Economic Policy Paper
on
Policy Towards Investment and Industrialization

1.0 Introduction

1.1 Major challenges lying before the Government include consolidating the socio-economic gains already achieved and continuing to improve upon them in a sustained manner in order to attain the Millennium Development Goal of reducing the income poverty by half by 2015, accelerate the contribution of manufacturing value added to the economy substantially for increasing employment and export and above all, achieve in the medium term at least 10 p.c. nominal growth or 7 p.c. real growth of the GDP. Satisfactory industrialization will be an essential ingredient of this process. This short paper will try to deal briefly with a few selected issues relating to the state of industrialization of the country, causes of inadequate performance of the industrial sector and some thoughts about adopting appropriate changes in the policy environs.

1.2 Admittedly, from a highly regulatory phase dominated by the public sector with central control, Bangladesh moved towards gradual liberalization and eventually opted for a market driven open economy. The country's industrial policy which was regulatory in the 1970s, moved towards being promotional during 1980s and assumed a facilitating approach in the 1990s. The introductory chapter (Chapter I, vide Annex-1) of the country's Industrial Policy of 1999 (supposed to be undergoing some revisions yet to be finalized and published) noted that "Industrial Development has been attempted in Bangladesh in the past under widely divergent policy regimes. The early phase of industrialization effort was characterized by an import substitution strategy and a strong regulatory role of the state. In contrast, market oriented reforms, deregulation, and export initiatives characterized the later phase of the industrialization drive. There were attempts, in the past, to promote private sector based industrialization with generous public subsidy and protection. This was followed by public sector led industrial efforts, Later, the thrust" again shifted to privatization of public enterprises and private sector led industrialization. It was also recognized that "It is fortunate that Bangladesh enjoys political consensus across all parties that a competitive and market-oriented economic policy is pursued in order to accelerate the economic growth process".

1.3 It is further interesting to note "The Vision of Industrial Development" proclaimed "to have within a decade a sizable industrial sector where manufacturing will account for at least 25 per cent of the GDP and at least 20 per cent of the employed workforce". Up from around 10 per cent figure of the sector's share in the GDP and employed population, this vision was somewhat ambitious though highly desirable. The professed guiding philosophy for formulating the industrial policy has been captured in the laudable statement of the vision to the effect that, -

"A vibrant and dynamic private sector will be the principal actor in Bangladesh's industrial arena. The industrial sector of Bangladesh will be competitive in the liberalized internal market as well as in the external market. The industrial sector of Bangladesh will have a dominant export orientation."

1.4 Towards materialization of the above vision as stated in Chapter I, 15 other chapters (Chapter II through to Chapter XVI) deal in details the objectives of the Industrial Policy, the broad Strategies, Definition and Classification of industries, facilitative Role of the Public Institutions, Privatization and State Owned Enterprises Reform, Fiscal and Financial Incentives, Industrial Relations, Small and Cottage Industries, Export-oriented and Export-linkage Industries, Foreign Investment, Board of Investment, Export Processing Zones, Industrial Technology, Institutional Support and Implementation, Monitoring and Review. Structurally the policy also provided for formation of the National Council for Industrial Development (NCID) under the Chairmanship of the Prime Minister, an Executive Committee of the NCID under the Chairmanship of the Minister for Industries and a Coordination Committee with Secretary, Ministry of Industries as the Convener. Although the NCID was established in November 1999, it never met and after change of the Government, it was reconstituted in April 2002. It is understood that the reconstituted Council met in July, 2002 and considered the draft of a new Industrial Policy, 2002, supposedly proposing some modifications to the existing Industrial Policy, 1999, basically maintaining a continuity but making the terms more suited to the need of the time.

1.5 Four years have pased by since publication of the Industrial Policy, 1999, and though no major shift or destabilization was allowed in the policy regime, rather all the pronouncements for promotion of pro-private sector development and creating an enabling environment for rapid industrialization continued to become stronger and stronger, yet the envisaged dynamism and vibrancies in the industrial sector seem to have remained elusive. Neither local investments in the industrial sector are increasing significantly, nor Foreign Direct Investments have been attracted in a big way inspite of the best of terms offered for the same. Amongst plethora disabling factors, major road blocks and minor irritants, and poor implementation of the policies in real life, two important factors seem to have received inadequate attention. One is that a well written industrial policy alone does not promote or facilitate industrialization; a host of other related policies lying in the domain of different Ministries and Agencies have to be properly meshed together for successful implementation of the industrial policy. In Bangladesh all the connected ministries and agencies do not seem to jive harmoniously together, while all of them suffer from many bureaucratic lapses. The other issue is that whatever may be professed or provided in books, true economic freedom does not seem to exist, hence the country is yet to benefit from the enormous potential contribution from the private sector as would have been the case if its full energies could be unleashed. The like of that we have seen in the rapid growth of the Ready Made Garments (RMG) and Knitwear sector accounting for three fourths of the foreign exchange earning and creating jobs for over one and a half million women having very little education and skill. This became possible mainly as the Government removed itself even partially from the back of this sector and extended to it helping hands. We shall discuss later the concept of true economic freedom referred to in this context.

2.0 Opening the Doors of Industries to the Private Sector

2.1 Prior to the independence the setting was "mixed economy" and in 1968-69, there were 3130 registered factories in Bangladesh of which 791 were in textiles, 567 in chemicals, 406 in food manufacturing, 257 in metal products, 207 in footwear, wearing apparel and textile products, 149 in leather and leather products, Together they produced some 587 thousand tons of jute goods, 106 million lbs of cotton yarn, 59 million yards of cotton cloth, 94 thousand tons of sugar, 40 thousand tons of cement, 95 thousand tons fertilizer, 57 thousand tons of paper and 58 million lbs of tea, all in mostly public sector including some private enterprises enjoying concessions from the Government. War of independence caused widespread damages to many of them causing severe dislocation in production, Production deteriorated further after Government taking over control of enterprises deserted by non-Bangladeshi owners and nationalization of the major sectors of industries. The public sector so created was estimated to have Tk. 517 crores of assets in 313 industrial enterprises as on June 30, 1973 in terms of their original book values. Government's primary concern at that time was recovery of industrial output and capacity utilization, which continued to suffer due to many economic and non-economic factors, including most importantly, inept management.

2.2 At the time of independence, about 90% of fixed assets of the modern industrial sector was put under public ownership, and in the then investment policy, the role of the private sector was limited to small industries with assets not exceeding Tk. 25 lacs. However, within a couple of years the process of widening the role of the private sector started, and a moratorium of 15 years on nationalization was announced. The First Five Year Plan (1973-78) notes that “This policy seeks to prevent the emergence of a new class of big capitalists operating in the areas of large scale industry left outside the orbit of the nationalized sector. Although in the First Plan, 15.6% of the industrial outlay was allocated to the private sector, it clearly stated that “The private sector in most cases will supplement rather than compete with the public sector”. This limitation continued all throughout the 1973 Industrial Investment Policy, 1974 New Investment Policy, and later in 1975, the Revised Investment Policy. What the private was permitted to do and what they were barred from doing was firmly controlled, and entrepreneurs were forced to adhere to what was called Investment Schedules published by the Directorate of Industries. The Investment Schedules were mostly fanciful, as the Director General Industries had no mechanism of ascertaining correctly how much of the approved investments were actually implemented and went into production, what was the current output of those which were actually operating, what was the current and future market demands and matters like that. It was estimated that about 30% of the sanctioned industries never went beyond putting up signboards and there was general belief that many of the entrepreneurs were happy to make money by selling their industrial import licences against investment approvals secured at great cost. The general characteristic of industrialization was overcapitalization, baneful under utilization of capacity, low efficiency and low productivity, yet making huge profits taking advantage of large Government subsidies and protection allowed in the name of nascent industries. Import substitution was encouraged often without regard to the diseconomies involved, and there was allegedly general bias in favour of trade rather than industry and export. Benefits of the system went largely to non-Bangladeshi entrepreneurs who were more knowledgeable and had better connections.

2.3 The New Industrial Policy (NIP) of 1982 marked in a sense the real beginning of fostering private sector promotion when, to the dismay of many regulators in the chain, use of the meaningless Industrial Investment Schedule was abolished, many liberalization measures were proposed, large scale disinvestments were implemented and emphasis was given to exports rather than inefficient import substitution, allowed large scale incentives to foreign private investments, caused many procedural simplification and accorded greater autonomy to public sector enterprises arguing in favour of their commercial operation. The Revised Industrial Policy (RIP) of 1986 and the Industrial Policy, 1991 continued to consolidate the process in favour of the private sector, culminating into the latest Industrial Policy 1999 rolling back further the public sector, allowing level playing field to all kinds of entrepreneurs, public or private, domestic or foreign. Thrust was given to export oriented and export linkage industries, allowing wide ranges incentives to Foreign Investment and Export Processing Zones, including permitting EPZ's under private sector, and proposing many other things to make the private sector vibrant and dynamic in a highly competitive and globalized market economy.

2.4 Provisions of the Industrial Policy 1999 are well published and are well known, hence there appears no need for recounting their details here. But as a matter of interest, samples of some anticipated improvements of the same proposed in the Draft Industrial Policy 2002 are briefly stated below (it should noted that the proposals are still under consideration of the Government waiting to be finalized and published, but they tentatively indicate the directions in which the concerned authorities are thinking).

- 2.4.1 The introductory chapter has been slightly revised by dropping the reference to only one particular national leader and highlighting the need for revision to make the industrial policy more suited to the changing settings of globalization and market economy requiring more rapid investments and industrialization.
- 2.4.2 Priority has been attached to export oriented industries and to encouraging female entrepreneurs.
- 2.4.3 High technology based seed production and seed multiplication would be considered as industry.
- 2.4.4 Definition of different classes of industries changed by classifying investments over Tk. 50 crore as "large" industry, investment between Tk. 25 and Tk. 50 crore as "medium" industry and those below Tk. 25 crore as " small" industry.
- 2.4.5 Investments below Tk.10 lacs has been classified as "cottage" industry.
- 2.4.6 The potential entrepreneurs would be advised in advance about the risks in over investment in a particular sector.
- 2.4.7 The previous of privatization in favour of Employee Owned Stock Programme (EOSP) has been dropped.
- 2.4.8 Tax holiday and accelerated depreciation provision has been replaced by reduced Corporate Tax at the rate of 20% for 5 years from the date of commercial operation.
- 2.4.9 Commitment has been made for prohibition of employment of child labour.
- 2.4.10 Independence Day Award would be given to selected Non-Resident Bangladeshi (NRB) investors.
- 2.4.11 Side by side with the Ministries, FBCCI will establish industrial information collection and management center.
- 2.4.12 Cold Storage has been considered as industries.
- 2.4.13 Basic chemicals and raw materials for industries, dyes and raw materials for textile industries, spectacle frames, CNG, furniture have been included in the thrust sector.
- 2.4.14 Tax holiday for 5 years in Dhaka and Chattagong Division and 7 years for Khulna, Sylhet, Barisal and Rajshahi Divisions as well as 3 Chittagong Hill Tract Districts has been abolished.

2.5 The Reserved Industries has been kept shrunk as before to-

(a) arms, ammunition and defence equipment
(b) forest plantation and mechanized forest extraction
(c) production of nuclear energy, and
(d) currency notes printing and minting

All the other provisions alongwith incentives to foreign investments, fiscal and financial incentives privatization measures, facilitative role of the public institutions, "One-Stop Service" of the BOI (renamed as Utility Service), role of EPZ's and allowing EPZ's in private sector etc. have been kept as before in the Draft Industrial Policy 2002.

2.6 There was a time when frequent changes of policies and executive decisions used to act as disincentives to the entrepreneurs and often eroded the viability of industrial investments due to abrupt changes in the postulations and conditions under which an industrial investment was planned and implemented. It goes to the credit of the major political parties of the country that since ushering into democratic governance neither of the two major parties which have been alternately in power attempted any major changes in at least two most important sectors of the economy, education and industry, which could unduly stifle the progress. It may not be out of place to mention here that after the second general election under democratic phase victory of the party which was responsible for widespread nationalization after the independence did, in fact, cause some concern in certain quarters for fear of reversal of the pro-private sector liberalized strategy of the pervious government. Nothing like that happened and the election manifesto and actions, including publication of the 1999 Industrial Policy had allayed all such fears. Maintaining a continuity of policies and making positive strides towards establishing a liberalized and competitive market economy by the successive governments led by the different parties is a refreshing and welcome experience for Bangladesh.

3.0 What We Have Achieved

3.1 Structural change in the Bangladesh economy has not taken place as planned from time to time. During the decade from 1991-1992 to 2001-2002 while the GDP registered a 4.96% growth, and agriculture also maintained a healthy growth rate of 2.64% inspite of various natural hazards but contribution of manufacturing industry to the GDP remained more or lass static at around 15%. The total growth rate of manufacturing industry being 6.62%, the major contribution to the GDP growth came from the services sector (vide Annex-2), the synopsis being as shown follow:

(Taka Crores)

Sector	1991-92	1995-96	2001-02	Growth rate 1991-92 to 2001-02
Manufacturing	17,839 (12.82%)	24,635 (14.81%)	33,893 (15.00%)	6.62%
Agriculture & Forestry	32.197 (23.13%)	32,438 (19.50%)	41,785 (18.50%)	2.64%
Services & Others	89.164 (64.05%)	109,251 (65.69%)	150,170 (66.40%)	5.35%
Total GDP	139,200 (100%)	166,324 (100%)	225,506 (100%)	4.96%

Source : Ministry of Finance, Arthonoitic Samiksa, 2002

3.2 Economy of a country stands to benefit most when the proportion of contribution to agriculture diminishes but that of the industrial and services increase while the total output of agriculture, industry and services sectors all continue to grow. A cross country comparison of structural changes in the economics in South and East Asia during the last two decades may be seen below:

Sectoral Contribution to GDP (%) in Current Prices

Country	Agriculture			Industry			Services		
	1980	1990	2001	1980	1990	2001	1980	1990	2001
South Korea	14.9	8.5	4.5	41.3	43.1	41.4	43.7	48.4	54.1
Thailand	23.2	12.5	8.6	28.7	37.2	42.1	48.2	50.3	49.3
Malaysia	--	15.2	8.4	--	42.2	49.6	--	42.6	41.9
Indonesia	24.8	19.4	16.4	43.4	39.1	46.5	31.8	41.5	37.1
P.R. China	30.1	27.0	15.2	48.5	41.6	51.1	21.4	31.3	33.3
India	38.1	31.0	24.7	25.9	29.3	26.4	36.0	39.7	48.8
Pakistan	29.6	26.0	25.0	25.0	25.2	23.0	45.5	48.8	52.0
Philippians	25.1	21.9	15.1	38.8	34.5	31.6	36.1	43.6	53.3
Bangladesh	31.7	30.4	22.7	20.9	21.7	26.4	47.4	47.9	50.9

Source : Ministry of Finance, Arthonoitic Samiksa, 2003, Taken from ADB & BDS figures.

In the above, industry includes manufacturing as well as construction, mining, energy etc. and it will be seen that all the countries quoted fared comparatively much better than Bangladesh in reducing the proportion of contribution of agriculture with corresponding increase of industry and services sector.

3.3 With only around 7% contribution in employment, the manufacturing sector has yet to go a long way before it reaches 20% as seen in the “vision of industrialization”. Job creation in manufacturing so far is not increasing fast enough as may be seen below:

Employment	LFS 1989	LFS 1990-91	LFS 1995-96	LFS 1999-2000
Employment in all Sectors (thousand)	50,148	50,154	54,597	58,066
	(100%)	(100%)	(100%)	(100%)
Employment in manufacturing (thousand)	6,976	5,925	4,085	4,300
	(13.41%)	(11.81%)	(7.48%)	(7.41%)

Source : Statistical Yearbook of Bangladesh, 2000.

3.4 As the Quantum Index of Industrial Production (QIP) in manufacturing increased from 100 in 1988-99 to 173.50 in 1995-96, 214.31 in 1999-2000 and 226.32 in 2000-2001 (vide Annex-3), risking a lot of approximation it can be inferred that productivity in manufacturing perhaps increased somewhat, but the trend in decline of production is, however, disturbing. There may be variations in the assumptions and accuracy of the different Labour Force Surveys (LFSs), the drop in employment in manufacturing from 13.91% to 7.41% within the decade of 1989 to 1999 is no doubt highly retrogressive and not helpful in achieving the vision of more than doubling the employment in manufacturing to 20% of the total employed labour force. Though one might argue that the postulated time frame for realization of the vision was a decade, of which so far only about 4 years have elapsed, yet the question remains whether the rate of development of the industrial sector is sufficiently satisfactory for achieving the goal. The answer is not difficult to find, so a lot of acceleration in industrial growth has to be achieved in order to fulfill the targets.

3.5 Industrial production index between 1999-2000 and 2000-2001 increased by only 5.6% from 214.31 to 226.32. During that year, items which experienced some increase in production were fish and fisheries products, bakery products, tea, beverages, tobacco, readymade garments, fertilizer, safety matches, pharmaceuticals and natural gas. Production remained static for dalda, cotton textiles and insecticides and declined in sugar, jute products, paper products and cement. All in all, there has been growth in industrial production, but the performance trend has been way below what should be expected to achieve the targetted vision.

3.6 The record of registration of enterprises with the Board of Investment (BOI) for both domestic and foreign investments is shown at Annex-4. It was not so long ago that the BOI under the Prime Minister's Office had proudly announced that Bangladesh was set to become an "emerging tiger" amongst the South Asian economies (Bangladesh, India, Nepal, Pakistan, Srilanka) to catch up with the East Asian Tigers (South Korea, Thailand, Singapore, Malaysia and Indonesia). But alas, that has not happened yet inspite of the highly favourable industrial policy and perhaps the best possible terms for foreign investments and all promises of Government support for the private sector. The position of both local and foreign investment registration for the past three years except those under BEPZA may be seen below (no figures for actual investment and production status was available from BOI):

Particulars of Invt. Proposals Registered with BOI	1999-2000	2000-2001	2001-2002	Total
LOCAL INVESTMENT				
No of Units	1,428	1,788	2,875	6,091
Investment Amount (Tk. million)	66,210	78,093	88,060	232,363
Employment	194,095	337,835	358,462	890,392
FOREIGN INVESTMENT				
No of Units	135	80	89	304
Investment Amount (US$ million).	2,119	1271	302	3,692
Employment	23,542	8,752	15,163	47,457

Source : Board of Investment

3.7 In view of the sharp decline in the availability of Official Development Assistance (ODA) and also swing of the industrial policy towards the private sector, inflow of Foreign Direct Investment (FDI) became a critical issue. The Industrial Policy tried to induce foreign investments both for export and domestic market in view of inadequate capital formation in the country, as well as to acquire technology and management skills besides having access to the export markets. The Foreign Private Investment (Promotion and Production) Act, 1980 provides the legal framework for foreign investments in Bangladesh assuring –

- No discrimination between foreign and local investment,
- Ensuring repatriation of profits and proceeds from sale of shares,
- Protecting foreign investments from nationalization,
- Bangladesh being a signatory of Multilateral Investment Guarantee Agency (MIGA) investments have insurance against political risks. Bangladesh is also a member of the World Association of Investment Promotion Agencies as well as of the World

Intellectual Property Organization (WIPO) providing additional safeguards for foreign investment. Besides of course, rules of WTO to which Bangladesh is committed will govern them all in future trades. Bangladesh also bi-lateral agreements with a number of countries to avoid double taxation for the foreign investment.

3.8 As increasing inflow of foreign investments is a very important component of the Industrial Policy of Bangladesh, perhaps further elaboration of the incentive package for foreign investment may be of interest to note. Some of these are :

- no restriction in issuing work permits.
- reinvestment of repatriable dividend treated as new foreign investment.
- working capital loan from local commercial banks allowed.
- tax exemption of the interest on foreign loans.
- avoidance of double taxation.
- permanent residence and citizenship privileges for specified levels of investments.
- multiple entry visa issued to foreign investors.
- no prior approval of Bangladesh Bank required for current account transactions.
- no local content requirement of foreign investment, (though the number of foreign employees is limited to 15% of the total workforce).
- foreign investors to enjoy same privileges regarding tax holidays as for local investors (however, the current thinking is to abolish tax holiday and replace it by lower corporate tax).

3.9 BOI recently published the results of their Survey of Foreign Direct Investment in 2002 which shows that the FDI inflow in Bangladesh in 2002 (representing only registrations with BOI and excluding BEPZA investment) for 296 enterprises were as below :

(a) Equity	US$	131.57 million (50%)	(machinery	US $	61.48	million
			cash	US $	70.09	million)
(b) Re-investment	US$	104.34 million (31%)		US $	131.57	million
(c) Intra-Company Borrowing	US$	39.25 million (19%)				
Total in 2002	US$	275.15 million (100%)				

Out of the above investment, 44% was in manufacturing, 29% in energy and gas and 23% in telecommunication sector.

Taking into account FDI in BEPZA, BOI had claimed that the total FDI inflow in Bangladesh in 2002 was US $ 360 million, but later, after changing certain assumptions in re-investment figures, they revised downwards the FDI in 2002 to be US $ 328.22 million. One might highlight here that the survey dependent on registration figures only did not perhaps calculate the actual investment (Bangladesh Bank figures of FDI are much lower than what was claimed by BOI).

3.10 In order to attract investment in export oriented industries Bangladesh Export Processing Zones Authority (BEPZA) was established under the Ministry of Industries (`later transferred to the Prime Minister's Office) under the BEPZA Act, 1980 to provide infrastructural facilities and support services of all kinds, facilitating duty free import of raw materials and components as well as hassle free export. BEPZA has of today 6 (six) Export Processing Zones at Chittagong, Dhaka, Mongla, Ishurdi, Comilla and Uttara (in North Bangal) and there is also a private EPZ at Chittagong being established under South Korean sponsorship (It is understood that infrastructure development at Uttara, Ishurdi and Mangla may be kept under suspension due to slow response from investors). The position of enterprises, investments and employment under BEPZA is as follows :

EPZ	No. of Units	Investment US $ million	Cumulative Export US $ million	Employment
1. Chittagong	114	331.986	4,119.036	76,705
2. Dhaka	57	202,506	2,102.776	43,982
3. Mangla	1	0.471	2.251	166
4. Ishurdi	0	0.600	0	0
5. Comilla	1	1.009	0.012	548
6. Uttara	1	0.175	0	644
Total	174	536,747	6,224.075	122,045

Source: BEPZA

3.11 The ownership of the 174 enterprises in the EPZ's is classified as follows:

(i)	100% Foreign Ownership	113	(65%)
(ii)	Joint Ventures	25	(14%)
(iii)	100% Local Ownership	36	(21%)
	Total	174	(100%)

Out of the total 122,045 employment created, 61% or 73,919 are female and 39% or 48,126 are male. Product wise categories of investments in the EPZs are as follows (2001-2002):

Product	Investment US$ million	Export US$ million	Employee
1. Garments	138.67	501.78	61,698
2. Textile	130.22	177.09	11,873
3. Terry Towel	19.01	22.99	4,810
4. Footwear & Leather goods	45.33	33.23	5,084
5. Knitting & other Textile Products	41.78	115.78	16,887
6. Electronic & Electric Goods	28.25	23.42	1,992
7. Garments Accessories	22.26	14.93	1,403
8. Metal Product	22.86	8.29	435
9. Plastic Goods	10.96	13.01	1,233
10. Caps	27.45	80.83	9,288
11. Tent	8.35	51.29	3,888
12. Paper Product	0.76	1.07	223
13. Fishing Reel & Golf Equipment	30.21	15.02	830
14. Rope	4.23	2.85	277
15. Miscellaneous	16.65	15.46	2,227
Total	536.747	1,077.20	122,045

Source : BEPZA

3.12 Although at one time EPZ's were dismissed by certain quarters as international sweatshops of no material benefit to the national economy. views have since changed. To-day it seems that leaving aside some lumpy investments in chemical plant (e.g. KAFCO) or energy sector (IPPs and oil/gas exploration) mentionable FDI is coming mainly to EPZs. Famous brand names like, Nike, Reebok, J.C. Penny, Walmart , K-Mart, Adidas, Falcon, Mother Care, Konika, Minolta, Sony, Nissan, Mitsubishi, Hino, etc. have so far come to the EPZ's in Bangladesh. But their investment levels and technological significance of the products are not yet particularly impressive.

3.13 The types of usually footloose investments that have come to EPZ's include amongst the 174 enterprises are Garments (23.56%), Textiles (9.77%), Terry Towel (8.62%), Knitting & Textile Products (8.62%), Garments Accessories (7.47%), Caps (4.60%), Tent (2.30%), Footwear & Leather Goods (8.05%), Electronic Goods (6.32%), Metal Products (4.60%), Plastic Goods (5.17%), Paper Products (1.15%), Fishing Reel (0.57%), Ropes (1.15%) and Miscellaneous (8.05%). Annual export exceeding one billion US $ and cumulative export of about six and quarter billion dollars from these relatively light industries with investment of little over half a billion dollar is not a mean performance. It would have been interesting to see how the position would have improved if the private sector KEPZ (Korean EPZ) could start to function. It was planned to bring in over one billion US dollars and create over 100,000 jobs. Having imitated activities with permission from Prime Minister's Office in August, 1995 and having come under the legal framework with the Bangladesh Private EPZ Act, 1996, the sponsors Messrs Youngones acquired 2768.49 acres of land after full payment but they are yet to get the necessary License under that legislation to enable these to start functioning. Such is the facilitating role of the Government to promote the private sector industrialization. It is worthwhile mentioning have that while net FDI inflow in 2002 declined by 61%, it increased by 15% in the EPZ's. The KEPZ would have so easily helped to realize the target of BOI to woo $ 1.0 billion by 2006, but the system does not seem to be interested in that. Regulators world appear to be more concerned with the details of methods and not the results.

3.14 Bangladesh also failed to capture fully the opportunity of private participation in manufacturing, energy, telecommunications, transport and other utility services that could increase the flow of FDI exceeding far the limited investments realized so far in power generation, hydrocarbon exploration, mobile telephones, fertilizer, cement and the like. The total FDI inflow to Bangladesh has not been spectacular despite allowing very liberal terms for foreign investments. In practice Bangladesh has been extremely slow to break the state owned monopolies whereas many other countries, though quite conservative initially, promoted vigorously private participation even in strategic sector and were able to induce substantial FDI inflows. A World Bank study claimed that during 1991-2000, FDI inflow to Bangladesh was only US $ 1.30 billion handicapped by a variety of practical constraints including poor infrastructure services. It quoted the follow cross country comparison:

Cross-country Comparison of FDI Flows

(US $ Million)

Country	1991-96	1997-2000	Share of Gross Fixed Capital Formation (%) 1999
Bangladesh	630	680	3.2
India	6,605	10,700	2.4
Nepal	46	52	0.4
Pakistan	2,766	2,059	6.5
Srilanka	708	1,035	4.1
Cambodia	601	613	22.2
Vietnam	4,779	9,200	n/a
Philippines	6,487	5,200	5.1
Thailand	11,700	14,700	13.7
China	152.913	169,100	11.3

Source : World Bank

4.0 Some Related Issues

4.1 <u>Macroeconomic Management</u> – It has been mentioned earlier that having a well-written industrial policy alone cannot accelerate investments and industrialization; a host of other policies and actions have to be concurrently right and supportive of the industrialization processes. Within the limited scope of these discussions, only a few of them will be referred to briefly in the following paragraphs. Most important of these relate to economic growth performance and macroeconomic management. During the 1990's growth rate was much better than in the previous decade and from 1991-92 to 2000-2001, the annual compounded growth rate of 4.96%, inspite of some natural calamities including the massive floods of 1998-99, should be considered as satisfactory. Looking at the most recent picture, inspite of severe external and fiscal pressures GDP growth rate was 5.2% in FY 2001 (July 2000 to June 2001) compared to 5.9% of the previous your. Inflation declined to 1.6% from 3.9% of the previous year. Revenue collection improved yet the budget deficit excluding grants remained 5.5% of the GDP in FY 2001 compared to 6.1% of the FY 2000. Though exports increased from 12.2% of the GDP to 13.8% in FY 2001, the current account deficit increased form 0.7% of the GDP in FY 2000 to 2.2% in FY 2001 (these two are Bangladesh Bank figures. Ministry of Finance Economic Evaluation 2002 quotes these figures to be respectively as 0.0% and 1.7%). Due to slight fall in workers' remittances from US$ 1949.32 million in FY 2000 to US $ 1882.10 million in FY 2001 and increase of imports from US $ 8374 million to US $ 9335 million over the same period, foreign exchange reserve had declined to US $ 1307 million (1.7 months of imports) in FY 2001. Due to some pragmatic decision of the government including vigorous campaigning to route foreign remittances through official channels, remittances increased to US $ 2501.13 million in FY 2002 while imports dipped to US $ 7697 million, resulting the foreign exchange reserve to increase to US $ 1583 million in FY 2002 Oaring to continued increase in workers' remittances, and aid infusion from the World Bank, the F.E. reserve stood at $ 2.37 billion at the close of FY 2003. In order to ensure macroeconomic stability which is a fundamental condition for including foreign investment, it is necessary to maintain a sustainable fiscal framework by emphasizing increase in mobilization of domestic resources, reducing unproductive expenditures, increasing efficiency of foreign aid utilization and cutting down losses of State Owned Enterprises (SOE's). Closing down the behemoth of Adamjee Jute Mills, pruning the size of Annual Development Programme (ADP), drives for increased revenue collection etc. are some of he positive actions taken by the government to rein in the economy.

4.2 The matter of domestic savings and investments are directly related to macroeconomic management and industrial investments. The gross domestic savings during the last 3 years remained static at 17.9% of the GDP and gross domestic investments also hovered around 23% of the GDP which is not conducive to accelerated industrialization. Again a disturbing feature of investment is that private sector investments continued to decline from 7.4% to 7.3% and then to 7.1% of the GDP in 1999-2000, 2000-2001 and 2001-2002 respectively while the public sector investments continued to rise from 15.6%, to 15.9% and on to 16.1% of the GDP over the same period. This is not what should be expected according to the policy of the Government for rolling itself back and alluring the private sector to take on the major role of driving the economy.

4.3 In the context of savings and investments how Bangladesh fared compared to other countries in the region during the decades of 1980-90 and 1990-2000 may be seen at Annex - 5 which is self explanatory. It is noteworthy that Bangladesh has been able to reduce by almost half the savings-investment gap from 1980s to 1990s which is proportionately a much better performance than other countries in South Asia, but as a proportion of the GDP, the-gross domestic investment, though improved, is not that impressive. Yet this is creditable for the democratically elected governments beginning with 1991 general election, and this is an example that belies the popular notion that autocratic regimes favour speedy development as in South Korea, Singapore, Taiwan and others. It is further creditable that inspite of some ups and downs, macroeconomic fundamentals remained favorable. While pulling back the economy from quite a difficult situation faced in 2001 has been praiseworthy, the signs are not clear about preparations for facing the apprehended disasters beginning with 2005 when all preferential treatments in international trade will disappear.

4.4 <u>Import and Export Policy</u> – It is needless to emphasize the need of stability in import and export policies to enable the traders and industrial investors to take forward looking business decisions. Recognizing the importance of this matter, Government had increased the duration of the import and export policies from two years to five years and accordingly in July 1998, published the Import Policy Order 1997-2002 and Export Policy 1997-2002 Efforts were made in the Import Policy Order (IPO), to make the import policy more liberal by relaxing or rescinding a number of regulatory measures of the previous policy, allowing import of capital machinery and industrial raw materials on consignment basis without the cover of Latter of Credit, making provisions for quality control for protecting the interest of the consumers, permitting import of second hand and reconditioned machinery under certain conditions and the like. Similarly the Export Policy recognized the need for operation within the imperatives and opportunities of the market economy with a view to maximizing export growth and narrowing down the gaps between import payment and export earning. It also recognized the need for diversifying exports, aiming for higher value addition and higher quality of exportable products ensuring improved productivity and competitiveness, identifying thrust sectors of exports and so on.

4.5 The main objectives of the Import Policy has been stated to be -

(a) "to make the Import Policy compatible with the changes in the world market that have occurred as a result of introduction of the market economy and signing of the GATT agreement.
(b) to simplify the procedures for import of capital machinery and industrial raw materials with a view to promoting exports, and
(c) to ensure growth of the indigenous industry and availability of high quality goods to the consumers at a reasonable price."

4.6 The principal objectives of the Export Policy on the other hand, have been stated to be -

- "to achieve optimum national growth through increase of exports to regional and international markets;
- to narrow down the gap between the country's export earning and import payment through achievement of the export targets;
- To undertake timely steps for production of exportable goods at competitive price with a view to expand and strengthen the existing markets and making in-roads into new markets;
- to take the highest advantage of entering into the post Uruguay liberalized and globalized international market;
- to make our exportable items more attractive to the market through product diversification and quality improvement;
- to establish backward linkage industries and services with a view to use more indigenous raw materials, expand the product base and identify and export higher value added products;
- to simplify export procedures and to rationalize and strengthen export incentives;
- to develop an export infrastructure;
- to develop trained human resources in the export sector;
- to raise the quality and grading of export products upto internationally acceptable levels."

4.7 Although the Import Policy Order 1997-2002 was valid from 14.06.1998 to 30.06.2002 and Export Policy valid from 01.07.1998 to 30.06.2002, both had provisions for review and changes. There have been some amendments and changes, particularly through issue of the S.R.O's (Special Regulatory Orders) from time to time, they were regarding matters of details, and did not materially affect the avowed stability of policy regimes of 5 years duration. Although exports from Bangladesh was maintaining a reasonable trend of growth the annual increase from FY 2000 to FY 2001 being 12.43%, it declined by 7.44% in FY 2002 (Vide Annex-6). The longer term compound rate of growth from FY 98 to FY 2001 in nominal dollars was 7.81% per annum, the rate dropping to 3.23% per annum calculated from FY 98 to FY 02. The decline is attributed mainly to slacking of demand in North America and Europe and drop in prices. About 47.6% of Bangladeshi exports in FY 02 was destined for EU countries and 39.0% for NAFTA, followed by 4.1% for ASEAN, 3.8% OIC 2.1% ACU, 1.6% OPEC and 1.5% SAARC group of countries. RMG and knitwears comprising of nearly three-fourths of the exports were actually 13.7% higher in volume in FY 02 compared to FY 01, but 5.7% lower in value due to decrease in demand and fall of price. Frozen food accounting for 5% of total exports was 15.2% higher in volume but 23.9% lower in value. Though jute goods and agricultural products fared better but their weightages in total export being small, less than 4.5%, the improvement did not have much effect in offsetting the decline. Rather this was accentuated slightly by leather exports which suffered both in volume and value due to weak market demands.

4.8 Import position of the recent times may be seen at Annex-7. The import value which was US $ 6772 million in FY 98 had gradually increased to US $ 8430 million in FY 2001, registering a compound rate of growth of 7.57% per annum, but from FY 2001 to FY 2002 it dropped by 8.7%. The import decline is attributable mainly to lowering of exports like RMG which was highly import dependent. But other factors also like imposition of regulatory duties, mandatory margins and tightened fiscal and monetary policy caused some dampening of imports. While import of raw materials and consumer goods declined, some increase in the import of capital goods and machinery indicated improvement in investment outlook. A major feature was, however, 46.70% drop in import of foodgrains from US $ 349 million to US $ 186 million due to increased domestic production. Sugar import dropped by 50%, other significant declines being milk and cream by 4.8%, spices by 13.3%, coconut oil by 16.7%, cement by 86.4%, crude oil by 11.4%, POL by 15.0%, fertilizer by 17.1%, cotton by 13.3%, yarn by 12.1%, textile products by 17.7%, iron, steel and other base metals by 11.0% and so on. Industrial inputs and intermediate goods comprising about 41% of total import declined by 13.4%. On the other hand, edible oil imports increased by 15.1%, oil seeds by 12.5% pharmaceutical products by 18.2% and capital goods by 4.1%. The share of capital goods increased from 26.94% of total imports in FY 2001 to 30.64% in FY 2002.

4.9 Export base of Bangladesh continues to remain narrow, 76.58% of exports in FY 2002 being on account of only one product group, namely readymade garments, knitwear and hosiery. Although for knitwears and hosiery 75-80% of raw materials are produced within the country, for woven apparels, nearly 80% of fabrics and accessories have to be imported. All the talks about establishing domestic backward linkages have not yielded much significant action due lack of initiative as well as to capital shortages. With the phasing out of the MFA (Multi-Fibre Arrangements) and tightening up of many non-tariff and para-tariff barriers like TBT (Technical Barriers of Trade), SPS (Sanitary and Phytosanitary Standards) after 2004 the vulnerability of Bangladesh exports may increase manifold. Already exports started slipping as observed earlier due to the continuing recession in the major markets and drop in prices. At the same time local industries have been groaning due to import liberalization, smuggling and sometimes due to unfavorable real effective exchange rate. Recently Government adopted the policy of floating exchange rate that seems to be bringing some sanity in the currency market. But there seems to be no signs yet about the huge preparations needed for improving the quality, productivity and competitiveness of local products in order to survive when all preferential treatments will disappear. True, Government has been pleading for duty free and quota free access to various markets but there are no plans and actions visible for modifying production technologies, re-tooling of factories, vigorous upgradation of production, management and marketing skills required to make necessary quantum jumps in improving productivity, and quality to be competitive in the fierce battles in open and globalized markets. Meticulously drawn up plans and action programmes as well as large financial supports will be needed. This may not be coming from foreign partners and investors while they continue to consider Bangladesh environment not yet hospitable enough inspite of all concession offered to them encourage FDI inflow.

4.10 Quantitative Restrictions (QRs) imposed on imports either fully banning or restricting imports of certain goods due to religious, social, cultural, environmental or health reasons as well as for trade related reasons for protedion of domestic industries are considered as non-tariff barriers. These are practically dismantled in Bangladesh. For 1999-2000, total QRs were only 11.7% of all HS 8-digit levels. The total banned or restricted items (1239 items at HS 4-digit levels) declined from 15.5% in IPO 1991-93 to 9.8% in IPO 1997-2002. Trade related controlled items also declined at HS 4-digit level from 6.4% in IPO 1991-93 to 2.2% in IPO 1997-2002 (Source BIDS Study on Trade Cooperation and Economic Policy Reform in South Asia, draft presuted on March 30, 2003). Documentary requirements for imports, exclusive or designated import rights by TCB (Trading Corporation of Bangladesh), mandatory use of Bangladesh flag vessels or other shipping restrictions (like of which caused a lot ot furore practically stopping all imports and exports for some days in May-June, 2003) are also examples of non-tariff barriers. Though import licenses are no longer required for any import, for imports in excess of US $ 5000 prior permission is needed. All industrial consumers and commercial importers are required to be registered with the CCIE, and in addition to a documentary credit (L/C), a private importer requires IRC (Import Registration Certificate), as an exporter requires on ERC (Export Registration Certificate), besides several other documents like trade licence, membership of a trade association and the like. A World Bank Study of 2002 indicates that long waits are involved in obtaining registration certificates and high levels of bribery are involved (85% of import permit fee, twice the export authorization fee) and in case of letter of credit and duty draw back permits, bribe levels go up to 161%-192% of established fees. Restrictions on exports are very few.

4.11 Government continued to pursue the policy of trade liberalization and how it led to the import tariff changes for different broad classes of goods from FY 1997-98 to FY 2001-2002 may be seen at Annex-8. In FY 2003 budget the highest rate of import duty was brought down from 37.5% to 32.5%, in FY 04 budget (2003-04) it has been proposed to reduce the highest rate farther to 30%, and opt for 4-tier of duty structure, namely, 7.5%, 10% 20% and 30% while zero tariff for certain commodities will also continue. Other tariff measures such as SD (Supplementary Duty). AIT (Advance Income Tax) and IDSC (Infrastructures Development Surcharges) were proposed to be streamlined, while tax base was proposed to be broadened by increasing reliance on direct taxes as well as value added tax (VAT). Earlier there were 31 slabs for SD ranging from 2.5% to 270% but in the FY 03 budget, out of 170 category of goods, SD was withdrawn from 120 category and only 5 slabs were established, namely, 10%, 20%, 30%, 50% and 60%. In FY 04 budget the 5 slabs were restructured to 15%, 25%, 40%, 50% and 75%. License fee of 2.5% was proposed to be withdrawn from all types of imports and many changes were proposed in VAT structure, reducing its 9 truncated base to only 3. Corporate rate of income tax for readymade garments industries was brought down from 30% to 10% until June 30, 2006. Philosophy of increasing self-reliance in national development was proposed by increasing Tax/GDP ratio and Tax/Revenue ratio. Tax holiday which was proposed to be abolished at one time was decided to be continued for industrial undertakings having only normal financial and commercial transactions with their associate enterprises. Some measures were proposed to reduce the cost some grades of fuel and many fiscal measures were proposed with a view to supporting export diversification and promoting import substitution. Net budget deficit for FY 2003-04 was projected to be contained at 4.8% of GDP, proposed to be met by 2.0% net domestic borrowing and 2.8% net foreign financing of which 0.8% is hoped to be grants.

5.0 Degree of Openness of the Economy

5.1 A vast number of businessmen, industrialists, academicians and other seem to be of the opinion that Bangladesh opted for too much liberalization too soon and ignored the emerging view that globalization has not been helping poor developing nations. Hundreds of our industries are suffering and are practically on the verge of collapse due to their inability to compete with price and quality of even the duty-paid imported goods, not to speak of the smuggled merchandises. Cheaper Indian, Chinese, Thai, Indonesian or Korean consumer goods including both consumer durables and non-durables are trying to push the local manufacturers out of the market. On the other hand one should consider that integration with the world and economy being inevitable, liberalization has actually prompted the industries to try to be efficient. Habituated to work behind protective walls, they were ignoring the writings on the wall and neglected to reorganize themselves to be competitive. However, during the transition phase supports required from the Government, particularly finances for re-orientation have not been adequately available. Although for many household necessities and consumer goods like cosmetics, soaps and detergents, toothpastes, biscuits, noodles, chanachurs, potato crackers, edible oil etc. local manufacturers have been rallying marvelously bringing about changes in their product (fragrance, colour, packaging etc.) and adopting innovative marketing and advertising techniques to compete with the foreign invasion of products through the open doors of liberalization. In pharmaceuticals, porcelain products, ladies wear (whether sari, salwarkamiz or exclusive fashion products), our manufacturers are doing quite well. In other types of goods like bi-cycles, electric fans, electric lamps, electrical distribution and house wiring materials, medium wave radio, water pumps etc. Bangladeshi products have just started improving their market shares, though in products like refrigerators, deep freezes, air conditioners, consumer electronics etc. they may yet take a long time to catch up.

5.2 It would appear that import policies in the past provided high Nominal Protection while the Effective Protection Rate (EPR), measuring the net assistance per unit of value added provided by the import policy was not high enough. This might be one of the root causes that led to low productivity, poor efficiency and weak competitiveness. Thus in order to give the right signals to the industries appropriate changes in the trade policy framework are to be brought about by analytically examining the actual position and suggesting what is required to be done for fulfilling the Government objectives about different products or sectors. The Tariff Commission under the Ministry of Commerce is supposed to have the manpower and expertise for calculating the EPRs product by product. It is not known to what extent this expertise is used by the Internal Resources Division/NBR under the Ministry of Finance in developing nationally beneficial policies to boost industrial production and exports as against the immediate interest of maximizing revenue generation. A BIDS Study observes that “EPR for highly export oriented firms are considerably lower than those for non-exported firms”. The manufacturing textiles (ISIC-17), wearing apparel, leather processing (ISIC-19), food and beverages (ISIC-15), dressing and dyeing of fur (ISIC-18), rubber and plastic products (ISIC-25) etc. receive relatively little effective protection and have in fact anti-export bias (source: a Bangladesh Tariff Commission estimate of 2001). The results indicate inconsistencies between export promotion and domestic protection policies. The reason that RMG and some other exportables thrived are due to their being insulated from the tariff regime by import restrictions and export promotion measures like the special bonded warehouse scheme, duty draw back facility (though very inefficient), EPZs and cash assistance.

5.3 One would expect that due to trade liberalization there should be shrinkage or contraction effect on import substituting industries. But instead, the overall quantum index of production between 1995/96 and 2000/01 increased at the compound rate of 5.46% per annum. However certain import substituting products like sugar, edible oil, paper, safety matches, iron and steel etc. did actually suffer contraction. The World Bank report of 1999 observed that most manufacturing industries registered expansion according to QIP and out of 57 items, only 18 import substitution industries accounting for only 17% of the medium and large manufacturing sub-sectors suffered contraction.

5.4 to augment both, leading to enhancement of the share of external trade (aggregate of import and export) in GDP. For measurement of the degree of openness of the economy, three indicators are used, namely, Export Propensity, Import Penetration and Trade Ratio. Ratio of export of goods and services to GDP indicates Export Propensity; percentage of imports of goods and services to domestic demand (measured as GDP plus trade surplus or deficit) is taken as Import Penetration; Trade Ratio is the ratio of the sum of exports of goods and services plus imports of goods and services to GDP. The BIDS Study on Trade Cooperation and Economic Policy Reform in South Asia (TRACE) of March, 2003 calculated the above three parameters for Bangladesh, Pakistan, Sri Lanka and India which is quoted at Annex-9.

5.5 It will be seen from the said table that the external Trade Ratios of Bangladesh, Sri Lanka and India increased from 26.7%, 68.2% and 15.7% in 1990 to respectively 42.1%, 88.8% and 19.4% in 2000, though in case of India, the peak increase of 23.9% in 1998 dropped slightly in 1999, and then rose to 19.41% in 2000. On the other hand, the Trade Ratio of 35.1% of Pakistan in 1990 remained more or less stagnant over the decade. In 1990, Sri Lankan economy was the most open (68.2%), the Indian the least (15.7%), Bangladesh being better than India at 26.7%. All throughout the decade Sri Lanka maintained its lead and was 88.8% in 2000, India being still the least open at 19.41%. Bangladesh at 42.1% was quite ahead of India and Pakistan. It is interesting to note that the export growth as proportion of GDP was much faster for Bangladesh, the increase over the decade being 2.11 times compared to 1.09 of Pakistan, 1.29 of Sri Lanka and 1.57 (1998 figure) of India. Improving openness of trade and giving attention to capturing the potentials of intra-regional trade within the SAARC group of countries (which is at present only 4% of their global trade) could bring immense benefit to all in the region as happened in case of NAFTA, ASEAN, EU and MERCOSUR groups of countries.

6.0 Roadmap to Alleviation of Poverty and Enhancing Prosperity

6.1 The publication titled “A National Strategy for Economic Growth, Poverty Reduction and Social Development” of March, 2003 of the Government of Bangladesh, which is otherwise also known as Poverty Reduction Strategy Paper (PRSP), sets out the medium-term macroeconomic framework indicating financing needs and public resource provision to achieve the desired growth rates that would support the five measures envisaged for long-term poverty reduction and social development objectives. These are, —

(i) pro-poor economic growth for increasing income and employment of the poor;
(ii) human development of the poor for raising their capability through education, health, nutrition and social interventions;
(iii) women’s advancement and closing of gender gaps in development;
(iv) social safety nets for the poor against anticipated and unanticipated income/consumption shocks through targeted and other efforts; and
(v) participatory governance for enhancing the voice of the poor and improving non-material dimensions of well-being including security, power and social inclusion by improving the performance of anti-poverty institutions and removing institutional hurdles to social motility”.

6.2 The PRSP aims at increasing the real GDP growth rate from 5.2% of FY 2003 to 6.5% in FY 2006, Revenue/GDP ratio would rise from 10.6% in FY 2003 to 11.9% in FY 06, and the corresponding TAX/GDP ratio from 8.3% to 9.7% over the same period. Inflation will be contained under 4%, and savings as well as investment will be increased to materialize the targeted GDP growth rate. The summary of the key indicators of the envisaged medium-term macroeconomic framework may to seen at Annex-10.

6.3 An essential ingredient of the perceived growth is to make "the rural non-farm sector as the leading sector of Bangladesh's rural economy". At the same time "for sustained growth and poverty reduction, the Government would pursue a globally competitive industrialization strategy dictated by the dynamic comparative advantage of the country. This means an employment intensive industrialization based on competitiveness with emphasis on Small and Medium Enterprises (SMEs) and export oriented industries". More elaborate narration about non-farm and manufacturing growths may be seen at Annex-11.

6.4 Bangladesh is one of the 189 nations which are committed to the Millennium Development Goals (MDGs) of the United Nations. Out of the 8 major goals to be achieved by 2015, the foremost is to reduce by half from 2000 level the number of people who live with less than one dollar a day and also reduce by half the number of those who are afflicted by extreme poverty and hunger. Hence the importance of pursuing seriously the strategies and targets of the PRSP. No doubt the poor will require targeted interventions and safety net provisions, but most important need would be accelerated economic growth of the country. In case of Bangladesh, a priority will be to break the inertia of near stagnancy in industrial growth and for maximizing wealth creation, exports and employment generation, simultaneous development of small and medium enterprises, cottage industries as well as micro-enterprises. As the vast majority of the people including the bulk of the poor live in rural areas, there is urgent need for expansion of the microcredit operations for much wider development of micro enterprises helping the poor loanees to graduate from the subsistence level to the growth path. Creating wider employment opportunities for the poor including the hard-core poor, will increase their purchasing power to support rural and cottage industries which will in turn provide the foundation for development of small and medium size industries. At present over 95% of existing industries can be classified as SMEs according to the new proposed definitions. Hence the future of Bangladesh industrial development depends largely on development of SMEs which are at present languishing.

6.5 Resource allocation for widespread SME development including promoting industries for competitive exports ought to be given high priority. UNDP estimates that to achieve the millennium goals, the current ODA (Official Development Assistance) of \$ 50 billion will have to be almost doubled to between \$ 96 billion and \$ 116 billion. Unfortunately Millennium Declaration did not set any target for aid. Out of the countries who had agreed in 1970 UN General Assembly to give 0.7% of their GNP as aid, 28 of the important OECD members gave in total only 0.33% of their GNP in 1999, which dropped to 0.22% in 2000. USA the largest economy of the world gave in 2000 only \$ 9955 million as aid which was 0.1% of their GNP. Japan the second largest economy gave more, which amounted to \$ 13508 million or 0.31% of their GNP in 2000. What all the donor countries will be required to provide to attain MDG targets will meen increasing their aggregate contribution from 0.22% of GNP to 0.50%, the prospects of which do not look to be bright. In announcing the Millennium Challenge Account (MCA) in March, 2003, President Bush had promised to increase the core US development assistance by \$ 5 billion, a 50% increase over the next three years but this will be available only to projects in nations "that invest in their people, and encourage economic freedom". To qualify for MCA funding, each MCA candidate will need to encourage economic freedom through good macroeconomic governance, an efficient regulatory system, an open trade regime and a healthy climate for business investment. Obviously these are very potent prescriptions, and in all their wide ramifications, all kinds of conceiveable reforms and improvements will have to be instituted on physical, financial, social, economic, administrative and judicial systems and governance which is not an easy task.

7.0 Road Blocks to Industrialization and SME Development

7.1 During the last 5 years (FY 1998-99 to FY 2002-03), the contribution of manufacturing industries at the current market prices has been reported by the economic evaluation report of the Ministry of Finance to be as follows:

Manufacturing Industries Contribution to GDP
(current market prices)

(Taka Crores)

Class of Manufacturing	1998-98	1999-00	2000-01	2001-02	2002-03 (Provisional)
Large & Medium Industries	23527 (71.76%)	24939 (71.59%)	27340 (71.50%)	29596 (70.80%)	32558 (70.40%)
Small Industries	9256 (28.24%))	9898 (28.41%)	10894 (28.50%)	12209 (29.20%)	13580 (29.60%)
Total	32786 (100%)	34827 (100%)	38234 (100%)	41805 (100%)	46238 (100%)

Source: Bangladesh Arthonaitik Samiksha, 2003, Ministry of Finance

It would appear that during the last half a decade, contribution of large and medium industries has remained almost constant at approximately 70%, while that of the small industries at 30%.

The proposed new definition of the large industries being those requiring investments of Tk. 50 crores and above, one may safely assume that most of the total manufacturing sector to-day would fall under medium and small industries category. Hence in case of Bangladesh problems of SMEs and those of large industries need not be looked at separately.

7.2 It may be seen from the following that the growth rates of the manufacturing industries at constant prices from 1999-00 to 2002-03, have not been encouraging, the growth in 1998-99 being much lower than the average probably due to the disastrous floods at that time. Though the vulnerability of small industries is more than that of the others, yet the small industries growth showed some acceleration from FY 2000-01 to FY 2002-03.

Growth Rates of Manufacturing Industries at Const. 1995-96 Prices

Year	Large & Medium Industries	Small Industries	Total Mfg. Industries
1998-99	4.19	0.75	3.19
1999-00	4.35	5.80	4.76
2000-01	6.55	7.02	6.68
2001-02	4.60	7.69	5.48
2002-03 (Provisional)	6.04	8.01	6.62

Source: Bangladesh Arthonitik Samiksha, 2003, Ministry of Finance.

Statistical information is not available separately for the so-called SME sector. However for the purpose of the present discussions, the behavior of the whole industries sector can be taken as a safe proxy for the SMEs along with the observation that smaller industries seem to have greater dynamism and hence higher growth potential, thus deserving greater attention.

7.3 In Bangladesh economy, the agricultural sector has been doing very well inspite of the natural hazards, the services sector has maintained a robust growth trend, but why the manufacturing industry is not moving well has been a matter of concern for the economists, researchers and national leaders. Lots of studies have been made and lots of seminars and workshops have been held to identify why industrial investments are not taking place as desired, why very little FDI is flowing into the country outside the EPZs and why the private sector which is supposed to be the driving force of the economy is limping. Repetition of all the findings and conclusions of those studies is apt to be boring for any reader. Even then, to suggest what needs to be done to improve the situation, one must know the basic problems. There are both economic and non-economic factors which are acting as constraints to industrial investments and it seems that under the prevailing conditions of Bangladesh, non-economic factors have become more formidable and difficult to deal with. Theoretically the following traditional variables may by summarized as the determinants of investments, —

- GDP growth rates and macroeconomic stability
- Availability of domestic credit
- Net foreign direct investment inflows
- Terms of trade
- Real effective exchange rate
- Lending rates

On the other hand, non-economic factors that should be obtainable to permit investments and assist acceleration of growth rates may be taken as follows, —

- Reasonable political and social system
- Efficient bureaucracy and good governance
- Low corruption
- Efficient law enforcement
- Optimal regulation

7.4 Under the patronage of FBCCI (Federation of Bangladesh Cambers of Commerce and Industry) an opinion survey was carried out in 1996 interviewing a large number of industrial enterprises and businessmen of different classes to find out the constraints they experienced in real life for industrial growth and investments. The results were later published informally under the title “In Search of Enabling Environment” for discussions in a workshop which was attended, among others, by the then Minister for Commerce and Industries. 79 recommendations were listed relating to the following issues for removal of the bottlenecks therein which seem to hold good even today, —

(i)	Regulatory Reforms	-	10
(ii)	Collaboration between the Government and the Private Sector	-	6
(iii)	Industrial Credit Policies	-	20
(iv)	Legal Framework		9
(v)	Customs Clearance	-	9
(vi)	Work of the Promotional Agencies	-	4
(vii)	Law and Order	-	6
(viii)	Labour Relations	-	5
(ix)	Problems regarding Power Sector	-	10
	Total Recommendations	-	79

When asked to cite the three most urgent issues in order of priority, the respondents had named the following with which the discussants in the workshop fully agreed, -

Priority one	:	Industrial Credit
Priority two	:	Power Supply
Priority three	:	Administrative Reforms

7.5 The working paper for the aforementioned workshop on In Search of Enabling Environment had made in 1996 the following rather interesting observations which, it was good to know that, was taken note of while drafting the Industrial Policy, 1999 by the Ministry of Industries, —

"A priority agenda for the Government is poverty alleviation and social welfare, which is not possible without rapid economic growth. The Private Sector on which the major burden of creation of wealth for the nation has now been transferred is also equally interested in poverty alleviation and economic growth as without increasing the purchasing power of the poor masses neither its agriculture nor industrial produce will sell. The present generation private sector entrepreneurs in Bangladesh are well educated, hard working, capable and eager to face the challenges of a globalized competitive market. They have proven their mettle in all sectors when they had opportunities to work with freedom and where Government played the role more of a facilitator than a controller. The booming industries of readymade garments, knitwear, shrimps, leather etc. are clear indicators of the latent capability of the private sector and they also act as pointers to what the Government should do in capturing these potentials".

7.6 Nick Stern of the World Bank, in his publication titled "A Strategy for Development" (World Bank, 2002), describes Investment Climate as the "policy, institutional and behavioral environment, both present and expected, that influences the returns, and risks associated with investment".

"Investment climate conditions may be classified into three broad categories, (a) macroeconomic conditions, (b) governance and (c) infrastructure. Macroeconomic factors include fiscal, monetary, exchange rate policies and political stability. Governance covers issues like regulatory matters that affect the costs of starting and running a business, such as the efficiency and transparency of taxation or regulations concerning the environment, safety, health and other legitimate public interests. Some degree of regulation is no doubt necessary. But the issue is whether such regulations serve the public interests, are implemented expeditiously without harassment and corruption, and facilitate efficient outcomes. Finally infrastructure refers broadly to the quality and quantity of available physical and financial infrastructure such as power, transport, telecommunications and banking", writes Syed Akhter Mahmood of the World Bank in an article titled "Entrepreneurship, Productivity and Investment Climate: Issues for Bangladesh" (June, 2003).

7.7 What was found by the FBCCI in their survey in 1996 seems to linger on exactly as before as is evident from the assessment of the investment climate in Bangladesh by the World Bank done in collaboration with the Bangladesh Enterprise Institute in June, 2003. Their assessment of 1000 urban enterprises of different sectors found the following problems vitiating the investment climate in Bangladesh, —

Access to infrastructure (more than 70 days, 90 days, 170 days and 270 days respectively for electricity, gas and telephone connections and construction permission); unreliability of electricity supply (requiring additional investment and high operating cost for maintaining captive generation); ports and customs problems; pervasive corruption; over regulation by Government agencies and harassment; acute financing problems; inefficient and unjust court systems; (small and medium size enterprises affected disproportionately more by the prevailing problems); non-availability of qualified manpower. Most respondents did not consider labour issues to be posing serious problems.

7.8 One single issue that affects the cost of doing business most is weak and cumbersome regulatory framework which influences heavily the investment climate. Again referring to the ranking by the Global Competitiveness Report (2002) of the World Economic Forum, it may seen that except the difficulties of hiring and filing of workers, in all other parameters, Bangladesh's ranking among 75-80 countries is very low. Below is shown a comparison of Bangladesh with 5 other selected countries compiled from different sources:

Regulatory Framework Affecting Cost of Doing Business

Parameters	Bangladesh	India	Pakistan	Sri Lanka	China	Indonesia
1. Quality of Contract & Law Enforcement (out of 80 countries)	66	39	--	29	44	68
2. Speed Many Payment in Imports & Exports (out of 75 countries)	75	58	--	63	38	70
3. Difficulty in Hiring & Firming (out of 80 countries)	27	73	--	60	23	53
4. No. of Permits required to Start Business	6	10	--	2	6	5
5. No. of Days to Start a Business	90	90	--	30	30	45
6. Median No. of Days to Clear Imports (Exports)	5 (7)	3 (7)	5 (10)	--	3 (5)	--

Notes: (1), (2) (3) & (4) Global Competitiveness Report, 2002
(5) & (6) World Bank/Institute Public Enterprise Study, 2003

8.0 Perceptions of Good Governance

8.1 Again and again one comes to the questions relating to improvement of the quality of governance to cure the maladies embedded in our economy, polity and society. No Government so far has said that this is not necessary, but regrettably, none has yet demonstrated their commitment or ability to break the traditions and take hard decisions to bring about the major improvements that could radically change the attitude and behavior of the government systems. The implementing machinery does not seem to own up the policy laid down by the higher ups, any duty done is regarded as a favour extended for which return is nedded. Personal interests and partisanship seem to outweigh the national interests. Problems are often compounded by inadequacies of training and intrinsic quality of the personnel, particularly at the mid level. Volumes of studies and recommendations for administrative improvements continue to collect dust, the latest being the PARC (Public Administration Reform Commission) Report and recommendations.

8.2 Governance issues may be looked at from two perspectives. At the lower plain, and of immediate importance to all particularly industrial entrepreneurs and businessmen, is related to the quality of service delivery. Power, gas, telecommunications, port etc. must function efficiently, customs and taxation dealings must be hassle free, schools, hospitals and municipal services must work properly, security of the people and their property must be ensured, people's grievances must be heard and redressed, consumers' interests must be protected. For the entrepreneurs, cost of doing businessmen must be kept low and services must be prompt. On a higher plain, much broader issues like welfare and poverty alleviation, women's and other target group's development, various right based issues, independence of judiciary and quality of legal systems, empowerment of the people, functioning of democracy etc. are matters of consideration. The present UN Secretary General, Kofi Annan stated in 1998, —
"Good governance is perhaps the single most important factor in eradicating poverty and promoting developme nt".

Human Development Report, 2002 states that "Governance for human development is partly about having efficient institutions and rules that promote development by making markets work and ensuring that public services live upto their name. But is also about protecting human rights, promoting wider participation in the institutions and rules that affect people's lives and achieving more equitable economic and social outcomes". It maintains that from human development point of view, good governance is democratic governance. What it means by "democratic governance" is quoted At Annex-12 under the title "Good Governance – For What?"

8.3 As referred to earlier also, President George W. Bush announced in March 2002 at Montrere, Mexico that US development assistance would be increased by 50% in the next 3 years, meaning $ 5 billion annual increase to be kept in a fund called Millennium Challenge Account (MCA), through which US Government wants to support those principles of governance at allow people to pursue their lives in a just, equitable and democratic society. That includes those tools that the countries aspiring to have share in MCA would require to educate their citizens and enable them to take part in opportunities offered by the global economy, as well as to eradicate corruption and ensure respects for human rights and property rights. Most basic issue is that a nation's political systems and institutions should be democratic. Translated into action programmes, MCA eligibility will depend on the following,—

(a) Free and Fair Elections (Bangladesh's track record in good)
(b) Independent Judiciary and Rule of Law (Bangladesh has to progress further by separating judiciary from the executive and improving vastly law an order)
(c) Freedom of Speech and Press (not bad, but there are yet legislations, legal provisions and rules that can be used to curb the freedom).
(d) Fighting Corruption (there are yet no convincing evidence that the tarnished image of Bangladesh can be improved too soon).
(e) Investing in People (Track record and achievement is fair).

8.4 The Human Development Report 2002, dealt at length the issues of governance and attempted to tabulate two types indicators, objective and subjective. Objective indicators include matters relating to election, voter turnout, women's participation in voting and seats in the Parliament, activities of trade unions and NGOs. On the other hand, the subjective indicators of governance are classified under three main heads, namely, democracy, rule of law and government effectiveness and corruption. The enumeration of the subjective indicators (about which the publishers do not claim accuracy) are reproduced for Bangladesh, Pakistan, India and Sri Lanka at Annex –13. Whatever they are worth, the Bangladesh's score is rather depressing compared to other major SAARC countries except in Press Freedom and Polity.

8.5 In its publication called "Bangladesh-Improving Governance for Reducing Poverty" (World Bank, November, 2002) included an insightful statement by Nicholas H. Stern, Chief Economist and Senor Vice-President of the World Bank) which goes as follows
"The governance challenges in Bangladesh are so great that this element of their investment climate merits special attention. Strengthening government institutions and the rule of law will do much to improve the climate for productivity, jobs, and growth. And it will be vital to the delivery of basic services to the poor".
World Bank acknowledges the good performance of Bangladesh in human development such as primary school enrolment, reducing gender disparity in schools, outstanding performance in reduction of infant and child mortality, splendid coverage of immunization, providing safe drinking water, reduction of population growth and so forth inspite of her low income. But the journey in the future is to achieve the Millennium Development Goals, the highest priority in which is to reduce poverty and hunger by half by 2015. So far the rate of reduction of poverty in recent times has been 1% per year, some claim that allowing for the embedded vulnerabilities, this rate of reduction has to be quadrupled. But the essential requirement for achieving that would be to accelerate the economic growth to 7% and for that the country needs rapid industrialization. But industrialization needs investments for which, besides increasing savings and inflow of foreign capital will be needed owing to low domestic capital formation, poor technological capability and inadequate management skills. Hence progress in social development, however, remarkable will have to be supported by economic growth which is not possible without good governance.

8.6 The survey on which the aforesaid publication is based highlights, among other things, two well known issues, —

- "the breakdown of law enforcement- especially corruption in the police and long delays in the courts is the top concern of both rank-and-file citizens and entrepreneurs".
- "a sustained emphasis on improving quality in service delivery in all aspects of government would tie the conduct of the civil servants to a mission that citizens now value more than the service providers themselves",

  It needs no further mention that the goal of industrialization and economic growth depend inexorably on good governance and poverty reduction.

8.7 Government is striving hard to obtain easy market access for Bangladeshi products bilaterally, regionally and internationally. But duty free and quota free accesses will be of no avail if there are not enough merchandises of internationally competitive standards and prices to export. Alongwith the policies for taking the Government out of commercial activities, privatizing state owned enterprises and shifting reliance on to the private sector to lead the economy, the PRSP document stated as follows, —

"The Government is aware of the constraints hindering the growth of the private sector and would implement effective measures to remove the hurdles through effective and coordinated policies and actions. The key areas would be: infrastructure development (e.g. power, telecommunications, roads and ports), strengthened financial and capital markets, quality of the labour force, reduced costs of doing business by reforming institutional and regulatory framework, improved law and order condition and better environment for foreign investment. Specific measures will be worked out in consultation with the private sector" (page 33-34, PRSP document, March, 2003). This seems to be a capsulized statement incorporating almost everything that is required to done to remove the road blocks hindering industrialization.

8.8 The prevailing benchmark position from which reforms and improvements will have to be launched is quite depressing. As was observed earlier, neither domestic investments nor foreign investments are taking place at the rate required for ensuring the targetted growth of the economy. At present both domestic market liberalization and global competitiveness happen to be unsatisfactory. According to the Global Competitiveness Report of the Geneva based World Economic Forum (WEF), the position of Bangladesh in terms of growth competitiveness in 2002 was 74th among 84 countries, down from 71st place in 2001. Ranking of the Public Institutions was about the lowest, having 79th position out of 80 countries. In Macroeconomic Competitive Index (MCI), measured in terms of the sub-indices Company Operation & Strategy Ranking and Quality of National Business Environment, Bangladesh had respectively 76th and 74th position. In Technology Index (innovative sub-indices Information & Communication Technology and Contracts Law), Bangladesh was 79th out of 80 countries (vide the daily Financial Express May 21, 2003). Improving Bangladesh's position in all the mentioned indicators would also require hard decisions and actions on many fronts. Year after year in the past it was observed that various governments demonstrated their appreciation for the prevailing problems, expressed serious wishes to remove the bottlenecks by responding positively to the submissions from the private sector and recommendations by various taskforces, seminars and workshops, but the problems seem to remain as they were. A main reason for this appears to be poor quality of governance and inability of the Government to break the barriers set up by the vested interest groups which is preventing satisfactory implementation of many well-intentioned Government policies.

9.0 Economic Freedom and Competitive Advantage

9.1 Do the local investors and foreign investors look for the same conditions for favorable investment climate? One might say yes, but there are some marked differences between the view points and interests of the two. According to the experts important issues governing the investment climate include generally the following —

- Levels and rates of income tax and corporate tax
- Extent and quality of government interventions including functioning of the regulatory framework
- Monetary policy and inflation rate
- Conditions and quality of banking services
- Wage and price controls
- Property rights and efficiency of the judiciary
- Behavior of the secondary market and black market
- Investment policy including openness to FDI
- Quality of the physical infrastructure and cost of doing business.

9.2 Local investors are captives of the given circumstances to which they are usually conditioned. In any case, most of them know how to get around the barriers. Their main concern is financial viability of the project, and timely availability of finances, their own equity input kept minimum.

Having to work in an unknown territory, the Foreign Investor is concerned about all the above and many other points, and would like to look at them very critically. He is particularly concerned about the image and reputation of the country and about the ease of entry and exit in the business. As most FDIs for industrial investments come through Multi-National Companies (MNCs) who work mostly in borderless globalized market, they have options to go countries and economies where barriers are the minimum.

9.3 As national economies are getting integrated with the international markets, country's industrial productions have to be competitive not only for export but also in the domestic markets. Production under the present golbalized conditions when there are few import restrictions and tariffs are low, is distinctly different from what was prevailing for supply to protected domestic market with little competition. Industrial policy and strategy today have to be necessarily different from those of the past, as the economy cannot rely any more on traditional comparative advantage based on abundant and low cost labour or natural resources. Comparative advantage has to give way to competitive advantage which requires supply of high quality production labour and technological capability. Policies have to be re-oriented towards improving industrial skill and training, labour and managerial competencies and facilitating companies' efforts to upgrade technology. At the same time business environment has to be kept enabling for attracting industrial investments, both domestic and foreign. Industrial Planners have to bear in mind that foreign investment cannot substitute indigenous development and in point of fact, existence of a dynamic and competitive domestic industrial sector is necessary to attract high quality foreign investment. Our past and present industrial policies appear to miss this core issue.

9.4 In the context of correcting our future industrial policy and planning there is a lot to be learnt from the experience of newly industrialized economies of South East and East Asia, the important lessons from which can be summarized as follows —

(a) "Interventions in factor and product markets have to be closely coordinated and integrated; one without the other may be ineffective and even counter productive"
(b) "Distortions introduced by interventions must be offset, protection must be countered by competitive pressures to enter world market".
(c) "Since intervention resources are limited, only a few activities should be supported at any time. Intervening a large number unrelated activities risks waste and failure".
(d) "Since learning is a cumulative, incremented process, interventions must support activities that have a base in existing skills and knowledge. Now technological 'leaps' must be modest, based on realistic assessment of what is feasible within reasonable period of time.

(Quoted for "Industrial Development in a Changing Global Economy" by John Henley and Colin Kirkpatrick)

9.5 There are realities and myths about globalization Unprepared developing nations like Bangladesh have been adversely affected by the disparities caused by globalization, and in the short run, they are losing the race- There is no denying the fact that the shift of world economic structure towards increased globalization of trade, technology and capital flows inevitably influences the other all economic and social development as well as the shape of industry. Under globalization, trade policy will influence industrialization and it has been argued that reduction of trade barriers and opening of the domestic economy to foreign competition will eventually lead to improvement in productivity and efficiency. This will lead to competitiveness, increase of trade and efficient industrial output and increase of wealth and welfare of the people. It is thus obvious that trade and industrial policy have to be integrated and strategies have to be adopted for development of productive factors, skills and supplier systems. These together will create the indigenous industrial capability without which the benefits of globalization process cannot be captured. Failure to do that will have the nation further impoverished. Critics of too much and too early liberalization may note that earlier this process starts, the better, though initially it is apt to cause some pains.

9.6 A World Bank Study of 2002 titled "Globalization, Growth and Poverty: Building an inclusive World Economy" found that increased globalization, defined as trade as percentage of GDP, from the late 1970s to the late 1990s led to higher economic growth. The losers in the age of globalization are the countries that refuse to embrace economic liberalization and the global market. The World Bank analysis found that contrary to the claims of the anti globalization activists, globalization helps the poor as much as the rich. The Heritage Foundation and Wall Street Journal publish annually the Index of Economic Freedom which is a tool for policy makers and investors that provides a systematic, empirical measurement of economic freedom in countries throughout the world. The Index of Economic Freedom published in 2003 measures how well 161 countries score on a List of 50 independent variables divided into 10 broad factors of economic freedom. The higher the score on a factor, the greater the level of Government interference in the economy and the less economic freedom a country enjoys. The said 50 variables are grouped into the following categories (indicated earlier also at para 9.1 of this Chapter),- Trade Policy, Fiscal Burden of Government, Government Intervention in the Economy, Monetary Policy, Capital Flows and Foreign Investment, Banking and Finance, Wages and Prices, Property Rights, Regulation and Black Market.

The 10 scores for these factors are then averaged to give an overall score for economic freedom. Countries are designated "Free", "Mostly Free" "Mostly Unfree" and "Repressed". Countries maintaining policies that promote economic freedom provide an environment which facilitates trade and encourages entrepreneurial activity, which is turn generate economic growth.

9.7 Countries that had best economic freedom in 2003; had the following indices-

Hong Kong- 1, Singapore- 2, Luxemburg- 3, New Zealand- 4, Ireland- 5

Other interesting indices relevant to these discussions are the following-

Taiwan - 27, Thailand - 40, Philippines - 62, Malaysia - 72, Sri Lanka - 80, Pakistan - 99, India - 122, Bangladesh - 119, Nepal - 119, China - 127, Vietnam - 135, Burma - 148, Laos - 154, North Korea - 156.

119th position out of 161 countries may not be so attractive to the foreign investors unless there are authoritative plausible actions to counter these.

(Information on Economic Freedom Published by Heritage Foundation has been downloaded from their website).

9.8 Cross Country indicators and reviews of various descriptions are published by different types of international organizations like World Bank, ADB, UNDP, UNICEF, UNCTAD etc. as well as many non-official organizations like Transparency International, Amnesty International, Heritage Foundation, Economic Intelligence Unit and so on. Often some of them publish unfavorable and exaggerate negative reports or indicators about Bangladesh which tarnish the image of the country to foreign Diplomatic Missions, investors, researchers and others who form unfavorable opinion about Bangladesh. One recalls the uproars created by Transparency International report showing Bangladesh as the most corrupt country of the world. Some protests were heard also about the Human Development Index (HDI) ranking of Bangladesh in the Human Development Report 2003 of UNDP. Besides many foreign media also project uncomplimentary pictures or news about Bangladesh which are widely circulated abroad but remain unknown to us. Authors of such unfriendly reports generally claim that their findings are based on actual surveys or published data, but protests to them from.

9.9 Bangladesh are not supported by any evidence, so they are treated merely as counter-opinions without being given much credence . It is needless to mention that the image of Bangladesh abroad, quite often for undeserving reasons, act as deterrents to foreign investments. Government of Bangladesh is understood to have taken a decision that our diplomatic missions abroad should make targeted efforts to boost Bangladeshi exports. It is hoped that in the process, they would take appropriate actions to meet the business leaders and important Chambers of Commerce & Industries and Trade Related bodies abroad to improve the image of Bangladesh. Wrong perceptions about our political system and corruptions, quality of governance, performance of judicial system, law and order, state of the physical infrastructure, time and cost of doing business, recreational facilities, health services etc. should be tried to be removed.

10.0 Conclusions

10.1 This is an era of international trading bound by WTO Rules. But there will be trading and income only if the country produces tradeable goods while the other side of the coin is that it is no good producing things if they cannot traded or sold. After abolition of all preferential treatments and also dropping of tariff walls, ability of producing quality goods at competitive prices will not be enough. Exporters will have to learn to fight all kinds non-tariff and para-tariff barriers including TBTs & SPSs. Since the policies for industrialization and trading are intertwined, they have to be considered together, one without the other will not serve much useful purpose. The long legacy of having been an import oriented economy and the bulk of the national income being derived from taxes and levies on imports, Bangladesh is still in a half-way house for transiting from an import oriented to an export driven economy. Policy makers, for good reasons, do not yet have the confidence that sufficient revenue for running the country can be generated by merely taxing the income derived from exports and domestic consumption. They cannot, therefore, give up totally their reliance on income from customs duties and levies on imports. True, import duty regime has been simplified and nominal tariff has been considerably lowered, but its effect is thoroughly negated by imposition of Supplementary Duty, Infrastructure Development Surcharge and similar other additional imposts. Value-Added Tax (VAT) could be the most important and rational source of revenue, but being even the pioneer in the sub-continent in introducing VAT, but its administration is yet not very satisfactory and the VAT-net is still not sufficiently spread. The dilemma of the Government for reconciling the conflicts between balancing the national budget and opening up the economy further for rapid industrialization, therefore, persists.

10.2 The star performer of Bangladesh exports is ready made garments. Although it has induced enormous economic benefits by providing large employment to women and generated wide range of services in banking, insurance, shipping, transports etc. it provides very low manufacturing value added and its technology involvement is of very low order. Although the sector is over two decades old, the progress has been minimal in increasing value-addition and upgrading skill and productivity (performance of knitwears in VA increasing is a limited exception). It seems that it is only recently that the concerned people woke up from slumber and realized that 2005 and the end of preferential treatment are knocking at the door. Postulations that led to promulgation of USTDA have been on the anvil for several years, but the industry did not take more than some casual interest about it and did very little to try and preempt the calamities until they actually occurred. Leather is a highly promising sector but who ever bothered about developing its backward linkages like improvement of cattlestock, controlled slaughtering, production and supply of chemicals, production of high quality accessories for leather goods and so on. Similarly pharmaceuticals is also a promising sector, but most of the factories have not yet gone very far beyond bottling, making tablets and capsules with largely imported ingredients. Progress has been minimal towards semi-intensive and intensive cultivation of shrimps, preparing to face the SPS barriers or even to protect the shrimp from being looted from the culture field. No mentionable action has been taken about research and technology development in industries sector. In our industrial policy making and planning, we cannot afford to overlook important details going beyond stating only generalities. Both the industrialists and government are responsible for not addressing timely many basic requirements for sustaining our basic foreign exchange earners.

10.3 It is never too late but we have to recognize clearly that in our industrial policy writing merely what we wish to happen will not automatically lead to growth of efficient industrial manufacturing capability. From the policy of wholesale nationalization and dominant public ownership in 1972 to the latest Industrial Policy, 1999, there have been nearly a dozen or so industrial policy instruments, which served a major purpose of relaxing public ownership and signalling the private sector to take up the leadership for industrial growth. But the private sector does not yet have the "economic freedom" as well as the supporting environment and services they need to flourish. The Ministry of Industries alone is not really able to act alone as the professed facilitator themselves or cause other Ministries and Agencies to do that.

Government performs many promotional and regulatory functions, a good deal of which are inconsequential, anachronistic and unnecessary. Government can easily abolish many of them and delegate operation of some to the appropriate private sector institutions like FBCCI, DCCI, CCCI etc. Experience of such delegation to the BGMEA in case of RMG sector is reported to have yielded good results. But pleas for extension of that process to other private sector institutions as proposed by FBCCI and others have fallen on deaf ears. On the other hand, Government has not yet been able to reduce the hassles at various control points and reduce the pervasive rent seeking.

10.4 One does not know what is the ultimate future of economic liberalism and globalization. But evidences are plenty that the popular notion that through globalization the rich become rich and the poor stay poor in not axiomatically true. The poor also improve their position but at a much slower rate than the rich, hence inequality among nations certainly increase. Western European countries, North America, Australasian were the main countries which were signatories to the General Agreement on Tariffs and Trade (GATT) in 1947 (Japan joined in 1955) and started the process of dismantling trade barriers. These groups, referred to as the 'West' managed to have their per capita income increased fourfold from 1950 to 2001, averaging a growth rate of 2.8% per year. The 'Rest' of the world including the erstwhile communist and socialist countries also grew but at the rate of 2.2% a year, experiencing three times rise in income. Of course income difference between the richest few nations of the west and the poorest ones in Africa has been sharply increasing. On the other hand, the gap between rich and the poor in Asia except Japan, has been narrowing. Hong Kong, Singapore, Taiwan and South Korea, and after 1980, including China and India derived maximum benefits, and the already rich countries in South and South-East Asia increased their income by five folds, Market liberalization and economic growth do increase inequality but since the poor also can improve then position during the process many of them have the possibility of lifting themselves out of the poverty trap.

10.5 In case of Bangladesh, the chief objective being poverty reduction through economic development which is dependent on industrialization and trade, she cannot move in an isolated manner. Hence there is no getting away from economic liberalization and rapid trade development to replace aid. As a member of the world community Bangladesh also opted early to be a signatory to WTO. If the Industrial Policy 1999 is revised to-day, not minimizing the need and importance of what is already contained therein, additional urgent issue ought to be to focus on the nitty-gritty of promoting further those sectors about which our entrepreneurs already have knowledge, experience and expertise, which performed well in the past but which are likely to start losing in competitiveness and trade in the fully globalized syndrome bound by WTO rules. The sectors which provide the building blocks for further all-round growth have already been identified as,-

- RMG & Textiles
- Leather & leather products
- Frozen food & Shrimps
- Agro supporting and agro-processing industries
- Light engineering industries

Added to this has to be the important Information and Communication Technology (ICT) sector for which we have not yet gained the required capacity but have enormous potentials to do so. Policy must ensure that these industries have smooth access to finances, technology acquisition, importing efficient capital machinery needed to improve productivity and quality, upgrading production skill and continuous training, assistance in market access and assurance of infrastructure functioning efficiently. Policy must also address undertaking reforms needed to establish true economic freedom. When there is freedom and when the whole world will be the market, it is hoped that the private sector will seize the opportunity to produce thousands of other products and services on their own to enter the market. One only hopes that future revisions of our industrial policies are reoriented taking into full account of the complexities of international trade and all concerned arms of the Government make unreserved commitments and assist with helping attitude to make the policies work.

10.6 The factors and their nuances that together go to create the enabling environment without which rapid industrialization is not possible are so numerous and diverse that it is extremely difficult to summarize them comprehensively in a limited space. However, from the previous discussions one may highlight a few of the important issues which need special attention while framing industrialization policies and strategies. The following is a sample list.

10.6.1 Government has many competing priorities and limited resources hence it has to decide clearly what is the importance and urgency that will be attached to Industrialization. From macroeconomic considerations, it is recommended that after human resource development, without which no progress will be possible, Industrialization should be given the next highest priority to promote non-farm and manufacturing growth as the inescapable route for economic progress, export acceleration and employment generation required to the attain the Millennium Development Goal for reduction of poverty.

10.6.2 Security for life and property must be ensured at all costs and the rule of law established as a basic requirement. Very firm and concerted action is needed instead of comparing the per capita incidence of crime of other countries with that of Bangladesh under different Governments.

10.6.3 Image of Bangladesh must be improved quickly by making visible moves to reduce corruption substantially through necessary procedural changes (e.g. decentralize procurement power and improving vigilance). Establishment of Independent Anti-Corruption Commission, appointment of much talked about Ombudsman etc. will help.

10.6.4 Maximize quickly economic freedom for entrepreneurs permitting easy entry and exit with minimum of regulation that may be needed for protecting consumers' interests and basic national interests. Government must get off the back of the private sector as much as possible.

10.6.5 Whatever is provided in the Industrial Policy of the Government must be truthfully implemented. This requires clear understanding and commitment of all related Ministries and Agencies of the Government and tailoring the fiscal and monetary policies for supporting the industrialization processes and exports. Silent or articulated concurrence in the Cabinet Meeting and serious commitments to the proposed policies are not the same.

10.6.6 Even counting the assumed Tk. 60,000 croes of black money, there has not been enough savings, capital formation, aid and FDI inflow to support the magnitude of industrial investments required for the industrial sector to account for 25% of the GDP and 20% of employment in the medium term as envisaged in the current Industrial Policy. Country's Capital Market is far from its development needed to earn the confidence of the small investors. During the transition period many industrial financing institutions are needed both in the public and private sectors with sufficient credit lines. Discouraging savings by the public, putting on arbitrary caps for the commercial banks to undertake long-term financing etc. may be counter productive. *All banks and financial institutions need to develop their manpower to acquire adequate competence for quick project appraisal and follow closely the loans* they provide. The envisaged capability has to go far beyond calculating present worth of investments at certain discount rates. The evaluators must have thorough technical knowledge of the sector, technologies involved for production and understanding of the market complexities. For this huge programme is needed for manpower training for which good raw materials are now produced by various universities in the country. Towards this end, good *industrial information infrastructures* have to be established early.

10.6.7 Government needs to invest adequately for improvement of all physical infrastructure both in terms of adequacy of supply and quality of service. At present hindrance to industrialization is encountered in obtaining electrical power connection, natural gas connection, telecommunication services, working of the seaports including rationalizing cost of all these services.

10.6.8 If possible, responsibility of all Ministries and Divisions related to Industrialization (e. g. Industries, Textile, Jute etc.) should be brought under the Ministry of Industries and both the Ministry of Industries and the Ministry of Commerce should be preferably under one Minister. The desirability of keeping industry-related organizations like the Board of Investment, Export Processing Zones Authority or Privatization Commission outside the ambit of the Ministry of Industries merely for notional enhancement of prestige of those organizations also needs review.

10.6.9 To ensure continuous interaction between the Government and the private sector industries, besides the National Committee on Industrial Development, a number of Sectoral Standing Committees under the Ministry of Industries comprised of related agencies of the Government and adequate representation from the private sector should be established without delay. Initially the sectors to be taken up may be <u>Textiles;</u> <u>Leather;</u> <u>Frozen Food;</u> <u>Agro Industries;</u> <u>Light Engineering;</u> <u>Information and Communication Technology.</u> Talks about establishment of a Leather Promotion council seems to be a step in the right direction provided its composition and working is satisfactory.

10.6.10 Special efforts have to be mounted for augmenting FDI inflow in an unreserved manner. It is clear that foreign investors are more interested in economic openness, good governance which permits hassle free and well functioning economic infrastructure as well as keeping the cost of doing business low rather than lucrative terms of investment offered by the host country. Bangladesh is not likely to attain overnight perfection about the above conditions, hence in addition to what the Government is trying to do through its Missions abroad, active assistance of the private sector institutions, (e.g. various chambers and trade associations) also should be enlisted to generate the confidence of the overseas investors. In order to do that, private sector institutions of the country need to be strengthened in many ways towards which Government should contribute in an unreserved manner until they become stronger and self-propelling.

10.7 In considering formulation of future industrial policies actually suited to the formidable complexities of business in the modern times, besides Inter-agency and Inter-Ministerial Coordination and Improvement of related Physical Infrastructure *(Power, Port, Telecommunication and Transport Systems).* Establishment of Good Governance *(focused on Rule of Law, Fighting Corruption, Human Rights & Security, Hassle free Service Delivery by the Bureaucracy)* and marked Improvement in the Quality and Standards of Education and Skill, the following specific issues, *beyond the scope of the present paper,* also have to be addressed adequately, -

(i) Understanding clearly by all concerned the implications of working in a Free Trade regime and ways to capture the opportunities under the WTO Rules to the advantage of Bangladesh, institutional strengthening at all levels across all sectors to develop competence for continuous monitoring the matters of international trade and taking actions for safeguarding the interests of Bangladeshi industries including providing necessary financial and other assistance to the worthwhile domestic industries without fouling up the WTO rules.

(ii) Capital Formation, Capital Market Development, Black Market & Smuggling.

(iii) Institutional Strengthening & Development of Financial Institutions for providing limited equity support, adequate term loans and working capital for the existing and future industries, particularly to the SME's.

(iv) Competition & Merger Issues.

(v) Resolution of the triangular tensions among the interests of Industries, Government and Consumers.

(vi) Taking up Industry-wise specific action programmes needed for improvement of Productivity, Quality and Efficiency, including matters of financial restructuring, modification of production techniques and retooling, training for skill upgradation and the like.

(vii) Providing massive support for Technology Acquisition, Assimilation and Development as well as R&D.

(viii) Building synergy between the Government and the Private Sector Industries and Trade so that they together can fight successfully in the Global War.

10.8 Following presentation of this paper at a seminar held by the DCCI on August 12, 2003 in which the Hon'ble Minister of Commerce was the Chief Guest, the participants widely endorsed the proposals contained in the paper and emphasized the need for adopting new approaches to industrial policy formulation, taking into account the realities of domestic and international trade in the globalized market and adopting specific action programmes to assist the domestic industries to survive in the fierce competition. It was voiced that most entrepreneurs were oblivious of the impacts of the WTO Rules as to how their specific enterprises and sectors would be affected and how to go about them. To face the situation Government should come forward to provide material and technical assistance to the private sector institutions to develop their capacities for educating their members about the implications of the WTO Rules and also to provide feed back to the Government for preparing suitably for international trade negotiations.

Opinion were expressed about the need for establishing institutions for developing Entrepreneurship, Production and Quality Control Skills, collection and distribution of industrial information as well as commencing research culture, capability for preparing bankable project proposals and the like. Emphasis was given to providing specific assistance for developing ICT Sector and the SMEs. The matters of industrial financing, capital market development, improving the capabilities of the financing institutions and providing them suitable credit lines and most importantly, making all-out efforts for removing quickly the deficiencies in power telephone, transport and port services etc. were highlighted. The seminar urged the Government to consider seriously the recommendations submitted in the paper.