and valuable items shipment. Systematic delays in delivery of these items affects the growth prospect of the country. A high level committee may be vigilant to ensure the alleged corruption in this area is minimized to restore the negative image of the country abroad.

- **Port Facility Development –** The existing port facilities in Chittagong and Mongla is considered as one of the weakest point for massive foreign investment in Bangladesh. In order to remove these bottlenecks, modern and very large port facility must be developed in the country. The existing resource position of the government of Bangladesh is quite insufficient to meet the huge investment demand for such a modern port with vision for future. Therefore private sector investment preferably with joint venture or exclusive investments from foreign firms have become essential to develop the existing port facilities in the country. In this regard, the problems relating to the Stevedore Service of America (- one investment proposal from a US firm SSA to develop a container port in Chittagong) should be resolved as quickly as is possible. Otherwise, this issue will also discourage other foreign investors.
- **Balanced Power Generation and Distribution –** The power sector of the country must be developed with in very short-term using both short-term and long-term planning and investment. The distribution system must be maintained properly to minimize the technical faults of the system. For this purpose the key point installations and transmission systems must be properly maintained. The load distributions must be efficient to minimize uncontrolled technical shut downs and low level power supply. The major power plants must be subject to overhauling during off peak seasons like winter. The pilferage in power sector must be restricted with strict enforcement of law. In the long run both power generation capability as well as transmission capability must be developed through systematic long-term plan keeping the vision of power demand by all the members of the country as well as for the import demand of the neighboring countries. The natural gas of the country can be used as the vehicle for this mission. Finally, just like the other economic sectors, the power generation, transmission and distribution must be handed over to the private sector. The huge losses incurred in power distribution for pilferage and poor collection ability, the technical losses due to poor transmission and age old power generation plants can be minimized if strong private sector led power sector is developed. The spin-off effect of this sector will also be tremendous. The government should move forward with strong commitment in this regard without waiting for long otherwise, other countries will move forward and we shall loose the opportunities.
- **Law Enforcement And Improvement Of Law And Order Situation –** The law and order situation had been a bad scar for long creating obstacles to smooth development of business operations. The law enforcement agencies must be reorganized through better recruitment, training and financial incentives and benefit packages. At the same time they must be made accountable to people and not to political party in power. Immoral acts of law enforcement agency members should be dealt with in iron hand in order to restore confidence of the people. Such actions can be taken by a strong independent police reform commission. Similarly the judiciary must be made independent from administration and be held accountable to a strong Jury Commission to maintain its

transparent image, as a guardian of constitutions and legal system. Beside these, there must be sufficient number of c ourt and judges to ensure speedy disposal of cases.

- **Internal Revenue Generation At Broad Base** The macro economic balance in the form of low inflation, narrow gap in foreign trade and fiscal revenue and expenditure must be maintained. The savings and investment of the country must have sufficient boost so that the overall growth level is maintained.
- **Privatization Drive–Deregulation Of Key Infrastructure/Utility Services:** The country has yet the legacy of large number of public sector enterprises in production and service sector. Most of these enterprises are incurring loses creating significant hemorrhage of public resources every year. These enterprises are loosing concerns in most cases and so the price for these enterprises may not be attractive. But quic k disposal of these enterprise can save the tax money collected from the overall society are spent for the protection of a few who are working in these firms. Therefore, the government must take actions quickly since long time have already been used with little success except for the privatization of few abandoned industrial units. The privatization drive for Biman has already failed. No other utility service is in the list of privatization. But the nation is continuously bearing the cost of huge subsidies to protect the interests of few thousands of workers employed in those units.
- **Appropriate Education and Development of Semi Skilled Workforce –** It is always been a crucial factor that the population of a country needs to be turned in to work force. For this purpose, appropriate education for skill development must be ensured. In Bangladesh, the education of population must be directed to this need based arrangement. The education need planning has become imperative since the employment of workforce must meet the challenges of new world business reality. Accordingly educationist, employers and politicians must seat together to set the course of educational thrust. Appropriate institutional development must follow the directions set by the plan.
- **Competitive auxiliary services for local and international market mass** communication, improved market image, safe and hassle free tourist visit all these issues must be taken care of by the authority. In most of the developed world, Bangladesh has got a negative image – a country where people are not safe even before the law enforcement agencies – a savage like image. Strong actions must be vigilant at home front to restore the confidence that people can move around freely without much to fear, do business without any disturbance from others, rather supportive environment is prevailing for everyone whoever wants to get involved in economic activities. Only concern from the government should be that, no such actions are becoming threat to environment or social values and that such activities are meeting the standards set by the government.

7.5 Effective Financial Incentives Similar to Competitive Countries

Bangladesh has moved forward in the area of trade liberalization. But the countries like India did not reciprocate appropriately. Consequently industrialists in Bangladesh are frequently facing uneven competitions from the industrialist countries like India. In this type of situation special measures must be considered to keep the situation even for the local entrepreneurs. At the same time, Bangladesh must also continuously evaluate the tariff and duty structure, subsidy and incentive packages (e.g. cash subsidy, duty drawback, interest subsidy etc.) provided by competitive countries in the region like Srilanka, Pakistan, Vietnam, along with African and Latin American nations to make local product externally competitive.

Chapter 8

Conclusions

Globalization has appeared as an inescapable reality. Globalization poses new challenges as well as opportunities for a country like Bangladesh. Globalization, by creating prospects for trade and investment expansions, offers opportunities for accelerating economic growth. On the other, it unleashed competition that puts pressure on the industrial and business firms of the developing countries to be more productive and innovative if they are to survive. It poses a lot of formidable challenges to the economy of LDCs like Bangladesh. In Bangladesh, the steps taken for trade liberalization were not backed by necessary reforms to raise efficiency. Rahman (1999) observed that trade liberalization in Bangladesh was too much and too fast. Globalization will not yield adequate benefits unless certain conditions are met. Bangladesh is not prepared yet to meet the challenges of globalization.

Liberalization of trade policy along with industrialization via export promotion through diversification of products and markets enables Bangladesh to follow the path of dynamic comparative advantage. The important policy implication is that, for achieving dynamic comparative advantage in the world market and to bring structural change in the economy, the country needs to build up a skilled labor force and hence economic policy reforms should be accompanied by human resource development along with liberalization of trade.

Liberalizing the economy is not enough without the accompanying measures, which create the enabling climate. Without the basic infrastructure, without adequate uninterrupted power supply and without good telecommunications, there will not be an incentive for foreign investors to invest.

Opening market alone is not sufficient if the private sector does not diversify and go for backward linkage, foreign investment will not come if basic conditions are not met, gas exploration can be the catalyst to cease these conditions.

FDI has been a great motor in Southeast Asia. It can also do so on South Asia if economic considerations override the political in a perspective of the regional integration. The enabling climate for investment will depend on the political will that the leadership of this country show in face of mounting competition that it faces in the coming years not only internationally but also within South Asia.

As inefficiency and productivity at corporate sector is a major problem for Bangladesh, it is argued that foreign direct investment (FDI) is required to be integrated with corporate turnaround efforts for both privately owned firms and former State Owned Enterprises (SOEs) of Bangladesh. Increasing market share is crucial for achieving turnaround. For firms of Bangladesh whose domestic market share is relatively small, boosting exports is essential for their survival. Compared to a firm wholly owned by the owners, a firm with foreign ownership generally possesses better networking with foreign importers. Therefore, a firm with foreign ownership is likely to achieve higher export earnings than the local firms and this higher export earnings will help them secure long-term sustainability, the goal that troubled firms pursue in their strategic restructuring stage. Varadarajan and Cunningham (1995) show that by entering into a strategic alliance in production, marketing, R&D or other areas, a firm can vastly improve its competitive position. A strategic alliance can enhance the prospect of getting better technology, access to newer markets and availability of better suppliers. The synergy emanating from strategic alliance will enable a firm to venture into new areas that firms in developed countries at the strategic restructuring stage. Hence, a firm with a strategic alliance to attain turnaround at a quicker space that a firm that does not have any such alliance.

APPENDIX

Table: 1
Some Basic Economic Indicators of Bangladesh

Activity/Sector	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00***
GDP growth rate (%) at 1995-96 price	4.93	4.62	5.39	5.23	4.88	5.47
GDP growth rate (%) at 19984-85 price	**4.40**	**5.35**	**5.88**	**5.66**	**5.21**	**5.84**
GDP at current market price (Million Taka)	1525178	1663240	1807013	2001766	2196954	2412740
GDP at 95-96 constant market price (Million Taka)	1589761	1663240	1752847	1844467	1934371	2196950
Per capita GDP (in Taka)	12720	13622	14538	15824	17137	18528
Per capita income (in US Dollar)	**326**	**343**	**351**	**359**	**369**	**373**
a. Agriculture (Million Taka)	386367	409882	446877	490101	554737	624600
b. Industry (Million Taka)	359650	397044	435839	497230	533122	579420
c. Services (Million Taka)	718364	789434	850612	938586	1031334	1208720
Major sectoral growth rate (%) at 1995-96 prices						
a. Agriculture	*-0.30*	*3.10*	*6.00*	*3.19*	*4.77*	*5.5*
b. Industry	*9.86*	*6.98*	*5.80*	*8.32*	*4.92*	*4.20*
c. Services	*4.87*	*3.96*	*4.51*	*4.96*	*5.16*	*5.20*
Major sectoral contribution to GDP (%) at 1995-96 price						
a. Agriculture	***26.02***	***25.68***	***25.87***	***25.34***	***25.28***	***24.62***
b. Industry	***24.29***	***24.87***	***25.01***	***25.72***	***25.70***	***24.39***
c. Services	***49.69***	***49.45***	***49.12***	***48.94***	***49.02***	***50.99***
Major breakup of GDP As percentage of GDP (%) **						
a1. Domestic savings	*13.32*	*14.90*	*15.90*	*17.41*	*17.71*	*17.78*
a2. Domestic savings	*8.24*	*7.52*	*7.51*	*8.60*	*8.37*	*8.38*
b1. National savings	*19.32*	*20.17*	*21.58*	*21.77*	*22.31*	*22.60*
b2. National savings	*16.00*	*14.25*	*14.82*	*14.83*	*14.29*	*14.11*
c1. Investment	*19.12*	*19.99*	*20.72*	*21.63*	*22.19*	*22.41*
c2. Investment	*16.63*	*17.00*	*17.28*	*17.81*	*18.51*	*19.16*
d. Consumption	*86.68*	*85.10*	*84.10*	*82.59*	*82.29*	*82.22*
Fiscal and Budgetary Management						
a. Total revenue	*9.32*	*9.33*	*9.49*	*9.38*	*8.97*	*9.61*
b. Tax revenue	*7.28*	*7.35*	*7.79*	*7.49*	*7.22*	*7.70*
c. Total expenditure	*13.51*	*13.12*	*13.05*	*12.76*	*13.32*	*13.79*
d. Overall budget deficit (Proposed)	*4.19*	*3.80*	*3.56*	*3.38*	*4.36*	*4.18*
*e. Overall budget deficit (Actual)****	*5.2*	*4.5*	*3.9*	*4.2*	*5.4*	*5.2*
Monetary Indicators						
Bank advances (In million taka)	283319	329794	371660	417646	479897	539836
Bank deposit (In million taka)	389241	419412	471894	520045	589941	645864
Financial Deepening Ratio ****	.28	.28	.28	.29	.30	.32
Annual Average Rate of inflation (%)	***8.87***	***6.65***	***2.52***	***6.99***	***8.91***	***3.41***
Exchange rate (Taka per US Dollar)	40.20	40.84	42.70	45.46	48.06	50.85

Source: Bangladesh Bureau of Statistics, Bangladesh Bank and Ministry of Finance, Government of Bangladesh

Note:-

* The estimates for 1999-00 is adopted from ***Bangladesh Economic Survey*** (in Vernacular) for 2000 Issue, published by the Ministry of Finance, Government of Bangladesh.

** The two different savings and investment data indicates the two systems of estimates. The a1, b1 and c1 are estimates based on current practice of National Income Accounting using 1995-96 as base year. The estimates a2, b2 and c2 are based on previous National Accounting System with 1984-95 as base year.

*** The actual Budget deficit data is adopted from *Bangladesh Economic Survey 2000*, op.cit.

**** Estimates of the author from data given in *Economic Trends*, August 2001 Issue published by Bangladesh Bank

Table: 2
Key Indicators of Foreign Exchange and External Balance of Bangladesh

(Million US Dollar)

Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Import	5835	6880	7152	7520	8007	7403
Export	3266	3393	3879	4486	4339	4954
Remittance	1198	1217	1475	1525	1706	1949
Aid Disburseme			735	503	670	
FDI Flow	83	241	297	387	535.4	
Debt Service	467.9	469.2	463.2	443.9	535.4	
Forex Reserve	3077	2039	1634	1713	1653	1384

Sources: *Statistical Year Book* of Bangladesh Bureau Statistics, *Economic Trends* of Bangladesh Bank and *Bangladesh Economic Survey* of the Ministry of Finance, Government of Bangladesh various issues.

Table: 3
Share of Different Economic Sectors in GDP of Bangladesh

(at 84-85 constant prices)

Sectors	1972/73	1975/76	1980/81	1985/86	1990/91	1995/96	1997/98
Agriculture	49.76	49.33	44.23	41.53	37.60	25.68	25.34
Industries	13.78	12.87	15.57	15.71	17.16	24.87	25.72
Manufacturing	9.00	10.22	10.52	9.69	9.80	11.34	11.35
Services	36.47	37.80	40.20	42.95	45.24	49.45	48.94

Source: Adopted from ***Strategies for Industrialization The Case of Bangladesh*** by Huq, M. & Jim Love, p. 4

Note: The Share of GDP till 1980/81 at 72/73 Constant Prices while for the rest at 198/85 Prices.

Table: 4
Growth Rate of Bangladesh GDP at 1984/85 constant price

GDP and Its Components	1972/73 to 1979/80	1979/80 to 1989/90	1989/90 to 1997/98	1972/73 to 1997/98
Overall GDP	3.71	3.84	4.69	4.08
Agriculture	1.86	2.42	2.24	2.17
Overall Industries	5.56	4.74	6.47	5.59
Manufacturing	7.02	2.55	6.49	5.35
Services	5.67	5.07	5.27	5.34

Source: Adopted from *Strategies for Industrialization The Case of Bangladesh* by Huq, M. & Jim Love, p. 3

Table: 5
Composition of Industrial Sector In-terms of their Contribution to GDP

Composition of Industrial Sector	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Manufacturing	11.3	11.5	15.4	15.9	15.6	15.4
Large & Medium	*7.4*	*7.5*	*10.9*	*11.3*	*11.2*	*11.1*
Small & Cottage	*3.9*	*4.0*	*4.5*	*4.6*	*4.4*	*4.3*
Mining	1.0	1.0	1.03	1.03	1.0	1.0
Power Gas Water	1.80	1.80	1.46	1.41	1.42	1.43
Construction	6.30	6.00	7.12	7.39	7.67	7.84
Overall Industry	20.30	20.80	25.01	25.72	25.69	25.67

Source: BBS *Statistical Year Book 1999.*

Table 6
Employment Generation by Different Major Economic Sectors in Bangladesh (%)

Sector	1990-91	1995-96
Agricultural	66.40	63.20
Industrial	13.03	9.50
Manufacturing	*11.80*	*7.50*
Construction	*1.10*	*1.80*
Mining/Quarrying	*0.03*	-
Power Gas Water	*0.10*	*0.20*
Other services	20.57	27.30
Total	100.00	100.00

Source: *Bangladesh Economic Survey*, Ministry of Finance, Government of Bangladesh, various issues.

Table 7
Contribution of Industrial Sector in Export Sector During Different regime

Nature of Export	**1981-82**	**1986-87**	**1990-91**	**1995-96**
Primary Products	29.09	27.71	17.82	12.26
Industrial Products	70.91	72.29	82.18	87.74
Total Export	100.00	100.00	100.00	100.00

Source: Adopted from *Trade Liberalization in Bangladesh: An Investigation into Trends* by Ahmed, N. pp-129.

Table 8
Trends of Private Sector Investment in Manufacturing Sector of Bangladesh During 1990-91 to 1996-97

(as %of GDP)

Nature of Investment	**1990-91**	**1992-93**	**1994-95**	**1996-97**
Domestic Private Investment	1.50	2.24	1.62	1.06
Total Foreign Direct Investment	0.18	0.09	1.05	1.10
Investment in EPZs	***0.11***	***0.09***	***0.13***	***0.20***
Total Private Investment as % of GDP	1.80	2.43	2.81	2.38

Source: Adopted from *Strategies for Industrialization, op.cit. Pp-12*

Table 9
Real Lending Interest Rate in Some Selected Countries

Period	Bangladesh	India	Singapore	UK	USA
1980	-2.11	5.04	3.17	-1.84	2.81
1983	2.7	4.62	7.08	4.85	7.56
1986	3.10	7.82	5.43	7.36	5.29
1990	7.89	7.57	5.63	5.22	2.88
1994	10.92	4.56	2.83	5.74	3.73
1996	11.30	7.02	4.94	3.51	3.07
1997	8.28	6.63	4.34	3.44	3.68

Source: *International Financial Statistics Year Book 1998*, IMF.

Table 10
Performance of Major Stock exchanges of Some Selected Countries in Asia

(Million US $)

Indicators / Country	Market Capitalization	No. of Listed Firms	Average Firm Size	P/E Ratio	Market Capitalization as % of GDP	Turnover Ratio
Bangladesh	1,034.2	208	5.0	9.1	2.42	63.8
PR China	231,322	853	271.2	23.8	24.07	130.1
India	105,188	5860	18.0	13.5	27.43	56.0
Indonesia	22,106	287	77.0	-106.2	22.96	59.4
Korea	114,593	748	153.2	-47.1	38.47	184.7
Malaysia	98,557	736	133.9	21.1	138.22	30.9
Pakistan	5,418	773	7.0	7.6	8.48	108.2
Srilanka	1,705	233	7.3	7.7	11.30	14.8
Taiwan China	260,015	437	595.0	21.7	99.45	333.2
Thailand	34,903	418	83.5	-3.6	22.68	71.2

Source: *IFC Emerging Market Fact Book*, 1999 Issue, World Bank.

Table 11
Trend of IPOs in the Security Market of Bangladesh

(Volume in Million Dollars)

Year	Number of Issue	Volume of Issue*
1995-96		
1996-97	18	27
1997-98	10	10.0
1998-99	6	7.0
1999-00	11	19.44
2000-01	7	6.29

- Including Pre-IPO Placement

Source: *Resume of The Activities of Financial Institutions in Bangladesh* (in vernacular) Ministry of Finance, Government of Bangladesh. (Different Issues)

Table 12
Indicators of Activity levels by the Sea Ports and Railway in Bangladesh

Year	Chittagong Port		Mongla Port	Bangladesh Railway	
	Cargo (Mil Ton)	**Container** (Mil. Ton)	**Cargo** (Mil Ton)	**Cargo** (Mil Ton)	**Passenger** (Per K.M.)
1992-93	76.16	13.79	26.50		
1993-94	78.97	16.27	23.79		
1994-95	102.78	21.14	19.31	75.98	403.72
1995-96	103.01	23.36	28.26	68.90	333.32
1996-97	105.54	26.70	28.39	78.24	375.36
1997-98	110.87	29.07	26.67	80.38	385.60
1998-99	139.03	34.02	33.21	89.64	387.80
1999-00	149.5	38.50	30.33	79.63	371.70

Source: *Bangladesh Economic Review2000,* Op.cit. Pps. 82-84

Table 13
Concentration of Export Destination of Bangladesh and Its Neighbors

Exporting Country	Per cent of Export Going to				
	Industrialized Countries	ASEAN Countries	SAARC Countries	Rest of The World	Total Export
Bangladesh					
1981	33.9	11.9	9.1	45.1	100.0
1996	85.4	4.6	1.7	8.3	100.0
India					
1981	51.1	6.0	2.6	40.3	100.0
1996	55.1	18.2	3.6	23.4	100.0
Pakistan					
1981	35.0	6.7	5.5	52.7	100.0
1996	57.1	16.9	2.5	23.5	100.0

Source: International Monetary Fund, (1997), Adopted from Strategies For Industrialization, The Cases of Bangladesh, op.cit. pp. 106.

Consumption, Investment and Savings Pattern in Bangladesh in Recent Years

(Current Market Prices)*(Million Taka)*

	1995-96	1996-97	1997-98	1998-99
1. Gross disposable income	1750944	1894110	2089101	2298080
2. Net current transfer from abroad	38168	28638	22363	25600
3. GNP at current market price	1712776	1985472	2066738	2272480
4. Net factor income from abroad	49536	58459	64972	75526
5. GDP at current market price	1663240	1807013	2001766	2196954
(Ratio to GDP)				
Consumption	85.28	84.10	82.73	82.34
Private	80.88	79.73	78.00	77.75
Public	4.40	4.36	4.73	4.59
Investment	19.99	20.72	21.63	22.06
Private	13.58	13.70	15.26	15.34
Public	6.42	7.03	6.37	6.72
Exports of goods and services	11.08	11.97	13.33	13.19
Import of goods and services	18.69	18.10	18.28	18.66
Gross Domestic Savings	14.72	15.90	17.27	17.66
Gross National S avings	19.99	20.72	21.63	22.26

Note: * Foreign savings is the current external balance (Balance of Payment) compiled by the Bangladesh Bank.
Source: *National Income Section, BBS.*

Money Supply and Foreign Exchange Reserves

(Million Taka)

Year End of June	Money Supply			Foreign exchange reserve
	Currency outside bank	Demand deposit	Total money supply	
1990	31883	31804	63687	18161
1991	36118	35919	72037	31501
1992	40726	41846	82572	62713
1993	44801	45825	90626	84407
1994	54160	57511	111671	111289
1995	65651	66143	131794	123089
1996	71233	73361	144594	84237
1997	75746	75924	151670	73921
1998	81533	77352	158885	79042
1999	86866	85628	172454	73633

Excluding inter-bank Items. Position as on June 30 each year. Include reserve position in the IMF
Source: Bangladesh Bank Bulletin, April-June, 1999.Annual Report, Bangladesh Bank, 1998-99.

Debt-Service Payments on Foreign Loans *(Million US Dollar)*

	Interest	*Principal**	*Total*
1990-91	120.0	197.2	317.2
1991-92	127.0	209.6	336.6
1992-93	135.3	239.1	374.4
1993-94	139.4	263.0	402.2
1994-95	154.1	313.8	467.9
1995-96	152.7	316.5	469.2
1996-97	147.0	316.2	463.2
1997-98	136.7	307.2	443.9
1998-99	165.4	370.0	535.4

Include down payment< a) Payment in foreign exchange means free foreign exchange remitted to the donors
Source: Economic Relations Division, Ministry of Finance.

Commitment and Disbursement of Foreign Aid

(Million US Dollar)

	Commitment			Disbursement		
	1996-97	*1997-98*	*1998-99*	*1996-97*	*1997-98*	*1998-99*
A. Food Aid:						
Grants	138	52	269	101	93	177
Loans	-	-	-	-	-	-
Total	**138**	**52**	**269**	**101**	**93**	**177**
B. Commodity Aid:						
Grants	167	140	160	247	77	119
Loans	3	78	202	16	42	205
Total	**170**	**218**	**362**	**263**	**119**	**324**
C. Project Aid:						
Grants	537	392	433	387	333	374
Loans	816	1128	1584	730	706	661
Total	**1353**	**1529**	**2017**	**1117**	**1039**	**1035**
D. Grants:						
Food Aid	138	52	269	101	93	177
Commodity Aid	167	140	160	247	77	119
Project Aid	537	392	433	387	333	374
Total	**842**	**584**	**862**	**735**	**503**	**670**
E. Loans:						
Food Aid	-	-	-	-	-	-
Commodity Aid	3	78	202	16	42	205
Project Aid	816	1128	1584	730	706	661
Total	**819**	**1206**	**1786**	**746**	**748**	**866**
Total Grants/Loans	***1661***	***1790***	***2648***	***1481***	***1251***	***1536***

Source : Economic Relations Division, Ministry of Finance.

Exports as a Percentage of Imports *(Value in million US$)*

Year	*Exports*	*Imports*	*Export as a percentage to Imports*
1984-85	934	2641	35.37
1985-86	819	2120	38.63
1986-87	1074	2260	47.52
1987-88	1231	2961	41.57
1988-89	1292	2997	43.11
1989-90	1524	3759	40.54
1990-91	1718	3511	48.93
1991-92	1994	3466	57.53
1992-93	2383	3986	59.78
1993-94	2534	4191	60.46
1994-95	3473	5834	59.53
1995-96	3882	6827	56.86
1996-97	4418	7150	61.79
1997-98	5161	7545	68.40
1998-99	5313	8006	66.36

Source: Export Promotion Bureau.

Balance of Payments *(Crore Taka)*

Items	1995-96	1996-97	1997-98	1998-99
Current Accounts:				
Import (c.i.f.)	25260	27179	30766	34654
Export (f.o.b.)	15879	18813	23416	25491
Freight and Insurance:				
a) On Import	2842	3126	19	55
b) Earned	48	64	51	55
c) Net	(-) 2794	(-) 3062	32	0.2
Other goods and services-net	(-) 481	541	(-) 2530	(-) 2844
Balance	**(-) 12655**	**(-) 10887**	**(-) 9906**	**(-) 12660**
Investment-net	(-) 24	(-) 458	(-) 455	(-) 653
Transfer by Bangladesh nationals	6027	7561	7973	7258
Grants, donations etc. cash or kind	2762	3148	1214	9508
Deficit on Current Account	(-) 3885	(-) 637	(-) 1174	(-) 1894
Capital Account:				
Aid and loans-net	(-) 115	(-) 707	1659	877
a) Long term-net	1777	1358	1379	1672
b) Short term-net	(-) 1892	(-) 2065	280	(-) 2548
Other capital transactions-net	5321	1078	(-) 110	973
Errors and omissions	(-) 680	265	(-) 375	1798
Surplus on Capital Accounts	***3885***	***637***	***1174***	***1895***

Notes: Trade data may differ from those compiled by BBS

Source: Bangladesh Bank

References

1. Ahmed, N. (2001) 'Trade Liberalization in Bangladesh: An Investigation into Trends" University Press Ltd. Dhaka.

2. Huq, M & Jim Love, (2001) "Bangladesh Industrialization since Independence", Strategies for Industrialization: The Case of Bangladesh (edit), University Press Ltd. Dhaka.

3. Chowdhury, A. K. M (2000)., "The Capital Market in Bangladesh: Present and Future", Portfolio: A Review of Capital Market and National Economy, Chittagong Stock exchange, Dec. 2000.

4. Bakht, Z., (2001) "Trade Liberalization, Exports and Growth of Manufacturing Industries in Bangladesh", Strategies for Industrialization: The Case of Bangladesh (edit), University Press Ltd. Dhaka.

5. Bhattacharya, D., (2001) "Emergence and Growth of the RMG Sector in Bangladesh", Strategies for Industrialization: The Case of Bangladesh (edit), University Press Ltd. Dhaka.

6. – (2000), "The WTO Process and Concerns of the LDCs: The Post Seattle Scenario", Portfolio: A Review of Capital Market and National Economy, Chittagong Stock exchange, Dec. 2000

7. Shamsuddin, A.H.M.(2001), "Natural Gas Reserves and Resources" The New Nation, Dec 22, 2001.

8. Khan, A. R., (1995), "A Quarter Century of Economic Development in Bangladesh: Success and Failures", The Bangladesh Development Studies, Vol. XXIII No 3&4, Sept-Dec.,1995, pp 1-19.

9. Haque, M. M. (2000), "FDI Opportunities in Bangladesh: The Manufacturing Sector", Portfolio: A Review of Capital Market and National Economy, Chittagong Stock exchange, Dec. 2000

10. Ghafur, A. (1990), "Smuggling: Some Macroeconomic Aspects" (in vernacular), *Bangladesh Journal of Political Economy* Vol. 11 No. 1 pp. 328-344.

11. Alam, N. & Forest Cookson, (1995), " Cross Border Trade with India" (Mimeo)

12. Rahman, A. & A. Razzaque, (1998), " Informal border Trade Between Bangladesh and India: An Empirical Study in Selected Areas", Asia Foundation and Democracy in development, Dhaka

13. Rahman, A.K.M.A. & S.A. Basher, (2001), Real Exchange Rate Behavior and Exchange Rate Misalignment for Bangladesh", The Bangladesh development Studies, ol. XXVII No 2, June 2001, pp. 69-94.

14. Mintoo, A. W., "(1999), "Impediment to Entrepreneurship in the manufacturing Sector", FBCCI Journal, Vol. I No. 1, November 1999.

15. Hassan, F. M., (2000), " A High-Value-Added and Export Oriented Business Sector: Ready Made Garments", (Mimeo), May 2000.

16. Khalily, M.A. Baqui, S. A. Khan & M. Islam, (2001), Financial Liberalization, Banking Sector and Industrial Finance: Stagnancy or Dynamism", Journal of Business Studies, Vol. XXII No.1, June 2001, University of Dhaka.

17. Chowdhury, T. A. & A, Raihan, (1999) " Implications of WTO on the Banking and Financial sector in Bangladesh", Bank Parikrama, Vol. XXIV No. 2, June 1999.

18. Rahman, A, 1999, Globalization, Regionalism and Governance: A Comparative Perspective on South and Southeast Asia, Japan Study Circle, University of Dhaka.

19. Elahee, N.M. and S. M. Khasru, 1999, "The Role of FDI in Achieving corporate Turnaround in Bangladesh: A Proposition", Finance and Banking, Vol. 5, No. 1 & 2.

20. World Bank, (2000), "Taming Leviathan: Reforming Governance in Bangladesh" World Bank, September 2000.

21. – (1996), "Bangladesh: Trade Policy Reform for Improving the Incentive Regime", World Bank Report # BD – 15009.

22. – (1987), "World Development Report 1987", World Bank, Oxford University Press, NY, 1987.

23. – (1995) "Bangladesh: Recent Economic developments and Priority Reform Agenda for Rapid Growth" Report # BD – 13875.

24. – "Bangladesh Economic Review", (different issues in vernacular), Ministry of Finance, Government of Bangladesh.

25. – "Statistical Year Book 1999" (CD–Rom Version), Bangladesh Bureau of Statistics.

26. – "Resume of The Activities of Financial Institutions in Bangladesh" (different issues in vernacular), Ministry of Finance, Government of Bangladesh.

27. – "Economic Trend" (different issues), Bangladesh Bank.

28. – "Exploration Opportunities in Bangladesh" Petrobangla, Dhaka 2000.

29. – "Cooperative Assessment of Undiscovered Natural Gas Resources of Bangladesh", Petrobangla and USGS, Dhaka, Washington DC, January 2001.