

Feature

Development

Industrialisation in Bangladesh: Current Challenges

by Debapriya Bhattacharya

It is well known that industrialisation has a crucial role to play in long term economic development. It is an important source of structural change and diversification, and it can increase flexibility of the economy and reduce dependence on external forces. Industrialisation also provides employment, generates foreign exchange and augments domestic earnings. Moreover, it is the best training ground for skill development and the most effective vehicle for technology transfer. Accordingly, industrial take off is an important component of sustainable economic growth.

Ever since the independence, Bangladesh has been trying to industrialise its economy — quite often under varying policy regimes. Incidentally, the major landmarks in the evolution of industrial policy format were preceded by changes in the country's political regimes. Over the last decade a whole gamut of industrial restructuring policies, involving policies geared to medium term changes in incentive structure and institutional framework as well as short-term management of the macro-economic and sectoral policies, is being implemented in the country. The major objective of the substantial number of on-going policy reforms relates to exposing the industrial investment and production to market forces and, thus developing an industrial structure commensurate with the comparative advantage of the country.

Analysis of the structural features and efficiency parameters of the industrial sector reveals that the reform measures could not infuse the expected level of dynamism in the sector. Industrial value added grew at an annual compound rate of approximately three per cent between 1973 and 1993. The share of manufacturing in GDP is still hovering around 12 per cent. Employment estimates put industrial employment at around three million, i.e. ten per cent of total employment. The fragile nature of the industrial structure is exposed by the fact that, a handful of activities (ten sub-sectors) account for more than 56 per cent of value added and 51 per cent of the employment attributable to the sector. On the other hand, the cottage sector which provides 61 per cent of the manufacturing employment accounts for only 18 per cent of the value added. Despite massive denationalisation, public manufacturing enterprises still account for about 35 per cent of the manufacturing value added and more than 45 per cent of the formal manufacturing employment. The recent averages indicate that total manufacturing investment is to be only 2 per cent of GDP, which is almost equally split between public and private sectors. The average inflow of foreign investment was a meagre \$ 2 mln per annum during the second half of the 1980s. Manufactured exports of Bangladesh constitute less than a quarter of the gross value of manufacturers output indicating the predominant domestic market orientation of the sector.

In recent years, 1990-91, 1991-92 and 1992-93, the industrial growth rates were 5.9 per cent, 7.7 per cent and 8.6 per cent respectively. These improved growth rates were more a result of greater utilisation of existing capacities, than due to enhanced gross capital formation. The growth in manufacturing employment which one notices during the last decade, in the backdrop of stagnating level of value added, is a pointer to declining factor

productivity. The significant growth in non-traditional export industries, was shouldered by a single industry, viz. readymade garments, which fetched \$1318 mln in 1992-93. Within the industrial structure, some dynamism is exhibited by the micro-industries which grew to a large extent, remaining beyond the ambit of policy support.

While there is a broad agreement among the researchers, policymakers, development practitioners, entrepreneurs and donors regarding the frustrating situation obtaining in the Bangladesh's industrial sector. The factors underwriting the current state of affairs have been subjected to various interpretations. It needs to be recognised that the constraint faced by domestic private sector is quite distinct from the

Projections do not indicate a fast recovery of the world economy. Moreover, in the backdrop of the unilateral liberalisation of developing economies in the recent years, new economic blocs are coming up and GATT-illegal measures are overtly practised by the developed countries. Accordingly, entry barriers for late industrializers are acquiring new dimensions implying negative implications for Bangladesh's potential export industries. This problem is further accentuated by fall in commodity prices, including jute — once the major export item of Bangladesh. Apart from the issue of market access, the flow of resources, particularly foreign investment and technology transfer are getting affected by such unfavourable development in the global economy.

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problems of the public manufacturing enterprises. Within the private sector, the problems of the informal, small and cottage inclusive, are different from those afflicting the units in the formal sector. On the other hand, factors inhibiting the growth of domestic market oriented industries do not always totally overlap with those affecting the export orient industries. Whereas, the foreign capital inflow has its own dynamics. Moreover, given the changing nature of policy environment and relatively rigid structural features, each sub-sector has its own distinguishable set of problems.

Despite the diverse mix of constraints impeding the industrialization process in Bangladesh, one can still draw up a catalogue of generic problems. However, there will be still divergence in views in terms of ranking these problems. In this context, a review of the available problem perceptions, allows us to identify three fundamental debates emanating from the varying emphasis attached to different factors affecting the industrial development in Bangladesh. These three debates relate to the following: (a) external vs domestic factors, (b) structural vs policy induced factors, and (c) economic vs non-economic factors.

The above dichotomous grouping may appear to be a false one as the three pairs are not mutually exclusive.

Given the small size of domestic economy resulting from low level of income and pervasive incidence of poverty, it is reckoned that the incremental demand for industrial goods of the country will come from the external sector. This line of reasoning contributed to the formulation of the export oriented industrialisation strategy. The aspect regarding external demand which one needs to take into cognizance is that the world economy, particularly its developed part, is undergoing a protracted recession. The rate of growth of world trade is no more outstripping the rate of growth of manufactures.

tion strategy initiatives to build technological capability, etc. Inappropriate policies or rather lack of them have perpetuated the structural constraints to industrialization.

The third debate regarding the impediments to industrialization takes us beyond the realm of economics. It is emphasised in this regard that 'good' policies remain ineffective in the country either because they are not properly implemented or they fail to generate adequate result because of other non-economic factors. These non-economic factors, such as poor image of the country abroad, deteriorating law and order situation, militant trade unionism, resource allocation as a means of patronage distributions are discouraging the real entrepreneurs to invest guided by long-term perspective. It is pointed out that, phased reduction of interest rate is failing to accelerate investment, because it is not the cost of capital which is deterring the entrepreneurs to invest; the harassments, including those metted out by the 'toll-collectors' are keeping the entrepreneurs away from industrial investment and encouraging them to get involved in mercantile activities (legal and illegal trade). Thus, without any significant improvement in governance, it can not be expected that industrial growth will pick up.

Those who believe that investment decisions are essentially economic choices maintain that, the above situation is the result of inappropriate incentive structure — which can be addressed by bringing down the transaction costs and controlling the directly unproductive rent seeking activities through further liberalization of the economy and/or through selective, transparent and time-bound interventions.

If we summarize the aforementioned three sets of ostensibly conflicting point of views, we observe that the dominant aspect of explanation of the disappointing industrial performance concentrates on incentive structure and argues that the adjustment measures need to be deepened further and efficacy of the steps undertaken has to be enhanced. The suspended animation prevailing in the public sector reform process as well as inability of the government to implement the Annual Development Programmes are contributing towards stagnation of the sector. The absence of backward linkages of the relatively vibrant export sector and the moribund state of the small and cottage sector are emerging as serious constraints to the development of a decentralized but integrated industrial structure. The alternative view posit that, formulation of an adequate industrial policy package, apart from provision of right incentives pertaining those mentioned above, should include conscious measures to build up human capital, technological capability and supporting institutions. In this context, the role of an accountable and efficient development administration is considered critical. With varying emphasis, both the views emphasize the importance of restructuring the supply-side factors so that the Bangladesh economy may acquire external competitiveness. However, it is also suggested that there is an urgent need to augment the aggregate demand through productivity driven cost reduction as well as by incorporation of some expansionary measures in the reform package, particularly given the deflationary symptom of the current recession syndrome.

The writer is Research Fellow at the BIDS.

On February 5, 1994 BRAC receives the ICDDR, B award for ORS (Oral Rehydration Salt) which has been used by it as a weapon in its battle against diarrhoea in Bangladesh. The award should bring great satisfaction to BRAC as it signifies the continuation of ICDDR, B support, its ally in this battle against diarrhoea. ICDDR, B has provided BRAC with services such as laboratory analysis of the 'Lobon-Gur Solution' and training of BRAC's staff on diarrhoea and its management. The Centre has also provided invaluable help in building research capacities in BRAC. The design to monitor the impact of BRAC's Oral Therapy Extension Programme (OTEP) on child mortality was formulated with assistance from ICDDR, B. The Biochemistry section of ICDDR, B also helped to establish field laboratories in BRAC's Oral Therapy Extension Programme (OTEP) areas and continuously monitored their quality.

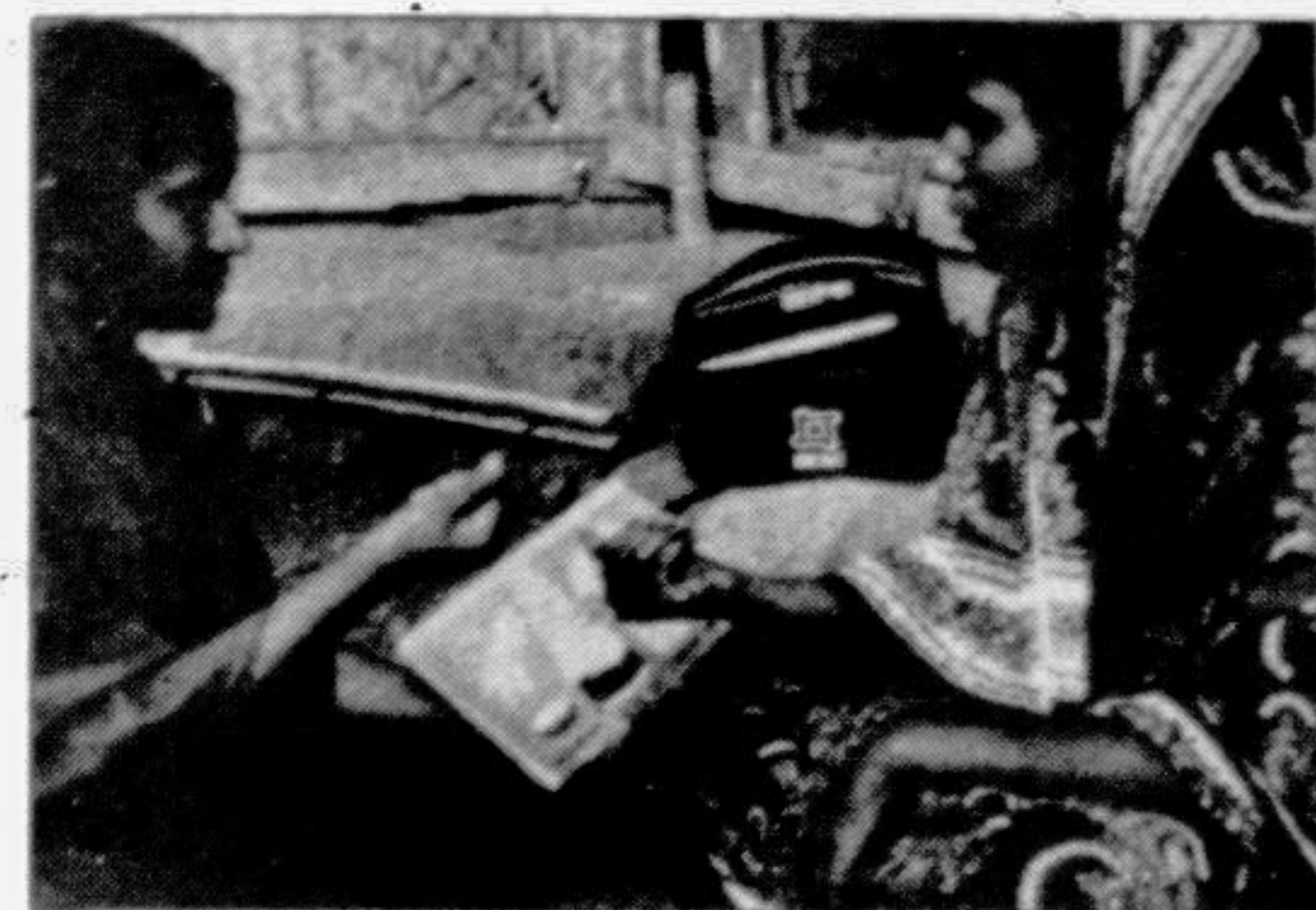
Diarrhoea has been until re-

OTEP The Success Story

diarrhoea are to be prevented. BRAC's involvement with ORS started from the late seventies. Although the therapy to correct dehydration through oral administration was developed in Bangladesh in the 1960s, there was some confusion in the delivery system. The packet of ORS mixed in an appropriate amount of water provided the ideal and complete solution, but there were questions about its cost and access. BRAC's experiences in rural Bangladesh since the early seventies suggested that many would not benefit from promoting these packets. Keeping this in mind, it established in July 1980 the Oral Therapy Extension Project (OTEP). The method of using water, household common salt and unrefined sugar with finger measurements led to the development of the lobon-gur solution, which was clinically

proved that 92 per cent of the mothers in these households would like to prepare the ORS by the BRAC method, and on further questioning it was found that 90 per cent of them could completely explain the process.

For dissemination of the ORT message, BRAC established a unit which developed messages for radio and TV in addition to designing posters, leaflets and flipcharts. Posters were put up in public places such as schools, bazaars,



Communicating the know-how

pharmacies and rural restaurants. However, the most important mode of communication followed in OTEP was the face-to-face teaching of ORT. Women workers were engaged for disseminating diarrhoea message to rural mothers as local culture forbids women to come in front of strange men. These workers were paid on the basis of their performance in terms of how many mothers could remember the seven points about diarrhoea, e.g. the forms and bad effects of diarrhoea, symptoms of dehydration, simple management of loose motion, preparation and administration of oral saline, advice on nutrition and prevention of diarrhoea.

Today, BRAC's triumph comes not only from its achievements in making the lives of the children of Bangladesh safer, but from the lessons it has learnt in the process as well. Mothers, who were made the principal target for ORT education, proved themselves every bit capable of understanding and responding to the messages, thus becoming trustworthy partners to BRAC in a common cause. BRAC has learnt that regardless of their literacy, mothers have the capability to learn if

they are given the right kind of training. Since, the primary caretaker of the child is the mother, she would automatically transmit the information to her children so that the knowledge can be passed on from one generation to another. What is interesting is that an amount of around Taka 22 was spent in teaching one woman in each household — an investment made only once. Yet, what has been achieved with this investment is in no sense negligible. However, it has now to be ensured that adequate use of ORT is continued in the country and that proper research continues not only for the cure but also for the prevention of the scourge of diar-



ORS — saving a million each each year

cent years one of the main causes of high infant and child mortality in Bangladesh. Contrary to common belief, it is not a disease but rather a symptom complex resulting in the loss of water and electrolytes from the small intestine (or decreased absorption from the large intestine) leading to a state of mild to severe dehydration and, in some cases, death. Causes of disease include bacteria, virus, food poisoning, toxins, and parasites. Children under the age of five have the highest rates of diarrhoea and particularly prone to severe illness and mortality. It is the loss of fluid and electrolytes that leads to dehydration and the subsequent morbidity and mortality from acute watery diarrhoea. In this case the replacement of fluid and electrolytes is necessary if the ill effects of watery

proved to be effective. BRAC decided to teach this method to rural mothers/women at home using female workers as the teachers. BRAC first carried out a large pilot programme in three thanas, teaching the method to over 58,000 mothers. The success of these pilot programme led BRAC to plan for a national programme to spread ORT (Oral Rehydration Therapy) to every home in every villages of Bangladesh over introduced to BRAC's ORT. A recent KAP (Knowledge, Attitude, Practice) survey conducted under BRAC's women's Health and Development Programme sho-

Another important lesson to come from this is the fact that close collaboration between the government and an NGO is possible. The OTEP experience in fact showed how important it was to obtain government backing in the implementation of a national programme, and how supportive the government could be. The government itself with support from WHO had embarked on its own ORT programme through the National Oral Rehydration Programme in 1979. A BRAC's OTEP expanded from one district to another and started transmitting the message through radio and television, and as the programme became more and more successful, government clearance was relatively easy to obtain.

Perhaps one of the biggest achievements for BRAC in its ORS success story is that it has proven as a fact the capability of NGOs to implement development programmes at a national level. What is of course needed is dedicated group of well-trained and motivated workers as BRAC while had spreading the message of Oral Rehydration Therapy all over Bangladesh. —BRAC

When former Philippine President Corason Aquino took power in 1986, she declared that genuine land reform would be the "centrepiece" of her programme of government.

Her land reform programme has since turned out to be a bitter failure — the victim, says a World Bank study, of determined opposition by vested interests.

Aquino's successor, Fidel Ramos, has not bothered to keep up pretences. He has quietly removed land reform from its pedestal and replaced it with a new icon: becoming Asia's next NIC or newly industrialis-

Is Land Reform Passe?

Asia's development economists debate whether or not agrarian reform is still relevant. Ramon Isberto of Inter Press Service reports.

But not everybody agrees. A very diverse lot of people, ranging from the World Bank to left-wing economists, think agrarian reform must stay high in Asia's priorities.

Given the requirements of sustainable development in the

rapid, shared growth that has continued to elude the Philippines where vested interests doomed land reform, said the 1993 World Bank report.

But Salim is unimpressed by East Asia's success stories, arguing these cases are the ex-

productive and can grow badly-needed food to benefit rural populations. They also tend to use labour, thus generating more jobs.

This logic is all the more true in Asia, where rice farming dominates. Rice tends to be more labour-intensive and does not require large economies of scale to be productive.

But the two economists argue land reform programmes are often driven by political exigencies rather than economic logic, such as the need to appease peasant unrest or win votes in elections.

Such 'reforms-from-above' usually founder in the face of landlord opposition, especially in democracies like the Philippines and India, which usually water down reform programmes.

Resistance can be overcome by force — but at great political cost. Unlike before, Salim and Quibria add, there is no longer any outside power like the United States or the World Bank that can ram through or bankroll such difficult reforms.

Other economists agree land reform is no longer as crucial to development since land is no longer a decisive form of property.

That seems to be the theory of some of Ramos's reformist advisers who are pushing a drive to dismantle big business monopolies in such fields as banking, cement manufacturing and telecommunications.

Farmers' groups understandably insist land reform remains crucial to development. "It has to be the foundation of development. Land reform is the key," says Leonie Montemayor of the Federation of Free Farmers.

The farmers are being backed up by environmentalists who say inequitable land ownership is the main factor driving farmers into the ecologically-vital forests and uplands.

The Food and Agriculture Organisation (FAO) says the land problem is the major reason for the degradation of more than a third of the land in Asia.

Without agrarian reform, the UN agency warns land decay will continue, undermining Asia's farm potential and jeopardising the region's to feed its huge and growing population.

Signs of Progress on Kodalkati Char

by A M Ahmed

THE temporary islands and sandbars found amid the huge Brahmaputra River in northern Bangladesh offer an inhospitable home to some of the poorest rural communities anywhere in the country. The people of the chars live in constant fear of the water — the floods which follow the summer monsoons and the changing course of this great river which can wash away their land and homes.

There is real hardship here, little opportunity to make a decent living, an absence of adequate health and education, and a conservative society where many women are abandoned as their husbands depart for a better life elsewhere.

Just as the river can bring the blessing of fertile soil to the char farmers, one project which works in over 100 char lands — Rangpur-Dinajpur Rural Service (RDRS) Char Development — is now finding that, with care and attention, the people of the chars can also offer 'fertile soil'. There



Hanufa preparing to register her marriage

are clear signs of progress to be found for those who look carefully.

Hanufa's better Marriage

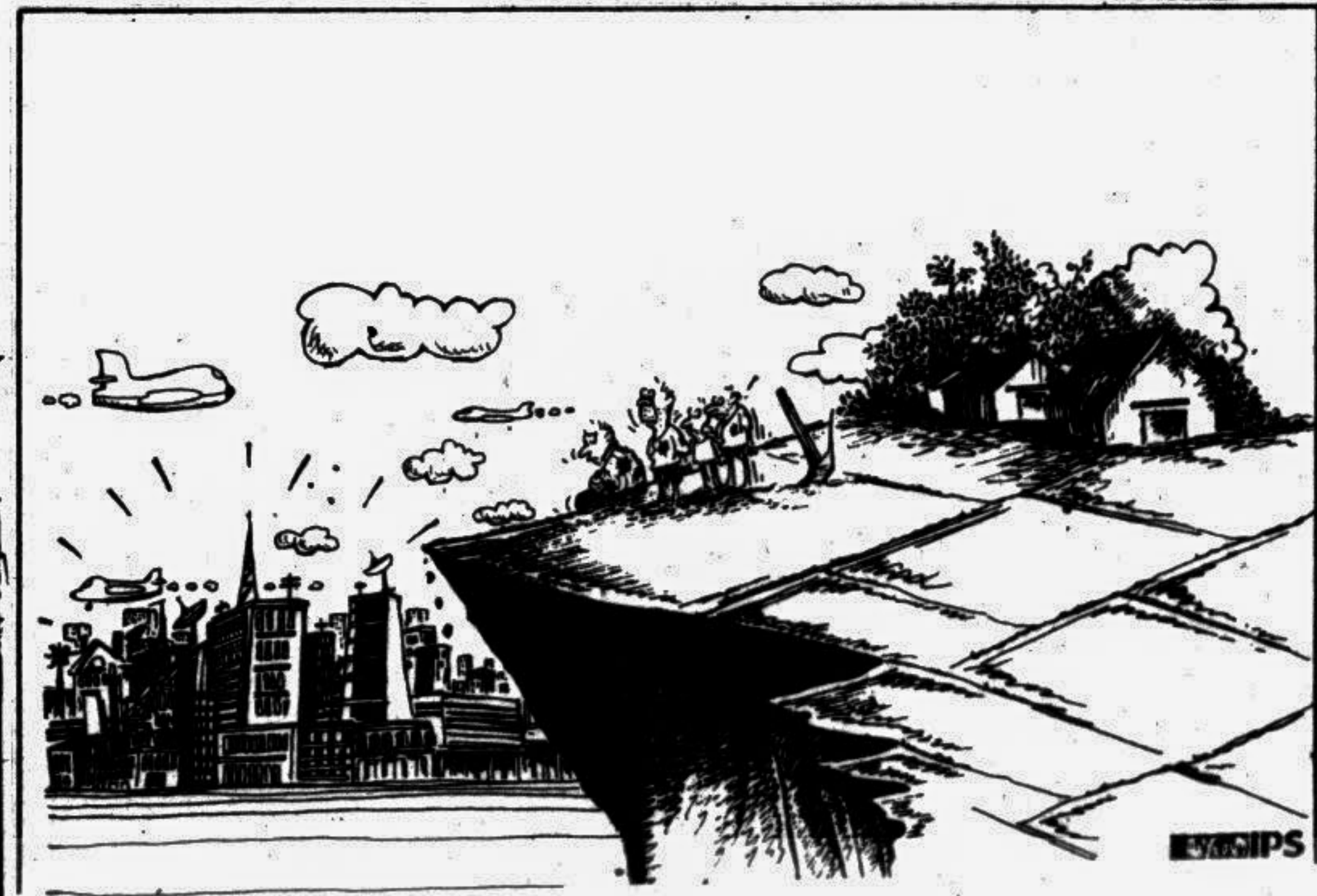
On the morning of her wedding, Hanufa Khatun completes her ceremonial wash before draping herself in a bright new red sari. Her face glistens moist and yellow with

the turmeric which it a customary adornment in these parts.

18 year-old Hanufa will today register her marriage to Aslam Hossain, a young man of 21 from the east bank of the Brahmaputra. This registration is a real step forward since she can be less easily divorced. Abandonment of

married women is one of the real social blights of the remote and neglected sandbar communities of the Brahmaputra. Hanufa will also be marrying without dowry, the first in her village. These almost revolutionary achievements show the value of education. Hanufa has received 6 years of schooling but, more importantly, her mother Rakshana is a member of an RDRS-assisted group who are now putting into action the education which they receive in the Char Development Project. Rakshana has passed on other practical skills which will help her daughter make a good wife and mother "she knows how to look after the house, how to garden and how to behave".

The wedding ceremony itself is still two months away. That will take place after the aman rice crop is harvested and brings in a bit more money to provide food for the guests. By that time, Rakshana will have sold one of three cows she is fattening as an income-earning project.



ing country.

Is land reform passe? It certainly seems so in Asia, from the way governments in the region have downgraded its importance in their development agenda.

In the 1950s and 1960s, land-to-the-tiller programmes were supposed to be critical to the transformation of backward, agrarian societies into modern, industrial ones.

Today, though 750 million people in Asia remain trapped in poverty, "We find land reform to be a minority, if not minor, vision," says economist Salim Rashid of the University of Illinois and MG Quibria of the Manila-based Asian Development Bank (ADB) in a joint paper presented at a forum here last week.

21st century, it's the critics of agrarian reform who are passe," says Sixto Roxas, a well-known Filipino investment banker who is now one of the country's greenest economists.

In its report The East Asian Miracle, the World Bank restated what has become the orthodox view in favour of land reform.

Analysing East Asia's success story since the end of World War II, the 389-page report said these countries — particularly Japan, Taiwan and South Korea — have done so well because they were able to achieve rapid economic growth with equity.

"In each of these economies, successful land reform helped to lay the foundation for the

ceptions that prove the rule. He points out that reform in Taiwan and Korea in the 1950s were conducted efficiently by an alien military power (the United States), "a precedent that carries no force for democratic regimes."

In the case of Korea, land reform succeeded in bankrupting the landlord class but did not generate the farm surplus that powered Korean industrialisation which came a decade later "out of seemingly unrelated circumstances," says Salim.

Salim and Quibria agree there are excellent economic arguments in favour of land reform which would break down large plantations into small farms. Small farms tend to be more