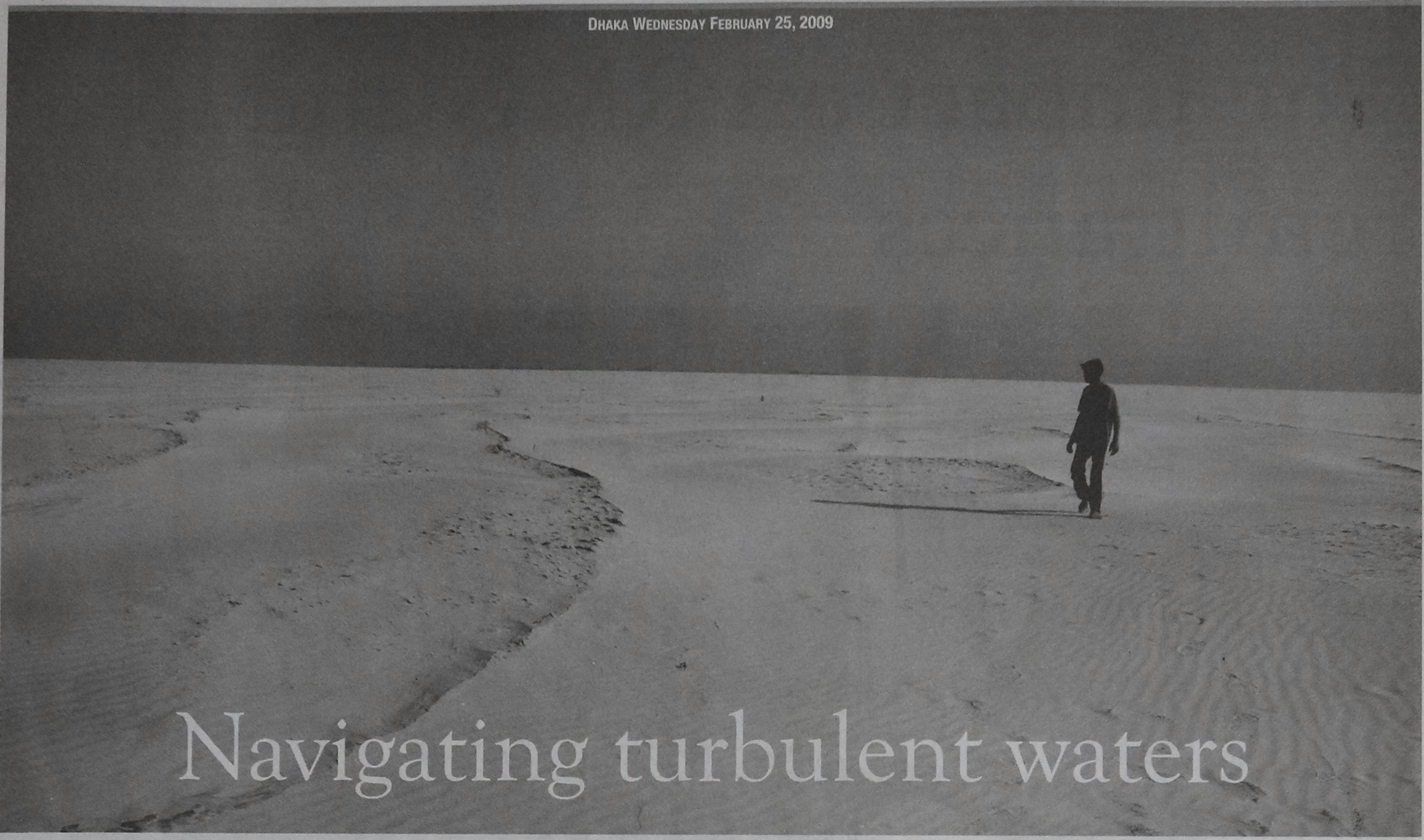

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Navigating turbulent waters

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of Bangladesh economy transmits some cautionary notes.

A wake up call

Export growth, over the first two quarters, as mentioned above, was a robust 19.3 per cent. However, as a matter of fact, in the second quarter of FY2008-09 (October-December) the growth had indeed been negative, at -1.4 per cent. This is something which is unheard of in recent memory (export growth rate in the months of October, November and December, 2008 were -7.4 per cent, 13.5 per cent and -10.0 per cent respectively when compared with corresponding months of FY 2007). This closely reflects the trend in export of apparels, the dominant item in the export basket, over the same period.

The July-November export growth have been in the negative territory for several of Bangladesh's non-apparels items: growth of export of Jute and Jute goods were -6.8 per cent and -12 .5 per cent respectively; export of engineering products was (-)3.1 per cent. What is also to be noted is the dismal record of leather export (-17.9 per cent). The emerging shipbuilding industry, which received an export order of about USD 400 million in recent years, is also at present experiencing difficulty.

It is to be kept in mind that many of Bangladesh's developed country partners which account for most of Bangladesh's exports of goods and a large part of export of services (remittance), are now officially in recession. The US economy which accounts for 25.5 per cent of Bangladesh's global export of goods and 17.4 per cent of remittance is projected to experience negative growth of -0.7 per cent in 2009; the 42 year old Consumer Confidence Index is at its lowest reading. For the Euro-area countries the growth projection for 2009 is -0.5 per cent.

It is also to be noted in this connection that world trade which registered a rise of 4 per cent in real terms in 2008 is projected, according to World Bank estimates, to experience a negative growth of 2 per cent in 2009, a first time in recent history.

Bangladeshi exporters have been able to sustain their market share by offering discounts, tolerating, in many instances, order deferment and cancellations, and by taking significant cuts in profit margins. Currency devaluation in competing countries

To take advantage of the emerging opportunities, Bangladesh will need to devise appropriate policies to create adequate incentives to encourage domestic entrepreneurs and to attract foreign investors. Policymakers could consider the idea of creating an export-stimulus fund to support entrepreneurs and export business. Such funds could be used to provide credit at lower rates, encourage acquisition and adoption of new technologies and promote R&D and product diversification at enterprise level.

such as India, Sri Lanka, Pakistan, to the extent of 10-40 per cent over the recent years, have also undermined competitive strength of Bangladeshi products, including apparels, whilst the BDT has held steady over the past one year, depreciating only by 0.6 per cent between January 2009 and January, 2008.

It is to be recalled here that the 7.5 per cent cap on growth of Chinese export of apparels to the US market has been lifted recently, as of January 1, 2009. China has also recently reversed a number of measures which were aimed at encouraging producers to move upmarket (e.g. tax on lower end products). Exports of low-end apparels from Bangladesh had earlier benefited from such policies.

Stimulus packages designed in support of producers and exporters in India and China will also start to have impact on Bangladesh's competitiveness in the global market. Recently India has designed a plan to inject USD 4.5 billion into the financial system to help exporters, with the Reserve Bank of India adding another USD 1.3 billion through a refinance operation. In November, 2008 China announced a package of capital spending plus income and consumption support measures to the tune of USD 546.0 billion. Bangladesh's backward linkage spinning sector, with an investment of about 27,000 crore taka, has already made its case as regards their weakened competitive strength vis-à-vis imported Indian yarn in view of the new price dynamics. The price of 30 count yarn has now become 30-40 cents higher in Bangladesh compared to what is offered by Indian exporters. Knitwear sector and spinning sub-sectors will likely suffer most because of the emergent situation.

The data show that in October of FY2008-09, growth of import duties was lower (-1.7 per cent) compared to corresponding month of FY2007-08 (growth of total import related duties was +6.6 per cent), whilst the November figure indicates a further dip (-10.0 per cent and -0.5 per cent respectively). The December figures are rather alarming with the two corresponding figures being -12.2 per cent and -13.9 per cent (in the backdrop of falling VAT duties of -19.7 per cent). As a result, revenue mobilisation targets are likely to be missed in FYT2008-09.

Over the last two years, in 2007 and 2008, a record number of Bangladeshi workers (1.7 million) had left the country in search of jobs abroad. In 2009, in all likelihood, the number of workers going abroad will be significantly lower, also particularly because some of the new destinations including those such as UAE, Malaysia and Singapore have indicated caution in the face of sluggish economic growth and lower demand for construction and other services. Saudi Arabia and Kuwait have already instructed their embassies in Dhaka not to issue workers' visa). Although no reliable estimates are available with regard to returning migrant workers, anecdotal evidence suggests the need for attention to this issue as well.

Crisis as an Opportunity

Every crisis creates opportunities for those few who are willing and prepared to look for and realise the potential benefits. Inspite of the adverse impacts and potential dangers, there are some encouraging signs which Bangladesh should seize on and try to make work to her advantage. Major buyers from Japan, a market worth about USD 22.6 billion imported apparels (Bangladesh accounts for only about USD 29.6 million out of this, about 0.13 per cent) have started to show renewed interest to source from Bangladesh, by diverting imports from other countries (mainly from China). The adverse affects of recession, pressure to appreciate the Yuan (appreciation of 5.2 per cent over the last one year), wage rates that are about 2-3 times higher than Bangladesh (though productivity is higher in China) make Bangladesh an attractive destination for major buyers of apparels inspite of China's dominant presence in the global market. For example, only Vietnam's performance (16.9 per cent growth during July-November, 2008) is comparable to Bangladesh's record (15.7 per cent) in the US market. Indeed, Bangladesh's strategy in these times of recession and falling global apparels demand should be to go for higher share in a shrinking pie by making best use of the emerging opportunities.

As is known, two committees have been constituted earlier by the caretaker government in view of the crisis. The Hon'ble Finance Minister has recently mentioned that a multistakeholder committee will be constituted to provide recommendations in view of the emerging crisis. This committee will be asked to review the developments and give suggestions. The committee will need to consult with the private sector and exporters to review the situation on a continuing basis, and provide appropriate policy inputs to the government for speedy decision making. It is good to see that the monetary policy recently announced by the Bangladesh Bank evinces sensitivity to possible adverse impact on our economy. To take advantage of the emerging opportunities, Bangladesh will need to devise appropriate policies to create adequate incentives to encourage domestic entrepreneurs and to attract foreign investors. Policymakers could consider the idea of creating an export-stimulus fund to support entrepreneurs and export business. Such funds could be used to provide credit at lower rates, encourage acquisition and adoption of new technologies and promote R&D and product diversification at enterprise level. Such a fund could also be used to support entrepreneurs who are interested to set up common services such as effluent treatment plants, skill upgradation and dyeing facilities in the industrial clusters that are growing up around the Dhaka city and also in the proposed special economic zones. This fund could also be used in support of initiatives for workers (e.g. government could take an initiative to build dormitories for workers in such clusters). To stimulate productivity, a technology upgradation fund could also be set up (such a fund, in support of jute and textile sectors, has been in place in India for several years).

Given the emerging situation and in view of the interest of potential investors to invest in Bangladesh, all efforts need to be geared towards creating a conducive business and investment environment in the country. Required investments will also need to be made to enhance the capacity and facilities provided by EPZs and specialised investment zones. The export-support fund proposed above could be used for this purpose. It is to be reckoned that at times like these whilst investors tend to be cautious, they also are on the look out for new and safe FDI and portfolio investment opportunities.

Concluding remarks

As was noted earlier, thus far, Bangladesh's relative insulation from global capital market and heavy dependence on lower-end exports of goods and services have provided some cushion to the economy. But there is no room for complacency. As the above discussion would suggest, Bangladesh will need to be on the alert. We must examine closely the recent trends, identify the disquieting developments and undertake appropriate initiatives and measures to address the attendant challenges originating from the ongoing crisis and try to take advantage of the emerging opportunities.

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