Recharting *the course* for jute sector

ANU MUHAMMAD

BANGLADESH has comparative advantages in growing jute and manufacturing jute goods at least on nine counts. These are:

- Suitable soil and environment for production of high quality jute
- Skilled workforce with decades of experience
- Environment-friendly nature of jute goods production and use
- Potential of huge domestic market
- Increasing demand of jute in global market
- Nearly 100 per cent value addition for jute exports
- Its complementarities to agriculture and industrial sectors
- Huge employment opportunities
- Jute has been a part of lives, livelihoods and culture of the people in the region

The following table gives a linear trend between two-policy packages
Jute Policy 2002 and Present vision 2007

Programme	Jute policy 2002	Government action since 2002	Present vision, 2007
Renewal of machineries	Yes	Nothing	No mention
Domestic and International	Yes	Nothing	Yes
Market expansion			
Power supply	Yes	Nothing	Yes
Allocation for jute purchase	Yes	Nothing	Yes
Privatization and closure	Yes	Actively done	Being done actively

The table below gives a comparative picture of Bangladesh and India.
Crucial area: Bangladesh and India

Issue	Bangladesh	India
Machineries	Never renewed	Govt allocation for new machineries
Bank loan	Big defaulters got many concessions and relief, not jute mills	New bank loans, writing off old ones
Domestic market	No compulsion, no initiative to expand use of jute goods	Made it compulsory to use jute goods for cereals, sugar and cement.
International market	Expensive offices were opened for doing nothing	Well organized efforts to capture international market
Employment	Decreasing	Increasing
Productivity	Decreasing	Increasing
Overall government attitude	Hostile to jute industry	Attentive to the industry
World Bank et al	Hostile to industrialization	In some areas friendly to industrial

These comparative advantages could easily be turned into competitive advantages. But the policies pursued by successive governments in this regard were found to be negative. While new horizons of jute goods have been discovered, while jute is found to be perfect raw material of many manufactured items including paper, alternative wood, yarn, corrugated sheet, body and internal parts of car and refrigerator, geo-textile, jute plastic, decorative products, government inaction to revive the sector and action to squeeze it further create a bleak scenario for the sector as whole.

For the jute sector, destructive policies in the name of development could be sustained because of a larger policy framework called AID or 'anti-industrial development' paradigm, dominant for decades. Role of the World Bank-led global agencies has been crucial in formulating and implementing these policies. The jute sector has become one of the worst victims of this paradigm. However, the local policy makers have not been unaware of the consequences of these policies, rather they put their might to implement these.

In almost all sectors we have the 'golden touch' of the World Bank, IMF et al. These agencies have been quite successful in creating a myth that they are development agencies. Actually, the truth is quite opposite. Economics of the World Bank et al is highly ideology driven, biased towards stronger capital and stronger economy; unhelpful to long term initiatives for expansion of productive capacity in the weaker economies. Therefore, the policies pursued by them for Bangladesh created more space for Indian big capital, among others, and gave them an ensured market. Jute is no exception.

Ideological thrust from the World Bank has always been for privatisation of all public entities without considering its consequences. Their favourite thrust is to reduce responsibility of the state in facilitating, and if necessary, leading productive expansion. But nobody can deny that every phase of industrialisation starting from industrial revolution in Europe to late industrialization in East Asia and even in India took place with a massive pro-active role of the state backed by its resources.

In Pakistan, Adamjee Jute Mills, in fact, were established and later expanded not alone by private initiative. It is important to note that the main resource- support to establish the Jute mills in the 50s and 60s including Adamjee came from public resources. State policy regarding state-sponsored manufacturing had been vital behind establishment of the jute mills and their survival. Between 1950 and 1961 many public institutions were established to build an industrial base in Pakistan. Those include: Pakistan Industrial Development Corporation (PIDC) in 1950 and its division for the two wings (EPIDC & WPIDC) in 1962, Pakistan Industrial Credit and Investment Corporation (PICIC) in 1957, the formation of East Pakistan Small Industries Corporation (EPSIC) in 1957 and the Industrial Development Bank of Pakistan (IDBP) in 1961.

Between 1952 and 1958, PIDC extended support to the private sector in establishing 12 jute mill companies. PIDC's partners in private sector were all West Pakistanis although all of the jute mills were located in East Pakistan. Share of East Pakistani entrepreneurs that grew in the process remained insipid. Only a handful of local investors participated but that was also dependent on state support, as an estimate said, "The share of the Bangalee entrepreneurs in the finances needed to set up a jute mill was as low as 10 percent".

The jute industry had been the mainstay of the manufacturing sector in the then East Pakistan but its profitability and survivality always rested on explicit and implicit subsidy from the state even in the private sector. Export bonus scheme was a very important part of that package. It was introduced in 1959 and was gradually extended. This scheme had been providing significant support to the exporters of jute and jute products. Its role in making the jute industry more profitable was such that, as one research findings revealed, "without the bonus earnings not only that there would not have been any surplus of sales value over costs but in fact there would have been considerable loss".... and "the contention that the industry was running efficiently in the 1960s to be able to make good profits is in fact a myth".

During Bangladesh period the state did not continue the incentives and support, given traditionally to the jute sector that constituted afterwards the major part of the public sector. Direct incentives were further strengthened for the private sector export-oriented enterprises later. Imports of raw materials and capital machinery have been duty free for 100 per cent export-oriented industries. Exporters also have cash compensation of 25 per cent, income tax rebate, and tax holiday and increased ceiling for foreign currency retention. Although public sector jute mills also have export-oriented enterprises, they do not get similar support. One wonders what would be the profit-loss scenario of the foreign investors in EPZ or local investors in garments if the state withdraws all support, indirect and direct subsidies.

The closure of Adamjee was announced on 24 June 2002 but its death warrant was actually issued on February 17, 1994, when the government of Bangladesh signed an agreement with the World Bank/IDA for US$247 million Jute Sector Adjustment Credit (JSAC). This Jute sector reform project has been considered by the policy makers as one of major projects of the World Bank to 'help' industrialisation in this country. The programme, however, involved "(i) closing 9 out of the 29 public mills and downsizing two large public mills; (ii) retrenchment of about 20,000 employees in the public sector; and (iii) privatisation of at least 18 of the remaining 20 public mills."

Promise was that with this 'cut-to-size' reform would increase productivity of the industry and it would increase investment and employment. But in reality all these variables showed downward trend. In 1980-81 the number of total installed looms was 25791, operational were 23759. In 1993-94 these numbers came to 26047 and 17691 respectively. After JSAC came into being and was implemented these figures showed sharp decline, to 21332 and 8915 respectively. Therefore, the operational looms were reduced to almost one third compared to 1980-81. Out of 10,734 looms in public sector mills, 5,943 were in operation compared to 2,972 useful looms out of 10,598 looms under private ownership. Therefore, private sector scene has not been different. The number of state-owned jute mills has come down to 18 from 77 in 1972.

So, in essence people of Bangladesh were burdened with more debt for not establishing new factories or promoting older ones either in public or private sector but 'downsizing' or 'closing' them. Ironically, the amount taken as credit from the World Bank to close down or downsize jute manufacturing units was more than the amount lost in thirty years in Adamjee.

In 2002, Bangladesh had a new Jute policy, ironically in the same year the country witnessed closure of Adamjee Jute Mills, the largest jute mills in the world. In the Jute policy of 2002, different causes were identified for downfall of the industry. Nevertheless in the following years, inaction and indifference of the government in addressing the causes confirmed their unwillingness to exploit the potential of the sector.

During the announcement of 2002 jute policy, jute accounted for 8-12 per cent of the country's annual foreign exchange earning a contribution which declined to only 4 per cent recently.

In 2007, the present government appeared with new 'vision' and 'mission'. Vision of their 'Jute Reform Programme 2007' was 'to make BJMC self-reliant and profitable' not to make the sector dynamic. In order to make BJMC profitable they preferred the path to eliminating factories. Therefore, they stated:

Number of Jute Mills before 'reform': 24
Number of Jute Mills after 'reform': 18
Rationalisation of work force, retrenchment: 14,000

For workers the chosen path was for outsourcing, to create daily labourers instead of permanent ones and reduction of wage fund.

When Bangladesh is suffering from critical injury to its most promising and deeply rooted industry, India is enjoying a rebirth of the same. What caused this difference? On 30 June 2002 Adamjee Jute Mills gave its last whistle, on July 8 India initiated new programmes for modernisation and expansion of industry. However, it was not a beginning, in 1980 as a rescue measure, India proclaimed 'The Jute companies (nationalization) act, 1980' to give life to the dying private sector mills. On September 28, 2004, the Indian government decided to use jute bags for cereals (100 per cent) and sugar (90 per cent). In 2005 the Jute Policy was a formal document of the actions already taken by the government. Indian industrial expansion, in public as well as private sector, showed central role of the government and public sector. That goes against World Bank's policy assertions.

Xian Zhu, World Bank Bangladesh country director (WBCD), in an article identified government's supportive actions making the difference between Bangladesh and India (The Independent, January 8, 2008). One of which is 'highly protected domestic market' in India where Bangladesh 'jute industry is far more exposed to world market conditions and faces more competitive price.' He also continued saying, 'India's National Jute Policy 2005 is directed towards reviving the jute economy through supportive measures for private operators, including research and development (R&D), upgrading of technology and market development activities. However, except shutting down enterprises, no other prompt and efficient action was seen in Bangladesh. The World Bank has always been the friend, philosopher and guide behind all these.

As usual for World Bank officials the WBCD wrote at length about losses and inefficiency of public sector jute mills in Bangladesh. But again as usual there was no discussion about the causes of losses. It is not difficult to understand this pattern of analysis from WB officials all the time if we know that they are ideologically inclined to refer to bad things about public sector, no matter its necessity or role as starter. However, it was wrong to say that private sector faced unequal competition. Private sector jute mill could not grow because of the general framework to cut to size the jute sector.

- It is essential to pinpoint major causes for the downfall or crisis in the sector and take necessary actions accordingly, in order to come out of the trap. I would like to highlight the following points:
- In Pakistan period private sector jute industry survived on government subsidy in various forms like bonus voucher scheme. This was discontinued for public sector after independence.
- Chronic delay in disbursing budgetary money for jute purchase every year.
- No renovation of mills for decades.
- Regular power outage.
- No initiative to increase domestic use of jute goods.
- No effort to promote diversification of jute products.
- No drive for grasping market potentials or creating demand locally or globally.
- Compound interest rate for bank loans and accumulated loan burden on mills.
- Misuse of workers' working hours by successive ruling parties.
- Government-patronised hooliganism in the name of trade union.
- Posting of corrupt people in the management of public sector mills.

Why keep alive all these causes year after year? To rationalise 'cut-to-size' actions, one wonders. If we look for resurgence of the sector we have to address the causes of its downfall.

Jute, both as agricultural product and manufacturing goods, has immense potential that is yet to be exploited. There are instances in private sector, although very little, that if given the opportunity the sector has the capacity to lay the foundation of a new phase of industrialisation in the country. What is needed is vision and action to expand productive sectors, rejecting the existing vision and mission for turning the economy from Mills to Malls, turning skilled workers into hawkers or giving the authority to corporate global agencies.

The author is Professor of Economics, Jahangirnagar University.

PHOTO: STAR