allowed a tax rebate of 10 percent to telecom companies which list up to 10 percent of their capital in the exchange.

As companies in the textile sector are considered mainly as provider a of employment and a source of foreign currency, rather than a direct source of taxation for corporate income tax, further tax incentives may not be appropriate. However, as most tax deduction being done currently is carried out "at source," i.e. deducted before funds even reach the company, in the form of Advance Income Tax (AIT), which is usually a final settlement of income tax obligations, and with most products in backward linkage industries considered to be "deemed exports," there is hardly any major incentive to remain privately held given the fund availability, pricing advantages and cash flow flexibility of a listed entity.

It is expected that the listing of textile companies with the stock exchange shall increase with time. As there is increasing scale requirements, which increases the requirement of the total investment, and as wages continue to rise, which increases working capital requirements, companies shall increasingly seek investment from the public markets. This is the case for spinning and denim mills, which are considered more capital-intensive than garments factories. But, surprisingly, out of the 400 or so spinning mills, less than a dozen are listed. At the same time, there are increasing composite mills in the knitwear sector which require higher value added machinery and linkage investments in dyeing, finishing and printing, which may seek such public investments.

The benefits of such publicly listed investments would be largely positive for the economy, the stock exchanges and the industry itself. Bringing the issue back home to the wage increase debate, the increased ownership of textile industries by the general public, and increasingly by the workers themselves, would make the latter bigger stakeholders in the industry than just a means to cover that month's household expense bill.

This would not be the first sector to allow for mass ownership of its shares. This has been effectively carried out by banking, non-banking, insurance and several public utilities. Yes, these industries are white collar and the issues are vastly different. However, as the equity culture deepens in Bangladesh, and as more stocks reduce their denominations to Tk 10 rather than Tk 100, and allows for smaller market lots, investments in equity shall not remain the prerogative of the urban well to do.

Second, it would allow the industries to manage global downturns better. A recent analysis of the current wage increase expense items calculates that, given the 3.5 million workers in the industry, the increase in average nominal wage from Tk 2,409 per month to Tk 4,290 per month would lead to a maximum increase in the annual wage bill of the industry by about Tk 79 billion (equivalent to about $1.1 billion). This maximum possible increase constitutes 9.2 percent of the total FY10 garment exports. As the total value of garments export increases, the estimate is that it is unlikely to be more than 8 to 10 percent of the value of exports.[5] Even for the larger business groups, who are in better position to manage their cash flows due to advantages of scale and backward and forward integration, it is surely a material cost.

Finally, as shown by the history of our regional stock markets, a profitable and growing company, which wants to keep the forward-looking legacy of its founders intact incorporation of quality management, increase the scale and cheaper access to capital, allows the next generation of owners to manage the business more easily. There is no better legacy for the founders of the industrial concerns than their business continuing profitably when they have long passed from the scene. There is no easier route to achieving this than by incorporating wider public ownership through the capital markets.

Finally, and most importantly, it would create an ownership culture among the better off millions of people in the sector. Again, emphasising that it is not a simple solution to the wider issues of the textile sector, it remains till date a successful path of integration of these concerns into wider society in our regional countries.

References

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