

# Trade regime: Rhetoric and reality

We cannot be silent observers when openness could help labour-intensive manufacturing and technologically developed service sector activities to flourish. Openness could help generate employment for the vast pool of unemployed and disguised unemployed persons.

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THE trade regime of Bangladesh immediately after independence was targeted to induce import-substituting industrialisation (ISI) in the country. It reflects the Prebisch-Singer approach towards industrial development that took place in Pakistan and India.

Such trade and industrial regimes are marked by high tariffs, pervasive bans and quantitative restrictions on imports, overvalued exchange rate, and dominance of public sector in ownership and management of manufacturing units and in trade and business.

During the Pakistani period, the beneficiaries of this protectionist and inward looking policy were the large industrial houses in former West Pakistan that owned and operated many of the manufacturing units. Consumers in East Pakistan had to pay higher than world prices for domestically produced commodities. This resulted in a significant transfer of monopoly rents to West Pakistani entrepreneurs.

In continuation of that strategy, the first decade of Bangladesh saw a positive list of importable items to (a) protect the infant

industries, and (b) ration use of scarce foreign exchange. Public sector participation was pervasive in manufacturing through state owned enterprises (SOE). The financial sector and investment were subject to strong regulations.

The impacts of ISI strategy became obvious with economic growth rate reeling below 4%, population growth rate outpacing food output, SOEs soaking public revenues as subsidies, a group of rich people emerging due to rent-seeking from license raj, farmers facing problems with timely delivery of inputs and regulated prices, smuggling, etc.

The economy showed no sign of coming out of that strategy. In fact, in the late 1970s, a number of influential researchers by J. Bhagwati and A. Krueger revealed harmful effects of ISI in other countries also, and recommended an outward looking strategy. Sri Lanka took the lead in dismantling the barricades and opened up at the end of 1970s.

Better late than never, by 1990, Bangladesh policy makers realised that an inward-looking ISI -- supported by interventionist domestic public policy -- deprived Bangladesh of its growth divi-

dends. Hence, the country opted for a liberalised trade regime with tariff cuts, tariff rationalisation, exchange rate liberalisation, and drastic downsizing of quantitative restrictions.

For example, during the 1990s, Customs Duty (CD) rates came down from 160% in 1990 to 25% in 2008. The average (un-weighted) CD declined to 16% in FY2008 from 57% in FY1992, and 100% in FY1985. Customs revenues grew at 15% per annum despite sharp reduction in tariffs. The elimination of bans and restrictions on imports, followed by import responsiveness, led to more imports. This also helped to bring domestic prices close to world prices.

However, the march towards liberalisation weakened as resistance from vested interest groups developed, and the pace of policy persuasion had to be slowed down. Although CD went down para-tariffs under the aegis of say development surcharges, supplementary duty, VAT etc., were invoked to compensate for the reduction of revenues through CDs.

Bangladesh economy is poised to be more open now than before as reflected by the trade-GDP ratio, which is now at 40% as against 33% few years back and 20% in the pre-liberalisation era. But the presence of para-tariffs and the absolute level of CD still make it relatively less open. Further, Bangladesh also lagged far behind competitors in terms of attracting FDI due to various constraints.

The moot question is: has trade liberalisation benefited Bangladesh? Econometric exercises are necessary to establish a causal link between

liberalisation and socio-economic uplift. However, in its absence, a comparison of the key socio-economic indicators between pre and post-liberalisation periods will shed some light.

It seems that trade liberalisation and the associated domestic reforms programs have benefited Bangladesh. Bangladesh's per capita GDP more than doubled since 1975, life expectancy has risen from 50 to 63 years, and population growth rate has halved.

Among the South Asian countries, only Bangladesh has had a steady increase in average annual GDP growth in each successive five-year period, from 3.7% in the latter half of the 1980s to 5.5% during 2001-2005. Till FY2009, economic growth rate averaged almost 6% per year.

Out of 100 rural households, 40-45 now have mobile phones to bring remittance boon, 8-10 have shallow pumps, and 3-5 have threshing machines. The price of STW has gone down from \$730 in pre-reform period to less than \$150 in the post-reform period. Access to computers and internet, food, and other technologies is growing fast, although digital divide is there. The growth of the manufacturing, especially in RMG, shows the positive side of trade liberalisation.

The trade of openness on poverty is very difficult to determine. It is because the poor are not a homogeneous group. We can hypothesise that economic integration of Bangladesh with the world had differential impacts.

For example, the extreme poor group, roughly 18% of rural households, is not affected by globalisation. Their main problems are access to food and clothes, a

hut to live in, and some non-traded goods and services, which can be supplied by the state. Even then, the share of this group has declined from about 34% in the pre-liberalisation period.

Other poor people work for the RMG and processed food sectors. Obviously, the more open the economy, the better they are. That is possibly why we have been lobbying for years for developed countries to give access to our exports. We also demand such access to the latest technology and employment opportunities available in other countries. This implies that access to foreign markets is pro-poor at times. In this case, more, not less, liberalisation or integration is desirable.

The last category of the poor becomes a victim of import liberalisation, in consequence of which there is de-industrialisation. Netting out the "sun rise" and "sun set," we can argue that trade liberalisation might increase poverty level. To arrest that, we need protection to some selected thrust sectors, rising beyond political or vested wisdom, and working on purely economic consideration. (For example, we can protect our dairy and agro-processing activities, displaying high value addition and pro-poor nature by shutting the door to foreign products).

We also need to improve the technology, human capital stock, infrastructural facilities and management efficiency of the industrial units threatened by imports. Besides, imports of capital machinery and raw materials should be allowed either duty free or with least duty. We need also to remember that trade liberalisation per se does very little to the desired outcomes. It

needs complementary reforms on the domestic front as well.

What is the use of duty free raw materials if the boiler cools off due to erratic energy supply? What is utility of export incentives if shipment is delayed due to adverse factors? What is value of political commitment to the prevailing energy crisis if, say, decisions are left pending for years?

Openness for Bangladesh is also desirable on another count, and we have occasionally referred to that in this column. It is for Foreign Direct Investment (FDI). Bangladesh could easily seize upon the opportunities lost by its trading competitors on account of rising wages in labour-intensive manufacturing.

Bangladesh could also turn out to be a Switzerland of Asia permitting, neighbours to transport goods and services through our ports in exchange for fees. All these development needs political commitment, economic appraisal and judicious but quick decisions. The world market will provide us with earnings that we can spend in expanding our own domestic market.

We cannot be silent observers when openness could help labour-intensive manufacturing and technologically developed service sector activities to flourish. Openness could help generate employment for the vast pool of unemployed and disguised unemployed persons. We are for more economic integration without adhering to the free trade principles.

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# Drug addiction and trafficking: The menacing spread

Teenagers are becoming the new criminal recruits of the booming trade in drugs, with the drug lords, remaining behind the scene. There are reports of them getting addicted to and involved in trafficking of narcotics because of peer pressure.

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WHILE Bangladesh observed the International Day against Drug Addiction and Illicit Trafficking on June 26, albeit in a low key, the spread of drug addiction and trafficking has reached menacing proportions. Reports in newspapers about kidnapping, assault, rape and killing of school and college going girls by misguided youths and addicts have captured attention.

In fact, the crimes are mostly fuelled by drug addiction and drug trafficking. When a gang member tries to leave the group, perhaps tired of the grisly nature of the trade, he incurs the wrath of his former accomplices and eventually meets a tragic end.

In a report published in a Bangla daily on June 2, it was revealed that drug peddlers in the village Fateh Mohammadpur in Ishwardi, Pabna brutally assaulted Shabana Parvin and ransacked her house she wanted to stop drug trade in the precinct. Drugs are available in every part of Bangladesh.

Almost awash in guns and plagued by addicts, some district towns are struggling

to cope with the wave of violence. Reports published in the dailies reveal that drug peddling in the lanes and by-lanes of Kushtia town is very common sight. Most shockingly, despite the fact that drug trade continues unabated in about 20 points in the town, police and drug control department have succeeded in seizing only a few bottles of Phensydil.

While the law enforcement agency is trying to control the smuggling of Phensydil from factories located in India close to Bangladesh border, the country has been gripped by another scourge inside the country. People are alarmed to learn that an illegal energy drink is being sold at Tk.50 to Tk.150 taka per bottle in many places of the country. Most worrisome, school and college going children are the main customers of this harmful drink.

After analysis of the way the youngsters are becoming hooked to this trade and addiction, and their violent nature, one is led to believe that a teenager's behaviour is largely caused by the environment he grows up in.

In a large measure, it is the responsibility of the parents to step up restoration of

the values that seem to be eroding fast. Many parents are not giving enough time and attention to raising their children in a proper way.

Precisely speaking, only when we realise that we are hurting these dependent members of the society through access to wealth and indulgence in bad habits and evil company that are not proper at that age, will we begin to deal realistically with this problem. The other cause of this drift to criminality or addiction, and ultimately to trafficking business, is the social inequity that exists because of joblessness and draining of the last resources the poorer section had to sustain a living.

Welfare reform could have been an answer and a hope for restoring the principles and moral fabric in such a hopeless situation, but till now no government has given enough thought to such a stupendous problem.

People have long demanded that the government come forward to ensure the children's safety and proper nurturing by involving parents in the educational process. The fact remains that parental rights must be evenly balanced with parental responsibility.

The major enemies of children today are missing fathers, illegal drugs, tobacco and alcohol abuse, and bad association blended with a culture that inspires antisocial and destructive habits in children. They disrupt the basic values and lead to success that is undesirable at this stage of their lives.

It is equally true that only government help and action cannot stem the tide. Anti-



drug campaigns must be geared up with multi-pronged initiatives like poverty elimination, job creation, proper schooling of children and exemplary punishment to drug lords. We must recall that there was a time when all the basic socialisation forces were marshaled to teach children about right and wrong, self-discipline, and the means of achieving personal success.

Undoubtedly true, our teachers in schools in earlier days, who were overtly committed to their vocations, did a wonderful job in shaping the values in the young learners. The society and schools have drifted very far away from this

approach. This erosion of values has put the nation in a quandary.

The war we must now wage for our children requires a good deal of sensibility, prudence and a look for the future. Undoubtedly, there is a component of morals and values attached to it. The sooner we can reach a consensus on what those morals and values are, the quicker we will be able to avert the disaster that confronts our kids.

In analysing the drug trade, which is booming, we see that it has become the nation's newest and most frightening job. Lured by the easy money that it can fetch

the country's unemployed youth are gradually being drawn to this vile trade. The fact is that they have grown up in fatherless homes or impoverished surroundings, watching their mothers struggling hard to eke out a living.

With the unemployment rate for youth folks rising to 60%, little work is available for unskilled and uneducated youths. The handful of jobs that are available to these poorest groups are -- errand boys, grocery packers, and stone crushers for the construction works -- pay only minimum wages, which are hardly sufficient to keep them alive in these days of price spirals and economic crises. These youngsters turn to the most lucrative option they can find.

In rapidly growing numbers, they are becoming the new criminal recruits of the booming trade in drugs, with their patrons, the drug lords, remaining behind the scene. There are reports of teenagers getting addicted to and involved in trafficking of yaba tablets and other narcotics because of peer pressure.

In some cases, we have heard about the murder of youngsters as a consequence of group rivalry and feud over sharing of drug money. Precisely speaking, it is not these kids who are at fault. It is their parents who should be blamed. If the parents had devoted the same time, energy, and resources that they did to confront other crises, things would never have been so bad.

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# Contemplating sustainable solutions to garments sector unrest

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THE readymade garments (RMG) sector is the country's premier foreign exchange earner. It accounted for about 80% of the total share of exports and earned \$12.7 billion in 2008-09. This was about 14% of the country's GDP.

In addition to the substantial contribution to the economic arena, the social contribution of the garments sector has also been significant. It has provided employment to about three million workers, the majority of whom are young, poor and illiterate women.

But there is a dark twist to this feel-good storyline. The RMG sector is going through severe turbulence. The series of recent clashes between law enforcers and garment workers is symptomatic of an unfolding crisis in the industry and puts it at risk of losing its competitive edge in the global market (see Table I).

Each violent incident has overtaken the other in scale and consequences. In the wake of the recent incident in Ashulia, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) decided to shut down hundreds of factories in the area. The factories opened only after receiving assurance from the government that their security would be ensured.

The grievances of the workers are genuine. In the absence of an appropriate formal channel to air grievances and seek redress, the only avenues open to the RMG workers are street protest, picketing, or gherao of a manager's office or a factory. (But questions have

Date & place of incidence	Cause of incidence	Loss of life & property
January 11, 2010 Ashulia, Tongi	For conveyance, lunch bills and encashment of casual leaves	40 workers injured, production in around 30 garment factories halted, road blocked for over one hour
April 28, 2010 Mirpur and Ruppangj areas	For increased minimum monthly wage from Tk. 1,662 to Tk. 5,000/	30 people hurt, 22 RMG units hit, production affected in 22 more readymade garment factories
May 25, 2010 Kanchpur, Narayanganj	For low house rent & better supply of water & gas	30 people wounded, police box burnt, roads blocked for one and half hours
June 21, 2010 Ashulia, Tongi	For minimum pay at Tk. 5000/	200 people hurt, 50 vehicles damaged, 30 factories ransacked
June 30, 2010 Mirpur, Dhaka	Against closure of 3 factories	40 people hurt, 3 vehicles vandalized, road blocked for 2 hours

also been raised about the actual identity of the unruly people going by the name of workers, who have been causing havoc on the factories that provide them with their means of livelihood.)

So far, the government has largely left the RMG sector to its devices. But, given the recent incidents, the government has announced that it will be formulating a labour policy and set a minimum wage for the garment workers; a move that was long overdue. A cursory analysis of the labour legislation and a review of the institutions show that the incidents

of violence in the garment industry stem largely from legal and institutional failures in the sector.

Reviewing and amending provisions of the labour act: The Bangladesh Labour Act, 2006 allows the owner to close the factory without having to inform an authority in advance. This legal provision goes against the international best practice that stipulates that a company must follow three steps before it declares a lay off; giving its workers at least one month's notice, publishing that notice in newspapers, and sending the notice to the inspector of

labour. The Labour Act, 2006 needs to be amended to protect workers' rights and to facilitate the process through formal and legal channels.

Strengthening oversight and regulatory institutions: Most garment factories do not follow the labour law and ILO conventions. The Labour Act, 2006 clearly stipulates that the wages of a worker must be paid within seven working days of the completion of the stipulated wage period [Section 123 (1)]. This is not followed in practice. In addition, some of the factories do not provide appointment letters/contract letters, identity cards and service books. Health safety and security condition are also not sufficient.

The Act has also empowered the Office of the Chief Inspector of Factories of the Ministry of Labour and Employment to investigate compliance of the factories with the Labour Act and report any violation of the Act to the Labour Court (Section 319). However, it is severely constrained by lack of capacity and qualified personnel.

Most of the RMG workers are illiterate and do not have any knowledge about workers' rights and labour laws, and cannot ensure the compliance of the laws on their own. A key challenge, therefore, is to carry out awareness programs for workers on rights and entitlements. Partnerships with civil society organisations, especially those working on labour rights, could be effective.

Ensuring appropriate wages for the workers: There is no stipulated national norm for minimum wage. The current minimum wage of a garment worker is Tk.1,664 per month. It was set in 2006 and has

not been adjusted for inflation. If it had been adjusted for inflation (around 7%), the wage would have increased to Tk.2,334. The workers are presently demanding a minimum monthly salary of Tk.5,000 and other financial benefits.

The Minimum Wage Board of the Ministry of Labour and Employment needs to review the wages of the workers after every three years and ensure that, at a minimum, the cost of living adjustments are made by the factories. There should also be a provision of annual inflation adjustment. At 22 cents per hour, Bangladesh has the lowest labour costs in the world, lower than Cambodia, Pakistan and Vietnam, where the wages are 33 cents, 37 cents and 38 cents, respectively.

The labour cost (including wages, social charges, and a series of bonuses), however, is not the only factor for sourcing decisions. Other factors include labour productivity, quality and cost of available textile materials, energy prices, lead times, services offered to apparel importers or brands, import tariffs rates in Europe or the United States, cost of freight, etc.

While it is accepted that cheap labour has been the major reason why Bangladesh remains competitive in the international arena, it may be high time to improve factors such as labour productivity to increase the industry's competitiveness.

Ensuring workers security: Given the recurring violence, regular security vigilance in the industrial areas is necessary. In India, there is a multi-skilled security agency, Central Industrial Security

Force (CISF), set up in 1969, which provides integrated security cover to both public sector and private sector undertakings. The government of Bangladesh has a plan to form an industrial police force under the Ministry of Home Affairs and deploy it in four major industrial zones -- Ashulia, Savar, Gazipur, and Narayanganj.

However, the formation of the industrial police without ensuring appropriate workers' rights may put the workers' safety at risk. In order to protect their interests, a counter-balancing community-based committee should be formed, consisting of local law makers, community leaders, workers' representatives, owners' representatives, and local administration to facilitate security of workers and factories, monitor ecological impact, and resolve disputes locally.

Is trade union really an option? In the absence of a comprehensive labour act and strong office of chief inspector, another option that has been explored has been the formation of a strong trade union to protect workers' rights. The Bangladesh Labour Act, 2006 allows trade unions for both workers and owners.

The Act has laid down, in detail, the registration, membership, code of conduct of members and officials of trade unions. The government made a decision, in principle, to introduce trade unionism in garments sector in the aftermath of last year's bloody incident at Nippon Garments, and formed a committee for this purpose.

Currently, there are several registered trade union federations

and alliances for garment workers. The noteworthy ones include the National Garments Workers' Federation and the Bangladesh Garment Workers' Unity Council. But despite the existence of those, the trade union movement in garments sector has been very weak.

Trade union activities in the garment factories are usually strictly prohibited. Many garment workers lose their jobs because they try to join, or form, trade unions. The garment manufacturers fear, rightly or wrongly, that trade unions may lead to an unhealthy collusion between political parties and trade unions, which, in turn, would hamper improvements in productivity and work environments. The owners also fear that the trade unions will hamper the low wage employment, which is vital for maintaining Bangladesh's competitiveness in the international arena.

The provisions in the Labour Act relating to joining and membership within trade unions must be reviewed with consideration for sufficient safeguards for the industries as well as the workers.

In conclusion, institutional and regulatory steps must be taken that ensure the competitiveness of the sector and also guarantee that workers' voices are heard. It is hoped that the labour policy that is being drafted will take the institutional and regulatory points into consideration.

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