Economic Policy Paper
on
Impact of Globalization in the Context of Bangladesh

Chapter I

1. Introduction: Global economic situation and its impact on different sectors

Bangladesh along with other countries is now within the purview and complexities in the economic arena due to global economic situation prevailing elsewhere. The change of economic order has led Bangladesh to think over how to overcome the negative impact of globalization. This paper is an analytical study on the subject

The Uruguay Round of Multilateral Trade Negotiations which was started in September 1986 in Punta del Este, Uruguay and concluded in April 1994 in Marrakesh, Morocco, resulted in the adoption of what has been most aptly described as the most ambitious and comprehensive trade agreement in history. The agreement led to the establishment of the World Trade Organization (WTO) which came into force on January 1, 1995, effectively replacing the General Agreement on Tariffs and Trade(GATT).

WTO agreement clarifies and strengthens rules with respect to a number of trade policy instruments- in particular in safeguards, anti-dumping, subsidies and countervailing measures, and dispute settlement mechanism. It was believed that the detailed elaboration of rules and tightening of multilateral disciplines in these four areas will encourage the poor and weaker nations to effectively participate in, and derive benefits from, the new world trading arrangement. The purpose of this paper is to make a qualitative assessment of the impact of the new rules and disciplines on the developed and developing countries with particular reference to Bangladesh.

The paper seeks to present a comprehensive economic situation obtaining globally including Bangladesh due to introduction of a number of international agreements. The overview is as under:

1.1 Uruguay Round and Market Access:

The new market access measures of the Uruguay Round within the framework of the new World Trade Organization (WTO) relate not only to trade in goods but also to trade in services. Further more they include, in addition to tariff reductions, the phasing out of the Multi- Fiber Arrangement (MFA) and the integration of Agriculture in the multilateral trading framework. More extensive rules have also been set down concerning non-tariff measures. Among the measures agreed to in the Uruguay Round to <u>increase market access and make it more secure in the years to come are:</u>

- Developed countries have agreed to reduce their tariffs on industrial goods from an average of 6.30% to 3.80%, a 40% reduction.
- The proportion of industrial products which enter the developed country markets under Most Favored Nation (MFN) with zero duties will be more than double, from 20% to 40%. At the higher end of the tariff structure, the proportion of imports into developed countries from all sources that encounter tariffs above 15% will decline from 7% to 5%, and from 9% to 5% for imports from developing countries.

- The percentage of bound tariff lines for industrial products has risen from 78% to 99% for developed countries, from 21% to 73 % for developing countries and from 73% to 98% for transition economies.
- Minimum market access commitments on agricultural products subject to ratification will create market opportunities for several product groups of interest to developing countries.
- While the overall level of protection of agricultural products in most developed countries will remain well above the level of protection of industrial products at the end of the Uruguay Round implementation period, agricultural trade has been put squarely on the path of liberalization. The level of security for trade in agricultural products will be greater than for trade in industrial products, since virtually 100% of agricultural product tariff lines will be bound, compared to 83% of industrial product tariff lines.

1.2 Preaching and Practicing Dilemma:

Winds of change are blowing all over the planet. Yet with new opportunities also come new challenges. Let us share a concern to respond to new patterns of injustice and powerlessness. We share a commitment to expand the life opportunities of everyone, to empower people to shape their own futures and to enable nations and their common institutions to effectively deal with issues of global concern. National change and global exchange have led to economic development prospects of considerable magnitude. As hundreds of millions of people take the step out of extreme poverty, this potential offers hope to the world's poor. Simultaneously, however, new patterns of exclusion and inequality have appeared. Marginalization, insecurity and powerlessness are the real consequence for many.

2. Globalization in Global Context

2.1 What does Globalization Mean?

Globalization means the deepening of worldwide interdependency, so that people who want to be in power and shape their futures-in their local communities and nations-will also have to act globally. Let us share the optimism and the deep concern, the hopes and the fears. It is our conviction that globalization can and should be shaped according to the needs of the world's people. There are choice and alternative models for development, which should be explored. Ethics must not be left in a separate realm but should be planted in to the very core of international integration. International solidarity-a global civic ethic inspiring common responsibility – must guide our societies. Globalization must be transformed into a process of inclusion, not one of exclusion. The global economy will not survive in a chaotic world of poverty, conflicts and exclusion, nor will humanism. The vital points should be kept in mind are:

- That local civil society has a major role to play in shaping globalization.
- That how comparative advantage is created should matter, but this principle should not be misused as a method to maintain or establish trade barriers.
- That financial volatility should not be permitted to endanger the socio-economic stability or competitiveness of an entire nation and regions.
- Ways of financing global public goods need to be developed.
- The crucial role of the private sector in the process of globalization and development should be recognized.

This calls for a deeper and more creative discussion of the different aspects of globalization and the need for action. Governments, academics, the business community, trade unions, civic organizations and other parts of civil society need to interact to focus on long-term interests and decisions. Political leaders must build on shared values to make enlightened and common interests prevail, when societies are tested for their ability to meet both domestic and global needs. Nations need to come together in open ways to deal with some of the most promising and pressing aspects of integration. The dynamic regional co-operation emerging all over the world offers participating countries new opportunities.

The European Union's efforts to strengthen its economic and political relations with other regions should be encouraged. The non-aligned movement, comprising 80 % of humankind, promotes the creation of a new global human order aimed at reversing the growing disparities between the rich and the poor, both among and between countries, through reduction of poverty, expansion of productive employment and enhancement of social integration.

2.2 What does Competitiveness Mean?

It is the relative standing of one competitor against other competitors. Competitiveness is like the game of musical chairs. Competitiveness can refer to a nation's preparedness for future competitive interactions. Competitiveness can also be described as a benchmark for past performance. To be competitive in this sense is to have succeeded in attaining a certain favourable ranking. The most common measure of this criterion is a nation's share of a global market.

Michael Porter a Harvard Business School Professor, questions the Economic Theory of Comparative Advantage. He suggests 4 sets of factors that contribute to a nation's well being. The first set pertains to factor conditions such as a nation's resources, it's labor costs and the skills and education of its people. The Second set consists of the demand conditions of a nation, such as the market size, the way products may be advertised and the degree of consumer sophistication. The Third set of factors in Porter's mode concerns the suppliers. A Company prospers when supporting companies are located in the same area. The fourth factor set consists of the firm's strategy and structure as well as rivalry among the competitors. The combination of the four sets of factors leads to competitive advantage. Global competitiveness report 2001 prepared by the world economic forum assesses the competitiveness of Bangladeshi firms as the lowest of the countries surveyed.

2.3 Arrival of an Environmentally Conscious Century

The world is becoming more and more environmentally conscious, and we know that we are no longer free from the environmental problems that we have been accumulated. Our Capital city-Dhaka has already topped the list of world's most dirty and environmentally polluted city. The world society has already been preparing to launch what is called the "Green Round" which will restrict trade for environmental reasons. In case the world agrees to implement the regulations on trade in goods and services that fall behind international environmental standards, the Bangladesh economy will face serious damage as its industrial structure has a high dependence on foreign markets and has been awfully reluctant to face environmental problems. Survival of a company will not be possible unless it considers environmental factors across the whole range of its business, not only in production and sales but also in distribution and disposal of waste materials. This will mean that enterprises should take the lead in working to realize the so-called "growth for revival". What draws more attention is that the environmental factors are, beyond the passive dimension of environmental pollution problems, becoming new sources from which business profits and national competitiveness arises. The scale of the global market for the environmental industry is growing bigger than that of the semiconductor industry. Amid keen competition among the developed countries, the Japanese government has already conducted supportive plans such as designating the environmental industry as one of its three strategic industries for the future along with the info-communication and biotechnology industries. Environmental issues are now matters of primary concern to the world. It is not feasible to make a complete policy without respect to environmental matters, for government as well as for business. It is true that our understanding and responses have been remarkably superficial and fragmentary. There must be a change in our thought now! And just now! If enterprises fail to comprehend and deal with the environmental issues, they will die out leaving Bangladesh's goal of Sonarbangla unattainable.

2.4 Global Deal and Environmental Issues

The central elements of the proposed 'global deal' are;

- Strengthening free trade, market access, environmental principles and labor standards for developing countries.
- Better financing for development and increased development assistance for poverty reduction.
- Strengthening international cooperation on climate and environment.
- Implementation of multilateral environmental agreements and transfer of environmentally sustainable technologies.

Unfortunately after much heated debate, the concept of 'global deal' was not mentioned in the final Ministerial Statement by Europe and North America. European Union called for the creation of specialized UN agency for the environment- possibly a World Environment Organization (WEO) similar to WTO. Group 77 and China have strongly opposed this idea. The most likely scenario is that UNEP will continue to exist in its current form but with a strengthened mandate. Issues relating to governance have been divided into following 5(five)building blocks of governance on which draft decisions are currently being negotiated.

1. Improving coherence in policy making
2. Strengthening the role, authority and financial situation of UNEP
3. Improving co-ordination and coherence between multilateral environmental agreements
4. Building capacity for environment and sustainable development and
5. Enhancing co-ordination across the UN system

2.5 Johannesburg Earth Summit

In 1992 developed countries promised in Rio summit to transfer technology to the developing countries at a cheaper cost. But on various unacceptable pleas that have not happened even in 10 years time. As the developed countries have tied up out of scope issues like good governance with appropriate development, developing countries' suspicions have multiplied. Of course good governance is highly desirable but if this is taken as the only alternative solution, then we must assume that the developed countries are trying to avoid their responsibilities. Environmental Director of the World Bank said Asian countries have to make separate budget for appropriate development, otherwise they will have to pay a severe penalty in compensating the losses. The cost of environmental damage and health cost in the Asian countries are 4-8% of their GDP.

About 2 billion people of the world are without safe and nutritious food, about 800 million people including 300 million children suffer from chronic malnutrition. Out of all types of foods available in the world 90 percent account for 15 types of corn like rice, wheat, maize. There is only 2.50 % pure water for drinking, and for cooking. For drinking and bathe per capita water requirement is about 50 liters a day. Some 1.10 billion people are without pure drinking water, while 2.40 billion are without sanitation facility. About 2/3rd people of the world would remain without drinking water by the year 2025. About 2.20 million children under 5 die each year for drinking contaminated water.

2.6 Lowest Capital Flow

The Institute of International Finance (IIF) said that the private sector capital flows to emerging market economies are estimated to drop to US$ 122.90 billions this year from US$ 126.00 billion last year (2001), which would be the lowest since 1992. In terms of GDP the level of private capital flows would be even lower, falling to just 2% of GDP, against 4% in 1992. Next year –2003 capital flows are forecast to be US$150.80 billion, still well below the annual average of US$187.00 billion over the past decade. The increase next year is predicted in Argentina, Brazil, Turkey, Uruguay and Venezuela due to successfully navigating the economic and political uncertainties. The decline in flows this year is mainly due to Latin America, which would see US$ 29.10 billion in net private capital inflows down from US$ 45.60 billion. Asia-Pacific emerging markets are forecast to see US$ 60.70 billion in net private investment this year, up from US$ 53.40 billion in 2001. Emerging European markets are seen attracting a net US$ 23.90 billion this yea, up from US$16.40 billion last year. The G-7 countries proposed a sum of US$ 750-800 million to be made available for the Heavily Indebted Poor Countries (HIPC). The HIPC program was initiated by World Bank and IMF in 1996 for the rescue of 26 countries in Africa out of 40 countries in the world. Under any consideration, the amount is absolutely meager compared to the need and ability leverage. Two characteristic features of globalized finance are:

1) flows of foreign debt tend to be highly arbitrary and
2) recipients necessarily destined to face banking, currency and debt crisis at some point of time.

2.7 Global Growth Hurt by Financial Turmoil

In the latest World Economic Outlook, IMF depicted its gloomiest assessment of global economic prospects in several years. The forecast for 2002 global growth remained at 2.80%, but the 2003 forecast is 3.70%. IMF reported that South Asian Economies are set for 5.50% growth for next year, where India and Pakistan are at risk due to security reasons. India is expected to grow by 5.00% this year and 5.70% next year, Pakistan 4.60 this year and 5.00% next year, while Bangladesh only 4.00% both for this year and next year. Of late India is contemplating to grow a 8% in 2003.

2.8 Counterfeit Medicine

WHO said although there is no proper statistics, about 5% of the medicines are counterfeit all over the world. Millions of people are dying due to this. In one estimate it has revealed that in Peru about 80% medicines are counterfeit. Another report said that in Russia about 12% medicines are counterfeit. A report in Thailand said about 33% of the malaria drugs in Southeast Asia do not have any ingredients for curing malaria, while about 50% of the drug samples in Nigeria was defective.

Pharmaceutical Industries in Bangladesh will face at least 17 serious problems after 2004 because of the imbalanced regulations of the Trade Related Aspects of Intellectual Property Rights (TRIPS) and the World Intellectual Property Organization (WIPO). In Bangladesh counterfeit medicines worth about Tk. 8 billion a year are comfortably traded. There are about 230 pharmaceutical companies in Bangladesh now, while only 180 are licensed. Out of the 180 licensed companies only 40-45 companies enjoy reputation in the market. Foreign medicines are mostly of counterfeit as virtually there is none to control it. The total medicine market size of the country is worth about Tk.30 billion a year.

2.9 Trade Barriers Eating up US$ 650 billion a year

Trade barriers mostly erected by rich countries are eating up US$ 650 billion that could otherwise be used to improve the livelihood around the world each year and limiting poor countries solely needed access to world markets, the World Bank and the IMF said. Subsidies and tariff slapped on agricultural products and textiles are doing the most harm. In Canada and the United States tariff peaks are concentrated in textiles and clothing, in the EU and Japan, it is in agriculture, food products and footwear. The effect of these tariffs is aggravated by the subsidization of agriculture in OECD countries, by remaining quotas in textiles and clothing trade, and by high barriers in inter developing country trade. Agricultural market is among the most distorted. The bank and fund officials repeatedly spoke out against the whopping agricultural subsidies put in place by the EU and USA. In May 2002 the US president signed a farm bill worth US$ 51.70 billion over 6 years. The main beneficiaries of the bill are US producers of corn, sorghum, barley, wheat, soybeans, oilseeds, cotton and rice. Complete elimination of US cotton subsidies would in the short run raise world prices by 25-30 % and export revenues in West and Central Africa by US$ 250 million. Rich country restrictions on trade in textiles and clothing's have prevented the creation of over 20 million jobs in developing countries. The solution is considered to be liberalization of the world markets.

2.10 Global Poverty Reduction Goals off Track

A set of ambitious goals to cut global poverty in half by 2015 are clearly off track and do not stand a chance of being met unless rich countries can fill a funding gap and agree to coordinate development policies better. Only 6 of a targeted 38 countries have completed the HIPC initiative since it was introduced in 1996, and when the next couple of countries in the line qualify to receive full debt relief, the trust fund will be out of cash. As many as 1.28 billion people of our planet are now living below the poverty line income. In 1992 in Rio conference rich countries promised to give 0.70 percent of their GDP as aid to the developing countries. But no country except a very few followed their promise. Developed nations gave only about a third of this amount or about US$ 67 from each person a year. Only Denmark. Norway, and Luxembourg reached the 0.70 percent target. The USA is in the bottom of the list at 0.10 percent only. Almost 72% of the people below poverty line live in Asia and about half of the one billion Asian poor live in South Asia alone. Bangladesh is a low income poverty ridden country. Every man in two is considered to be poor in Bangladesh.

The world will deteriorate into a grime home for 9 billion people, many of them impoverished, in 50 years time unless rich countries act now. Two thirds of the planet would live in cities, placing enormous demands on resources for energy, water, housing and education. The US$140 trillion world of five decades time simply can not be sustained on current production and consumption patterns. The average income in the richest 20 countries was already 37 times that of the poorest 20 nations. In the world 1.30 million people live on fragile lands. The gap between rich and poor countries has doubled in 40 years. Poor countries' economies would have to grow at 3.60 percent per person to meet two year old internationally agreed millennium development goals including halving poverty by 2015. Asia is poised to replace United States as the global growth engine. Many economists say non-Japan Asia's US$ 3 trillion economy is too small to be a global driver and that exports to the US is 25-30 percent of the region’s total, equivalent to about 10 percent of the region’s GDP- are vital to growth. Asia is a US$ 4.5-5.00 trillion economy growing at three percent in real terms.

2.11 IMF to Scrap Farm Subsidy

The world economy would gain an annual boost of US$ 128 billions if lavish farm subsidies were scrapped. Industrialized nations spent more than US$ 300 billion last year on agricultural subsidies- six times the total government aid to developing countries. It imposes substantial costs on consumers and taxpayers in industrial countries, and on commodity producers in the rest of the world, many of them are poor. Indeed the vast majority of the world's poor are farmers in developing countries, whose product prices are depressed by industrial country farm-support programs. Support of farmers in rich countries was averaged 31%of farm income in 2001. The level ranged from 1% in New Zealand to 61% in Switzerland. Calculating the effects it is estimated that industrial countries would increase their real income by 0.40 percentage points of GDP or US$ 92 billion. If all countries scrap their agricultural protections in all regions of the world would gain US$ 128 billion, with about ¾ths of the gain accruing to industrial countries and 1/4th of the gains to the developing countries. US farm bill passed in May 2002, promises to distribute US$ 180 billions to farmers over 10 years.

Tariffs and quotas for textile exports to developed countries cost developing countries an estimated 27 million jobs. Every textile job in an industrialized country saved by these barriers costs about 3 jobs in these industries in low income countries, where being a bread winner literally means putting bread on the table. Meanwhile in the high income countries, tariffs on food and clothing raise prices, straining the household budgets of low income families. Escalating tariffs in rich countries help confine Ghana and Cote d'Ivoire to the export of unprocessed cocoa beans, Uganda and Kenya to the export of raw coffee beans and Mali and Burkina Faso to the export of raw cotton.

Agricultural subsidies in rich countries are about US$ 350 billion – nearly US$ 1 billion per day under cut poor farmers in the developing countries. These subsidies which go mainly to large agri-business corporations are seven times the US$ 50 billion that these countries provide annually in foreign aid. Sugar price in the US and Europe are three times higher than in the world market due to subsidies and protection, to the detriment of low cost producers such as Brazil and Cuba. Other non-tariff barriers- standards and anti-dumping actions-are often applied in ways that impose undue burdens on developing country producers and sometimes amount to underhand protectionism. To meet EU standards, mango pulp processors in India must keep detailed records of each delivery from the small farmers who grow the fruit. Would it not be better to focus directly on quality standards instead? Agricultural exports from developing countries face tariff barriers averaging 16 percent in developed countries and 20 percent in developing countries. Despite the concessions as a result of the Uruguay round, it is estimated that if tariffs on agricultural products were reduced by 40 percent, global incomes would rise by about US$ 60 billion a year.

2.12 IMF sees Bleakest Global Economic Prospects

The global growth forecast for 2003 is 3.70 percent, down from an earlier 4%. The report held little optimism about even that modest performance. Growth predictions for the United States –the engine for global growth in recent years-has been noted lower for the current year and slashed for next year with the outlook heavily clouded by how dwindling equity prices will affect spending. European growth is flatter than previously thought and reasons for optimism there are few and far between. Japan is still in recession and highly fragile. Latin America is stuck in recession, dragged down by Argentina where the economy is contracting twice as quickly as the United States did in the Great Depression of the 1930s

2.13 UNCTAD Reports Sharp fall in FDI Flow

In 1997 worldwide Foreign Direct Investment (FDI) was US$ 478 billion, in South Asia the per capita foreign direct investment was US$135, whereas in Asia foreign direct investment was only US$ 37 per capita during the same period. In South Asia FDI during the period was only US$ 3 per capita. It appeared in a UNCTAD report that the foreign direct investment in Bangladesh plunged 72 percent to US$ 78 million in 2001 from US$ 280 million in 2000, despite a 32 percent increase in South Asia. Global FDI inflow marked a massive 51 percent downslide to US$ 735 billion the first time in a decade, according to the World Investment Report 2002.

The downturn concentrated mainly in developed countries(down 59 percent) against a 14 percent drop in developing countries. Average annual inflow of FDI to Bangladesh was US$ 3 million between 1985 and 1995 before it marked a surge from 1997. It was US$ 178 million in 1997 and touched US$ 280 million in 2000. South Asia fared better with US$ 4 billion injected in FDI. India experienced 47 percent and Pakistan 26 percent rise in FDI. India attracted US$3.4 billion up from US$ 2.3 billion in 2000, while Pakistan received US$ 385 million, up from US$ 305 million. Sri Lanka meanwhile saw a 3 percent dip in FDI to US$ 172 million. China was the largest recipient of cross border private investment in Asia and in the developing world making it US$ 46 billion in 2001. Investment in Taiwan also remained at historically high levels to US$ 4 billion. Hong Kong reinforced its position as a business hub with 3237 multinationals maintaining regional offices in 2001, 8 percent more than 2000. Japan's domestic investment fell in 2001 to US$ 6 billion, but its investment abroad grew by 21 percent to US$ 38 billion and is expected to keep growing.

Doubling of investment in Kazakhstan's natural resources helped drive up Central Asia's FDI by 88 percent to US$ 3.6 billion, while Southeast Asia stagnated at US$ 13 billion. However, most of the Asian tiger economies continued to attract more investment. FDI in Singapore rose for the first time in 4 years by 59 percent to US$ 9 billion, in Thailand FDI grew by US$ 1 billion to US$ 3.8 billion, In the Philippines FDI climbed from US$ 1.23 billion in 2000 to US$ 1.8 billion in 2001.

Vietnam is entering a new era as a big host to FDI. World Bank's Multilateral Investment Guarantee Agency(MIGA) predicted that the investment in the poor countries will fall further as project financing has been harder to obtain and the combination of economic and political uncertainty has led many projects being put on hold. The agency said in 2002 it had issued guarantee for US$ 1.36 billion in financing, down from US$ 2.15 billion in 2001. ASEAN the 10 nation regional block has seen its share of FDI dwindled in recent years as investors flocked to its giant neighbor China - a single market of 1.2 billion consumers with much cheaper labor costs.

3. Who Manages World Economy?

World economy is expected to grow by about 3.5% this year, though World Bank's prediction is 1.3%. In 2000 it was 3.9%, lowest in last 30 years time. It is also expected that next year the growth may reach 3.6%. World Bank has set a target to reduce the number of below 1 US $ wage earners a day to half by the year 2015. To achieve this goal the World Bank has requested the developed countries to open up their economy and to double their aids. On the contrary, USA has raised its steel import duty to 30% and still remains the biggest defaulter of the UN fund. Developed countries should contribute about US$ 100000 million a year for this purpose. The global development report envisaged that the GDP of developing countries will reach 5% in 2003 and this year it will be 3.2%. Last year GDP growth rate was a little higher than 2.8%. Agriculture achieved 6% growth in 2001. The US tariffs, which are separate from US levies introduced in March, 2002 impose between eight and thirty percent on certain imported steel products.

3.1 Global Security and Progress through Globalization

There are two barriers against our security and progress- one) continuous destruction of the sources/origin of our natural resources, two) lack of sustainable development technique. About 1.20 billion people of this world are now deprived of clean water and earn less than US$ 01 a day, 800 million are malnourished, 2 billion are without sanitation facilities, face flood due to cutting of trees, water and air polluted loss of land fertility and the global warming has reached a serious danger level. We have been destroying our homeland by doing bad things one after another. Terrorism has shaken the world and brought back militarization. Big business is now enjoying unprecedented power. For security the world now should look into 3 important things:-

1. Confrontation and intolerance
2. Poverty and under development and
3. Environmental degradation.

If huge number of people in the world become victims of inequality and injustice, then there must be the chance of confrontation and spread of terrorism. Backwardness and poverty must be identified. Those who have wealth, talent and technology, must come forw ard to face the poverty. There is no time for wait and see. Two years before in the millennium development conference of the UN, developed countries promised to reduce the poverty level to half within 2015. Unfortunately poverty alleviation aid has rather decreased instead of increasing. Five major issues were discussed in the earth summit- water, sanitation, fuel, health, food security and wild life.

3.2 Globalization and Challenges for South Asia

The next 50 years could see a fourfold increase in the size of the global economy and significant reduction in poverty, provided that governments act now to avert a growing risk of severe damage to the environment and profound social unrest. In nearly 50 years, the world could have a gross domestic product (GDP) of US$140 trillion and a total population of 9 billion. The term globalization is widely used but seldom defined in precise terms, and in any case, there is no agreed definition.

The trade to GDP ratio of Maldives was as high as 130.50 percent. High technology exports as percentage of manufacturing exports in South Asia was only 4 percent, by far the lowest of all the regions. The percentage of intra-regional exports to total exports of South Asia, which ranged from 3.90 percent to 4 percent was the lowest among all the regions. Middle East with a range from 5.40 percent to 7.70 percent had the second lowest intra-regional exports. Africa had a range from 7.30 percent to 10.40 percent as against 38.00 percent to 40.70 percent for Asia and 37.10 percent to 43.50 percent for developing countries.

In terms of intra-regional imports also, South Asia with a range of 2.57 percent to 4.12 per cent recorded the lowest share of all groups. In other regions it ranged from 6.3 per cent to 8.30 percent(Middle East), 7.4 percent to 10.8 percent(Africa), 33.4 percent to 36.7 percent (Asia) and 35.9 percent to 42.00 percent(Developing countries). Investment risk in South Asia had a score of 61.3 in 2000, with a range of 54.3 for Pakistan to 64.3 for India. This rating was lower, signifying higher risk than the average of low and middle income countries(62.9) and was only better than the rating of Sub-Saharan Africa of 58.9 among the regional groups.

The second rating is the institutional investor credit rating which indicates the probability of a country's default. Rating below 20 indicates medium integration. In 2000 South Asia had a rating of 26.1, higher than only Sub-Saharan Africa with rating of 18.7. Among the South Asian countries the ratings ranged from 18.8 for Pakistan to 45.3 for India.

Projected Growth in Regional Per capita GDP during 2000-2010

	Projected Growth Rate 2000-10	Ratio to South Asia in 2010	Per Capita GOP in 2010 US$
South Asia	3.90	1.00	660
East Asia & Pacific	5.40	2.64	1743
Arab States	1.70	3.54	2338
Latin America & Caribbean	3.00	8.22	5423
Sub-Saharan Africa	1.30	0.89	586
Eastern Europe & CIS	4.10	5.21	3437
Low & Middle Income	3.70	2.81	1855
High income	2.70	52.53	34668
World	2.30	9.62	6346

(Ref: Global Economic Prospects 2001, World Bank)

It is predicted that Asia is poised to replace USA as the global growth engine. On the other hand, many economists say non-Japan Asia's US$ 3 trillion economy is too small to be a global driver and that exports to the USA is 25-30 percent of the region's total, equivalent to about 10 percent of the region's GDP are vital to growth. Asia as a US$ 4.50-5.00 trillion economy is growing at three percent in real terms.

3.3 The Cautious path of Globalization

The pressures being brought about by globalization of world economy are posing formidable problems to national policy makers and domestic and international and other economic sectors in developing countries. But it is unstoppable. As the major creators of new technologies, it is multinational companies that, as engines of world economic growth, drive the globalization process. The economic aggregates of the developing countries still represent only a small amount in world economy where information technology etc. has not yet fully developed.

Nevertheless, it is increasingly believed that globalization brings along a high rate of growth in international trade, enabling balanced supply and demand on a larger scale, channeling the flow of production factors to low cost developing countries thereby promoting the emergence of new capital markets. Between 1990 and 1977 the international inflow of capital into developing countries registered a five-fold increase with an average annual volume of US$ 265 billion.

Despite this seemingly rosy picture, there has been darker side also, a widening of wealth disparity throughout the world and the instability of emerging markets have a negative effect on the developed countries. Unless a combined effort by international community is made to determine whether the rules of the game are just or not, things will not improve.

Trade and investment liberalization and internationalization of macro economic regulation and control are essential requirements if a sound relationship between states and markets is desired. While international economic organizations urge developing countries to speed up their liberalization, most of them have shown a relaxation of their supervision and regulations over international mobile funds, thus ignoring not only their moral responsibility towards the poor but their conscience also in 'beggaring' entire nations in order to provide profit to a handful of currency speculators.

The financial debts owed by the developed countries run into trillions of US dollars and in the present circumstances where there is irrational economic structure, inadequate financial system and a high foreign debt burden, there is risk of an outbreak of financial crisis in more such countries. Hence the developed countries should take up the responsibility to not only prevent but also to check the excessive speculation of international capital and the irrational fluctuation of financial markets.

With the recently concluded earth summit in Johannesburg there appears to be a global mess, and the leaders did not seem to know what to do. Latin American economies have slowed. Together these areas represent almost half the world's economy's output. The US and Europe with 40% of the global GDP, cannot easily escape the contagion. US slump or deflation would compound everyone else's problems. It is the world's largest importer and the battered economies need to export to recover.

3.4 Stocktaking of Globalization

The global expansion of trade and investment is proceeding at breakneck speed—but largely for the benefit of the more dynamic and powerful countries in the North and in the South. Unless globalization is carefully managed, poor countries and poor people will become increasingly marginalized. Already annual loss to developing countries from unequal access to trade, labor and finance have been estimated at US$ 500 billion, 10 times what they received in foreign aid. All countries and all major financial and international agencies must do more than just stand cheering on the sidelines about the virtues of globalization. Globalization needs more management – to open opportunities for the poorest countries, not close or restrict them in order to create employment and avoid greater economic disparities—both among and within countries.

Though the ratio of trade to gross domestic product (GDP) for the world has been rising over the past decade, it has been falling for 44 developing countries whose population total more than one billion people. The least developed countries, with 10% of the world's people, have only 0.30% of world trade—half their share two decades ago. While globalization has helped reduce poverty in some of the largest and strongest economies like India's, the developing world has seen a widening gap between the winners and the losers. The share of the poorest 20% of the world's population has shrunk from 2.3% of the world income in 1960 to 1.1% today—and it is still falling. Globalization is hurting poor people, not just poor countries. Liberalization has in some cases been accompanied by greater inequality, as in several Latin American countries including Argentina, Chile, the Dominican Republic, Ecuador, Mexico and Uruguay. In industrialized countries some say globalization is putting pressure on wages and employment.

The developed countries policy of 'Head I win and tail you lose' has made the rich developed nations richer and the poor nations poorer because of the increasing foreign burden of the poor nations, which has risen by leaps and bounds from US$30 billion in 1970 to its current amount of some US$ 2000 billion. Meanwhile, liberalization and globalization has been a bonanza for some countries. China, for example is now the largest recipient of foreign direct investment in the developing world and it has increased exports more than tenfold over the past 15 years. This has helped reduce the share of its people in poverty from a third to a tenth, with major improvements in health and education. The other key findings are as under:

- More than half of all developing countries have been bypassed by foreign direct investment, two thirds of which has gone to only 8 developing countries.
- With many of the poorest countries depending on commodity exports, real commodity prices in the 1990s were 45% below the level of the 1980s—and 10% below the level reached in 1932 during the great depression.
- The terms of trade for the least developed countries have declined to a cumulative 50% over the past 25 years.
- Tariffs on imports to industrialized countries from the least developed countries are 30% higher than the global average.
- Developing countries lose more than 60 billion a year from agricultural subsidies and barriers to textile exports in the industrialized nations.

Developing countries share of the global total of Foreign Direct Investment (FDI) in 2000 fell to 18.90%, the lowest level sine 1991. Developing countries share of FDI fell from 41.10% in 1994 to 27.70% in 1998, 20.70% in 1999 and 18.90% in 2000.

The bulk of foreign investments went to developed countries where flows rose by 21% in 2000 to more than one trillion dollars, most of which was accounted for by mergers and acquisitions. Developed countries received 79.10% of the global total. But although developing countries' share of the foreign investment decreased, flows of foreign investments in to their economies grew in real terms by 8% in 2000 to a record 240 billion dollars. In the former communist countries FDI rose by 9% to a record 25 billion dollars, but their share of the global total decreased nonetheless to 2% in 2000. Prices of raw materials fell from 28 percent from 1960s' to the 1990' that hampered the economic growth of the poor countries. Two-thirds of world trade are controlled by transnational corporations and involve exchange between them or between their subsidiaries. Africa's participation in international trade dropped from 8 percent of the total at its peak to 2 percent today. It is completely disproportionate to its population, which is 10 percent of the world.

3.5 Multinationals Economy

If our concern is to increase the equitable and sustainable output and consumption of those goods and services essential to a good quality of life for all people, then our goals must be defined accordingly. This will require a fundamental reordering of economic priorities and indicators. Many mega corporations today command more wealth and economic power than do the majority countries.

Indeed, of the world's 100 largest economies, 50 are mega -corporations (comparing GNP to annual sales). The economy of Mitsubishi Trading Corporation is larger than that of Indonesia, the world's fourth most populous country and a land of enormous natural wealth. The combined sales of the worlds to 200 corporations are equal to 28% of the world GDP, yet these corporations employ less than one third of one percent of the world's population. Global corporations are threatening to gobble up people and states. The big decision to be reached in the 21st century is whether the world should be ruled by the institutions of global capital, or by institutions of civil society.

3.6 Corporate Rule Treaty/MAI

At this very moment, member nations of the OECD are working in secret to craft what may be the most anti-democratic, anti-people, anti-community international agreement ever conceived by supposedly democratic governments—the Multilateral Agreement on Investment. More accurately called The Corporate Rule Treaty, it is being written by, and for corporations to prohibit any government or locality from establishing performance or accountability standards for foreign investors. If approved, it would actively bar any civic engagement that might limit the freedom of a global corporation, and elevate the rights of global corporations above those of people and countries in international law.

Together deregulation and globalization are undermining the power of both unions and governments and placing the power of global corporations and finance beyond public accountability. Day by day the largest corporations continue to consolidate that power through mergers, acquisitions and strategic alliances. If discipline can not be established, the 13 syllable 'Globalization' may turn into an unlucky thirteen. Many developing countries are still struggling to find a right mix of liberalization policies and protective measures for parts of their domestic markets. There is the need for some insulation of developing countries against the whims of market sentiments and exchange rate fluctuations. Japan warned that unless reforms were made in the international financial system, this century could ultimately see major turbulences and the collapse of global capitalism and that may make Karl Marx's 150 years old prediction true.

Chapter II

4. Globalization in Bangladesh : An impact on the economy

4.1 Introduction

The economic history of Bangladesh can be divided in to three phases. 1972-1978 as characterized by centralized planning, quantitative restrictions on imports and strict control measures. State led import substitution industrialization was the basic tenet of the national development strategy. From 1979-1990 the country embarked on an economic liberalization reform process. Simplification of tariffs began in 1986. The third period 1990-2001 has been characterized by blind openness of the economy through accelerated trade liberalization, extensive uncared for financial and fiscal reforms having little practical implementation.

State-owned organizations have kept huge amount of wealth in their hands, which is about 32 percent of the GDP. Their contribution till mid 90s' was only 2 percent, which is now only 1 percent. There are only 250000 people working in the state-owned enterprises and only 6 percent of the total employment in the productive sector and less than 1 percent of the formal sector. In 1999-2000, to save the jobs in the state owned loosing enterprises per worker Tk.135000 was spent, while per capita income in Bangladesh is about Tk. 22000. During 1991-2001, on average state-owned enterprises incurred loss for more than Tk. 9 billion each year and the accumulated loss is about Tk.101 billion. In 2000-2001 state owned enterprises incurred loss of US$ 350 million, which is about 30 percent of the total budgetary allocation for education and health.

4.2 World Bank's Predictions

World Bank envisaged that Bangladesh needs 50 million jobs in next 25 years time, which means each government must create 10 million jobs during the tenure of their 5 years term. In its report 'building a nation' the World Bank has also recommended eight objectives of Bangladesh, which are:

Significant reduction of poverty level, increase of average GDP between 7-8%, universal adult education, primary health care, environmental protection, well planned urbanization, 50 million job creation, competitive marketing exposures and significantly increasing per capita FDI by 2020. World Bank also recommended budget deficit to 2% of GDP in place of present 8%. Government is trying to reduce the gap to 5.6%, which was 5.9% in the previous year. In 1900, foreign assistance was about 4.8% of GDP which in 1998 came down to 2.4% of GDP.

4.3 Chronic Economic Arthritis

Between 1997-2000 world wide per capita foreign investment was US$1400, while Bangladesh received per capita US$7 only mainly due to prevailing perfected hi-breed hyper bureaucracy in the country. During 1981-2000 there was US$ 42535-million investment (domestic and foreign) of which between 1981 and 1991 it was US$ 4.5 billion and on the other hand between 1991 and 2000 it was US$ 19 billion. As an unique example of the utter failure of our economic diplomacy Bangladesh neither appears in the mid-term investment nor in the long-term investment of the Japanese private sector investment plans. In their 3-year and 10-year investment plans from 2001 onwards, most of the Japanese companies favored China as the most attractive destination. India appeared 5th in mid-term plans and second in the long-term among 10 destinations chosen by the Japanese.

4.4 Phantom Foreign Direct Investment

After reviewing the FDI during the last 10 years, it has revealed that Tk.200 billion worth investment for 439 Board of Investment the registered investment is not traceable. It appeared that during the period 1991-2001, 1078 industrial units worth Tk. 588.58 billion were registered. Projects worth Tk.172.00 billion are in existence and are in operation. Investment projects under progress are worth about Tk.44.77 billion. Projects worth Tk.10.24 billion, although implemented, are closed for one reason or other.

Projects worth Tk.164.20 billion although are traceable is not yet implemented. In other words 41 % of the projects registered during last 10 years are in the list of stagnation and/or non traceable. The country needs total US$ 26 billion investment, of which US$13.3 billion in gas sector and US$12.6 billion in power sector by the year 2020. The revised reckoning shows that the need would be US$ 5.1 billion, US$ 5.4 billion and US$ 6.7 billion with 5, 6, and 7 percent growth rates respectively if the development takes place under Petrobangla.

4.5 Bangladesh Hates LDC Status

Bangladesh has determined not to stay in LDC countries row, but our businessmen have recommended the status quo, because it is advantageous to maintain the status quo. Forty nine (49) countries of the world are in the LDC status which is determined on the basis of economy, infrastructure, literacy level, human resources development etc. The threshold for graduation is a per capita GDP of US$ 900. As our per capita GDP is US$364 Bangladesh does not qualify for graduation. Calorie intake in Bangladesh is now 2050 compared to 2167 of the LDC average while overall developing country average is 2663 calorie. Gross school enrolment ratio in Bangladesh is 69% in Primary and 21% in Secondary schools, as against the developing country average of 100% and 65% respectively. Since we have determined not to remain in the LDC group then it appears that we must have developed ourselves in last few years time, which we could not do before 1996, as we did not ask for graduation from LDC at that time.

4.5.1 Which is good- Begging or Mugging?

In last 31 years of liberation Bangladesh's poverty level has come down to 40%, of which 22% still remains at the below poverty level. Despite significant economic growth rate poverty has not come down at that rate. Assistant Secretary General of the United Nations recently opined that Bangladesh has failed in its goal for poverty alleviation despite making some significant progress in economic and social sectors. Half of the world's populations live below poverty level he added. The UN official said that poverty has declined in Bangladesh but still 60-70 million people remained poor having the highest rate of poverty case in south Asia, he lamented.

4.5.2 Is it True?

In a seminar- 'aid for development' in Mexico USAID referred Bangladesh as an example of successful development model in the 21st century, although once Bangladesh used to be mentioned as an example of poverty. But now the country has dramatically improved in the agricultural sector. Production of rice in the country has increased by about 70% since 70s'. Bangladesh is also an example of successfully using foreign aids and loans.

4.5.3 AID Turned to AIDS

In last 29 years up to 2000 Bangladesh received a total US$36.3 billion as loans, grants and aids, of which about 17.5 billion dollars (48%) was aid and rest 18.9 billion dollars was loan. It is reported that 75% i, e US$ 27.3 billions were misused. If this looted/embezzled amount would have been invested in Bangladesh there could be huge development in the country. The average remittance by NRBs is about US$ 1.4 billion per annum officially and said to be US$ 500-700 million unofficially, on the other hand in last 29 years foreign aids and loans inflow in investment was about 0.60-0.65 billion dollars per annum.

4.5.4 Negative Growth in Bangladesh Exports

In the face of worst-ever export performance the government has slashed export target by US$ 1220 million to US$5950 million from the initially planned US$7170 million. Year-wise export earnings in million US$ are appended below:

Fiscal Years	Export Earnings in million US$
1991	1717.55
1992	1993.92
1993	2382.89
1994	2533.90
1995	3472.56
1996	3882.42
1997	4418.28
1998	5161.20
1999	5312.86
2000	5752.20
2001	6467.30
2002	5950.00

Country's export earnings plummeted to US$ 5986 million during the FY 2001-2002 showing a 7.44% decline compared to the FY 2000-2001 turn-over of US$ 6467.30 million. Actually export fell by 17% short of the original target of US$ 7170 million dollars originally targeted for the FY 2001-2002.

4.5.5 Handful for a Bagful

For every single dollar earned through exports, the country had to sell an additional 15% goods in the global market during last FY. Four major exports- RMG, Frozen food, Knitwear and Jute goods contributed over 85% of the total export earnings, although the export volume went up by 7.43%.

Meanwhile the government has made a comprehensive 5 years National Export Policy (NEP) with a consolidated target of US$ 41398 million for the 5-year period. Break ups for 5 years with expected growth is appended below:

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Target in Million US$	6500*	7102	7752	8347	8831	9366
Growth Rate in %		+9.26	+9.15	+7.68	+5.80	+6.06

*** Revised figure for the FY 2001-02**

Remittance from NRBS during the FY 2001-2002 increased by 38% compared to FY 2000-2001. Foreign Exchange reserve has stood at US$ 1.70 billion. Target for FY 2002-2003 is US$ 2.00 billion. Interest rate for exports is 7% now instead of previous 10%.

4.5.6 Bangladesh Imports

It has revealed from the Bangladesh Bank Annual Report 2001-2002 that the Country had opened import L/C for US$ 8.57 billion. Although in terms of US Dollars this was about 4.04% less than the previous FY, but in terms of Taka value this was 2.13% higher than the previous FY. On the other hand up to June 30, 2002 import L/C for Tk.182.04 billion remained unsettled. Bangladesh' official imports from India has increased from US$170 million in 1991 to US$ 1.30 billion today, while Bangladesh's export to India has increased from US$10 million in 1991 to US$ 80 million to-day. During the first month of the current FY-July 2002 import activities of he country has drastically decreased by more than17 percent. During the month L/C was opened for only US$ 640 million and on the other hand up to July 2002 L/C remained unsettled for about US$ 3.12 billion.

4.5.7 Yearly average Trade Deficit of Bangladesh

Bangladesh imports from China worth US$ 550 million and export to China worth US$10 million. Deficit with Sri Lanka- US$ 4.90 million, Taiwan- US$. 18.26 million, Pakistan- US$ 60 million, India- US$ 1.05 billion, Nepal- US$1.10 million, Bhutan- US$ 2.00 million, With 49 countries US$ 5050 million. In last 10 years time, officially trade imbalance with India is more than Tk.460000million (US$5400 million). In one estimate trade deficit with India is about US$100 million, but unofficial/informal trade is about US$150 million making a total of US$ 250 million a year. Every year Tk.400000 million worth goods are smuggled into Bangladesh, which is about half of the total Bangladesh imports. This is causing revenue losses and industrial closure in Bangladesh.

India's repeated promises to import more Bangladeshi products are nothing but a hoax now. About US$ 500 million remains non-repatriated against exports from Bangladesh. On an average Bangladesh exports goods and services worth about Tk.324.20 billion, while import is about Tk.505.20 billion making an average trade deficit of Tk.181 billion per year.

4.5.8 GP'S Prescription

After the withdrawal of GSP and quota in 2005 India will go for massive production of garments and at that time India will not export yarn or cloth to Bangladesh or will be too expensive and thus Bangladesh will not be at all competitive in the international market. So the locally international quality production should be encouraged, while ADB and NBR consultant interestingly recommended not going for backward linkage industry, as those will not be competitive. Tax holiday withdrawal will be suicidal for Bangladesh. Our question is who certifies the loss during tax holiday period? Tax holiday withdrawal will increase huge influx of foreign goods especially Indian goods into Bangladesh. There will be no further industrial growth in the country, while the economy has already become import prone since we started irrational globalization practice since last 10 years.

Bangladesh has realized to set up a WTO cell in the ministry of commerce to protect the business interest of Bangladesh. Bangladesh has utterly failed to understand the intrinsic meaning and objectives of Liberalization, Privatization and Globalization (LPG) since 1991.

4.5.9 Globalization and the SMMEs

Increase in export does not indicate that the SMMEs in particular will be able to survive comfortably under the present WTO regime. There are about 50000 SMMEs in the country registered with different trade organizations. The factors affecting the SMMEs due to globalization are:

- Competition (price, delivery, after sales service)
- Technology (modern, cost saving and quality assurance)
- Policy (competitive with other countries and business friendly)
- Skill (commensurate with technology and techniques)
- Institutional and Infrastructural support (information, communications and business support)
- Market (additional market exposures for existing and new products and services) and
- Good Governance (efficient management with required knowledge and skills)

(Ref: Globalization and the SMMEs by Mr. Md. Azizur Rahman, The Financial Express, August 19, 2002)

Trade related Technical Assistance would be provided to Bangladesh by EC to ensure that Bangladesh gets the best advantage out of WTO negotiations. European Commission has already enveloped 49 million Euros for 2002-2006. It would focus specially on small and medium enterprises sector of Bangladesh. SMEs contribution in the country's GDP in terms of industrial contribution is about 46 percent.

4.5.10 Dhaka Requests WTO fund for Agriculture Research in LDCs

Bangladesh has urged WTO to establish a global revolving fund to facilitate research, development and transfer of technology, processing agricultural commodities. To substantially reduce, rationalize, and simplify developed countries tariff structure to help grow agro-based products of LDCs. It was observed that more practical results could be evolved in technology transfer to EPZs if higher training could be imparted to local workers for invention of labor intensive easy technology. The seminar identified 3 major areas of technology, those are-hardware and techno ware, info ware and software and human ware.

4.5.11 Inflation in Bangladesh

Inflation in Bangladesh is now 3.81%, which was 1.66% six months before. Other than inflation, price of goods and services become costly by 4-5% only due to high corrupt practices in doing business in the country.

FY Year	Average Annual GDP Growth Rate	Annual Rate of Inflation
1991-92	4.20	4.50
1992-93	4.50	2.70
1993-94	4.20	3.30
1994-95	4.40	8.90
1995-96	5.30	6.60
1996-97	5.90	2.50
1997-98	5.60	6.90
1998-99	5.20	8.90
1999-00	5.00	3.40
2000-01	5.70	1.80
2001-02	N/A	3.81

In practice inflation seems to be no less than 6-7 percent now.

Chapter III

5. Step-in Measures for Economic Development

5.1 Draft Industrial Policy-2002

Status of industry has been redefined and the number of thrust sectors now increased to 21 along with the existing 16 named in the industrial policy 1999. The new items are basic chemicals/ raw materials used for industries, dying and raw materials used in the textile industry, optical frame, CNG and Furniture. The new industrial policy changed the definition of an industry based on its capital. Industry having a capital of Tk.500 million and above will now be termed as large industry, while in the previous policy it was Tk.300 million and above. A medium industry should have capital between Tk.250 million to below Tk.500 million in place of present range between Tk.100 million and Tk.300 million. An industry having a capital up to Tk.250 million will be defined as a small industry in place that of Tk.100 million in the previous policy. An industry having capital less than Tk.100 million has been defined as cottage industry, while technology based seed production has been awarded the status of industry. Special incentives will be provided to the export oriented industries and to women entrepreneurs.

5.2 Significance of Foreign Investment

Foreign Investment carries enormous significance in a developing country like Bangladesh. Realizing the importance of foreign investment. Bangladesh formulated its first Industrial Investment Policy in 1973, revised it again in 1974, 1975, and in1978. Foreign Private Investment (Promotion and Protection) Act, 1980 and the Bangladesh Export Processing zones Authority Act, 1980 were enacted. To make the foreign investment more attractive new industrial policy was announced in 1982. However, the Industrial Policy 1999 is by far the most comprehensive document Bangladesh has ever made for investment including foreign investment. The major incentives for foreign direct investment in Bangladesh are as under:

- Protection of foreign investment from nationalization and expropriation
- Abolition of ceiling on investment and equity share-holding by foreigners
- Accelerated depreciation in lieu of tax holiday on certain simple conditions
- Concessionary duty and VAT on capital machinery and spares
- Rationalization of import duties and taxes
- Six months multiple visa for prospective investor
- Citizenship by investing USD 500000 or transferring USD1 million
- Permanent residentship by investing USD 75000
- Tax exemption on capital gains under certain simple conditions
- Bonded warehouse and back to back L/C for exporting industries
- Avoidance of double taxation with certain countries
- Facilities for repatriation of capital, profit, royalty, technical fee etc.
- Tax exemption on royalty, technical know-how and expatriates' salary
- Protection of intellectual property rights
- Taka convertibility in current account
- Treating reinvestment of repartriable dividend as new investment

5.3 FDI and Bangladesh

Foreign Direct Investment (FDI) generates economic benefits to the recipient country through positive impacts on the real economy resulting from physical capital formation, transfer of technology and increased domestic competition. Bangladesh stands to gain from these inflows provided it is able to allocate and manage these resources efficiently keeping in view the concomitant liabilities of profit and income payments. In the Bangladesh context, the recent surge in FDI in energy and telecom sectors appear to have heavy import content with little impact on foreign exchange reserve accumulation. The concern that logically emerges is whether the real economy would be able to generate sufficient foreign exchange to finance the remittance of profits and income originating from the foreign investment. Further more, the private sector has been incurring foreign debt obligations of short, medium, and long term maturity to the tune of USD 60-70 million a year. These give rise to interest and principal payments in foreign exchange over and above the official debt obligations to bilateral and multilateral agencies.

5.4 Sectoral Distribution of private capital inflows into Bangladesh:
(Foreign Direct Investment in Bangladesh)
Profile of Capital Inflows (5 years averages) Million USD

Sectors	FY1996-00	FY 2001-05	FY 2006-10
Gas	134	218	114
Power	113	193	174
Telecom	17	17	17
FDI in EPZ	58	123	199
Other FDI	150	205	241
Total FDI inflow	472	757	744
Debt inflow	149	154	159
Total inflow:FDI+debt	621	911	902

Profile of Capital Outflows(5 years averages) Million USD

Sectors	FY1996-00	FY 2001-05	FY 2006-10
Gas	34	111	151
Power	13	156	340
Telecom	00	20	42
Other FDI	36	190	409
Total Profit & Income	83	477	942
Payment on Debt	46	117	229
Total out flow on FDI+debt129	129	594	1171

The main question is: can the economy sustain the foreign exchange payments that will be needed to cover the profit repatriation, interest payments and amortization of private debt? Clearly, in the Bangladesh context, the nature of private capital inflows has implied little augmentation of foreign exchange reserves. Thus three critical issues emerge from the nature of thes e capital inflows:

- First, the high import intensity of FDI inflows and subsequent profit repatriation and interest payments, implies a worsening current account deficit associated with FDI
- Second, there is no discernible accumulation of foreign exchange reserves and consequently, no upward pressure on exchange rates(essentially ruling out the prospects of 'Dutch Disease')
- Third, this FDI, together with private sector borrowing in foreign currency, has risen to an estimated US$600 million a year between FY 01-FY 05, and will rise over a billion US$ a year for the next 5 years.

5.5 Foreign Direct Investment Inflows in Bangladesh

Calendar Year	Amount in million USD
1995	83
1996	241
1997	296
1998	387
1999	807
2000	629
2001	687
2002	998
2003	659
2004	807
2005	633
2006	868
2007	797
2008	717
2009	664
2010	674

According to the World Bank's projection, investment inflows will average USD 900 million annually till 2010 and the principal sectors to receive the inflows will be energy, telecom, manufacturing and services.

It has revealed that FDI and private foreign debt is increasingly becoming a significant source of financing domestic investment in Bangladesh-particularly in non-tradable such as energy and infrastructure services. Together these capital flows could account for over 2% of GDP in FY 99 and nearly 10% of gross fixed investment. Between FY99 and FY 2002, average annual inflows are expected to be around USD 0.90 billion. Such rapid rise in inflows is the direct consequence of Bangladesh having one of the most open investment regimes in South Asia today.

Unlike Sri Lanka where the bulk of FDI is export oriented, FDI in Bangladesh except the EPZ is characterized by its inward orientation, with heavy concentration in the energy sector. As a result, its direct impact on exports and in generating incremental foreign exchange is difficult to gauge. The FDI and debt inflows have not helped in augmenting foreign exchange reserves so far and are not expected to do so over the next years. In fact as inflows grow, so do outflows in the medium to long term. The benefits of FDI are many and worth harnessing. But the downside risks must not be lost sight of. The foreign exchange payments average USD 500 million a year between 2000 and 2005 and USD1 billion a year for the next 5 years. This growing repayment obligation presents the prospects of net negative transfers in the future and poses major challenges requiring the country to search for new avenues of earning and/or saving additional foreign exchange.

5.6 Estimated Required Growth Rate

To graduate from LDC to developing country by 2020 Bangladesh needs a consistent growth rate of 8%. To achieve this growth rate export and imports growth rate should be 20.83% and 17.58% respectively. Besides, growth rates of remittance and FDI must be 15.07% and 21.56% respectively. In FY 1980 the country's exports were 32.46% of the imports. The figure rose to 39.54% in FY 1990 and 69.07% in 2001. Similarly the flow of remittance gradually increased, and it is helping the economy more than the Overseas Development Assistance. Bangladesh reduced it dependency on Overseas Development Assistance by half in last 10 years.

5.7 Liberalization and Reform Package

1. Introduction of Value Added Tax
2. Introduction of Export Incentives
3. Liberalization of Import Policy
4. Interest rate deregulation
5. Financial Sector Reform
6. Enactment of Money Laundering Act
7. Strengthening of Central Bank's Supervision
8. Loan recovery and re-capitalization of Banks
9. Indirect Monetary Control
10. Exchange Control Liberalization
11. Issue and transfer of shares to non-residents
12. Investment by non-residents
13. Suppliers Credit
14. Foreign Currency retention quota by exporters
15. Foreign currency account maintenance
16. Opening of Back to Back L/C
17. Facilities for foreign investors

5.8 HDI and Bangladesh

Bangladesh has been maintaining its HDI status co of being 145th consecutively for the last 2 years among the 199 countries of the world. In the human poverty index out of 88 countries Bangladesh is in the 72nd position. Among the seven SAARC countries Bangladesh occupies the 7th position and Maldives occupies the top position. Let us make Bangladesh discount into Value Bangladesh

Chapter IV

6. Recommendations

[A seminar was organized on Impact of Globalization in the context of Bangladesh by the DCCI on 4 November, 2002. It was graced by the presence of the Hon'ble Minister for Commerce Mr. Amir Khosru Mahmud Chowdhury, M.P as the Chief Guest. The seminar was also attended by Mr. John J. Callebaut, Senior Program Officer, Asia, CIPE as the Guest of Honour. Besides, Mr. Aftab ul Islam, past President, DCCI and President, American Chamber of Commerce and Dr. Quazi Kholiquzzaman Ahmad, Chairman, BUP and President, BEA were the designated discussants while Dr. Mizanur Rahman Shelly, former Minister & Chairman, Centre for Research, Bangladesh (CDRB) moderated the seminar. As many as 9 participants made comments on the key-note paper. The recommendations emerged from the seminar deliberations have been recorded giving due importance to the comments of the Hon'ble Minister, Mr. Callebaut, designated discussants, President, DCCI and the participants]

The recommendations are as follows:

Third world governments fear that the WTO could use the Uruguay Round provisions on investments to seek further liberalized services and investments. Domestic enterprises in the South will find it increasingly difficult to survive, should the big transnational decide to target their markets. Rich countries should implement plans they made, particularly on freer trade in agriculture and textiles. Implementation of Uruguay Round commitments had been discussed 35 times at WTO headquarters but with no effect. WTO members will take a hard look at the chances of launching a new cycle of trade liberalization talks in two months time.

Many of the 142 WTO members back the idea of kicking off a new round of negotiations in November, although the sources stress that a lot of work still needs to be done fairly quickly. Anti globalization demonstrations are visible, from Seattle to Genoa to Johannesburg. The Globalization process must be reformed to take into account the need and aspirations of the South. Oxfam International said that the 15-nation European Union is the most protectionist of the major trading entities. EU claimed that their farm budget has been frozen at 0.50 percent of GDP until 2006, compared to 0.70 percent in the USA. EU is by far the biggest importer of food from developing countries. Recommendations are:

1. Go for Globalization which helps specialization
2. Economic diplomacy and annual business targets for foreign missions
3. Developing countries should be out-ward looking than in-ward looking
4. Improvement of negotiation skill for Bangladesh needed
5. Business Executives should be employed as ambassadors
6. Backward linkage industries must be established for export sectors
7. 25% Cash incentives to exporters without unnecessary audit burden
8. Patriotic zeal of the importers and consumers must to void unnecessary imports
9. Services exports be increased substantially
10. Clear accountability of government officials with reward and financial punishment provisions
11. Program for effective awareness on the impact of globalization should be made
12. Government must have an integrated policy to face the challenge of globalization
13. A Globalization Council Should be formed
14. Export Development, Research and Training Institute should be instituted
15. Expansion of Export Development Fund with simplification of export procedures

16. Drastic reduction of cost of doing business
17. Establishment of Skill Development Training Institutes
18. Ensure anti-dumping and countervailing duty meas ures
19. Developed countries should stop giving subsidies to their farmers because it uphold an uneven playing field for the farmers of poor countries which are not giving subsidies or forced not to give subsidies
20. Tariff Commission should be strengthened with logistics and trained personnel to play appropriate role in the global regime
21. Simplification of tax and all other laws
22. Improvement in business Language and Communication skills
23. Good governance at all levels.

In the early stages of the Uruguay Round, countries like Brazil and India put up a stiff fight. During the final two years, however Southern resistance melted down. The TRIPS agreement is going to make medicines more expensive in Third world countries having pharmaceutical industries and open the door for patenting of life forms and modified genetic materials. To saveguard, the country from the harmful influence of the WTO the following steps may be taken in respect of pharmaceutical sector:

1. To avail the shortcomings' opportunities of the TRIPS and compulsory licensing requirements
2. To utilize the opportunities during the transitional period
3. To avail the regulatory exceptions
4. To expand medicine exports to LDCs
5. Establish Research and Development Laboratories
6. Restrict parallel imports
7. Expansion of Public Health Facilities
8. To enter the world's generic market
9. Strong negotiation with the WTO.

Chapter V

7. Conclusion:

Globalization - a Threat or an Opportunity:

Globalization is a threat to weak or capricious states, but for effective, disciplined states it provides opportunities to foster economic development. Despite all the talk about globalization, many developing countries are still economically isolated. The growth of international trade and capital flows since the early 1980s has brought little benefit to countries in which half of the developing world's population live. Some governments are hesitant about opening up to the world economy because of the risks involved—and it is true that countries can become more vulnerable to external price shocks or to large, destabilizing shifts in capital inflows.

But the pitfalls should not be exaggerated, particularly when compared with the risks of being left out of the globalized economy. The state thus has a critical role to play, both in handling such shocks and in helping people and firms seize the opportunities of the global market place. Globalization also sharpens the need for international co-operation in at least five areas, such as:

a) Managing Regional Crisis,
b) Promoting global economic stability,
c) Protecting the Environment,
d) Fostering Basic Research and the dissemination of know-how and
e) Making International Development Assistance more effective.

It is the developed countries, which took the lead in integrating the developing countries in the world economy. Ironically, it is the vested interests in these countries which are now trying to limit such integration and put barriers to free trade by raising one issue after another, which have no direct links with trade. Analysts say by having different components of trade in manufacturing, agriculture, services, investments and intellectual property protection under one roof, the WTO will have enormous powers –particularly over the third world countries.

They add that the Uruguay Round has given the North a big advantage by bringing the services and investments under the jurisdiction of the WTO. When the round began in 1986, many South countries were strongly resisting the North's push to expand GATT's powers into new areas like services, investments and intellectual property rights.

The south was worried but the rich nations were interested in liberalization. The North's motives for introducing Trade Related Intellectual Property Rights (TRIPS) were clear to almost all Third World delegates: to enable their firms to capture more profits from the sale of technology products and to place stiff barriers preventing potential new rivals in the South.

Farmers in India have been rallying against WTO and green groups are concerned that Third world farmers will not be allowed the traditional practice of saving seeds for the next season's planting. Instead they may be forced to buy these from transitional companies. The world needs more integration not less to make globalization a success. This interaction must begin with a change in the somewhat protectionist conduct of some of the world's richest economies specially USA.

Industrial countries must practice what they preach and open up their economies, especially in areas where developing countries have a clear and demonstrated comparative advantage: agriculture, processed food, textile and clothes and light manufacturing. Trade barriers in rich countries which slam the door of international trade in the face of developing countries must be halved, a step that could potentially create annual gains of US$ 400 billion in the global economy. Rich nations, IMF, World Bank, ADB, United Nations and its agencies specially WTO has a crucial role to play in this team effort to spread prosperity.

There should be more health checks on the world economies and provide technical assistance where needed in order to overcome weaknesses. IMF has already gauged the health of 20 economies, and 30 more are currently being assessed. Free market needs new rules. To love the free market is to loathe the scandalous behavior of those who have betrayed the values of openness that lie at the heart of a healthy and prosperous capitalist system.

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