Don't kill the goose that lays the golden egg

SADIQ AHMED

OVER the past two decades, Bangladesh's merchandise exports in current US dollars surged from around $2 billion in FY1992 to $24 billion in FY2012, growing at a heady pace of 13 percent per year. This is a superb performance by most developing country standards. This export boom was led by one product group -- the readymade garments. The RMG exports have surged from $1 billion in FY1992 to a whopping $19 billion in FY2012, which is an amazing 79 percent of total merchandise exports and some 49 percent of total export earnings of Bangladesh (including goods and factor and non-factor services). There have also been some positive shifts within the garment sector in terms of product composition. While Bangladesh has continued to gain strength in the low-end segment, outperforming the cost escalating competitors in China and India, it is also making some inroads in the high-end segment of name-brand products. The spread in terms of geographical diversification of RMG exports is also improving, although the US and the European Union continue to be the main buyers. Overall, Bangladesh's prospect for gaining further market share in the large global RMG market is bright.

ANISUR RAHMAN

A fire officer advises workers on safety measures at a garment factory in Ashulia.

The RMG sector provides an estimated 3.6 million jobs, which is 60 percent of total manufacturing employment. It has also introduced some innovative dimensions in the labour market. The sector has cashed in heavily on the abundance of labour supply in Bangladesh and has cleverly tapped the mostly under-utilised female labour supply that is highly disciplined and inexpensive. The other innovative thing that the RMG sector did is that it provided all the training in-house. This is a rare phenomenon in Bangladesh. The cost advantage from relatively low real wages, adjusted for productivity differential, is among the key factors contributing to the success of the RMG sector. The sector also provides a very good example of how the entry of educated entrepreneurs in the business changed the skyline in terms of productivity and competitiveness.

More generally, the flexible functioning of the labour market is a positive factor for export competitiveness in Bangladesh. On average, labour markets in Bangladesh respond to productivity improvements and incentives and government interventions are minimal. This favorable endowment of labour and flexibility of the labour markets give Bangladesh a great competitive edge in specialising in labour-intensive products, especially in the manufacturing sector. The positive experience of the garment sector is a solid indication of this comparative advantage.

While the flexibility of the labour market is a huge plus for Bangladesh as compared with neighbours like India and Sri Lanka, the laissez-faire approach in Bangladesh is also coming under stress. In those countries, government interventions in the labour market create huge transaction costs and reduce the competitiveness of the manufacturing sector. The inadequacy of proper regulations relating to health and safety standards of employment and the weakness of enforcement have led to some serious downside risks in terms of health and loss of life and limb. The weakness of public policy is compounded by sometime irresponsible entrepreneurial social behaviour, partly driven by pure short-term greed and partly due to neglect. This is illustrated dramatically by the recent tragic fire at the Tazreen garment factory in Ashulia leading to the sad loss of an estimated 111 workers. While a proper legally-sanctioned investigation will unfold the true factors underlying this tragedy, there is no question that this incident (and some other less dramatic incidents in the past) reflects a combination of lack of appropriate worker protection public policy and irresponsible entrepreneurial behaviour.

This incident is a wakeup call for both the garment sector and for the government. Because if this is not handled properly through the institution of appropriate public policy and adoption of industry-wide responsible employment practices, there is a serious risk that the sector might lose its historical momentum. I see this as an immediate serious development risk to Bangladesh.

The depth of my concerns can be easily gauged if one were to focus attention to the ongoing global events. The combined effects of the global financial crisis of 2007-08 and the ongoing European debt crisis has left a badly bruised economy in most developed countries, especially in the US and Western Europe. GDP growth has slumped and unemployment has been growing. Faced with dire economic situation, the political forces in these countries are becoming populist and irrational. One consequence is growing opposition to foreign trade and investment in the name of protecting jobs at home.

A dramatic illustration of this growing hostility is the recent clash between the French government and the global steel tycoon Mittal. In 2006 Mittal acquired Western Europe's largest steel industry Arcelor. Facing sliding market demand and financial losses ArcelorMittal has decided to close down two blast furnaces at the Florange site in Lorraine, France. Newspapers reported that the French government at one point threatened to nationalise this site unless ArcelorMittal guarantees the employment protection of all workers working here. Such an outrageous and blatant threat in a market-based highly developed western economy was unthinkable even a few years ago, but is reflective of the changing political economy. In the US, the protection of jobs was a big theme in the November Presidential election. It will be hardly surprising if similar concerns also emerge in other Western European economies.

These adverse domestic economy developments in the US and Western Europe and related irrational political thinking can pose serious downside risk to the Bangladeshi garment sector linked to the perceived exploitation of the workers.

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Big plans make comeback in post-crisis Dubai

AFP, *Dubai*

DUBAI is back in the business of unveiling mega projects, three years after a severe financial crisis crippled its booming property sector, but doubts still linger over finance and feasibility.

Just as the economy in the glitzy city-state begins to look promising, despite a large debt burden dating back to the years when growth appeared endless, Dubai has once again set its sights on building superlatives.

"We do not anticipate the future. We build it," Dubai's ruler Sheikh Mohammed bin Rashid al-Maktoum, architect of its meteoric rise into a regional tourism and services hub, boasted last week as he unveiled plans to build a "city" carrying his name.

Among the attractions of the new mega plan is a mall touted to be the largest in the world, not far from what is already the world's largest shopping and entertainment destination, the Dubai Mall.

Mohammed bin Rashid City will sprawl over a large swathe of the emirate's desert and have gardens 30 percent larger than London's Hyde Park, in addition to 100 hotels, and a Universal Studios theme park.

No price tag was attached to the project which is to be developed by the ruler's Dubai Holding conglomerate and Emaar, which built Burj Khalifa, the world's tallest tower.

This week, Dubai also announced a 10 billion dirham ($2.7 billion) leisure centre and theme parks.

Dubai appears keen to capitalise on its growing tourism sector which it said is expanding 13 percent a year, with hotel occupancy rate hitting 82 percent last year.

Sheikh Mohammed said the emirate must stay ahead of expanding demand and match its ambitions.

"The current facilities available in Dubai need to be scaled up in line with the future ambitions for the city," he said, highlighting a constant rise in tourism and the business of hosting forums and exhibitions.

"A large part of these projects are linked to expanding Dubai's capacity in core sectors with comparative advantage, such as tourism, which is positive," said Monica Malik, chief economist at EFG-Hermes investment bank in Dubai.

But the source of funding for such grandiose projects remains vague.

"We do have our own resources and way to finance... We are sure that these projects will be achieved," the Arabian Business online magazine quoted Hani al-Hamli, Dubai Economic Council secretary general, as saying.

Beyond general assurances, Dubai continues to deal with the burden of maturing debt, after it racked $113 billion in borrowings during years of extensive investments, with $9.8 billion reportedly coming due next year and $3 billion in 2014.

AFP/FILE

A woman and her children walk past Burj Khalifa, the world's tallest tower, in the Gulf emirate of Dubai.

"Banks remain wary about lending to real estate developments at a time when they still have to make major provisions against non-performing real estate loans from the last development boom," said real estate consultancy firm Jones Lang LaSalle in a statement Thursday.

However, "the fact that these projects have long-term time lines is positive as they can be developed alongside demand, both domestically and internationally, so as not to build overcapacity," Malik told AFP.

"The funding of these plans is important and should be matched with revenue growth potential," she added.

Battle over Grameen Bank

The 8.3 million women who form the bulk of the Nobel-winning microfinance bank's shareholders could be the losers

THE GUARDIAN

WHEN Taslima Begum, a housewife turned entrepreneur from the north of Bangladesh, accepted the Nobel peace prize in Oslo in December 2006, it was a proud moment for Bangladeshi women. The Nobel citation said the prize was awarded to Muhammad Yunus and Grameen Bank "for their efforts to create economic and social development from below".

Begum, who had used her first 1,500 taka (£12) microloan to buy a goat in 1992 and went on to become an elected director of Grameen's board, said: "My parents gave me birth, but Grameen Bank gave me a life."

Six years on from Oslo, the 8.3 million women who make up the bulk of the microfinance bank's shareholders are facing an unexpected challenge. The bank that received the Nobel prize for its work in fostering socio-economic development from below is fighting to stave off moves from its own government to enforce decisions from above.

In August, the government of Bangladesh amended the 29-year-old law governing Grameen Bank, giving more power to the government-appointed chairman to choose the bank's chief executive. The government, a minority shareholder, also constituted a commission of inquiry, the Grameen Bank Commission, which is expected to recommend further changes to the governance structure of the microlender.

Critics say the move amounts to a government takeover of the institution.

Yunus said there had been no failure in the running of Grameen to warrant an investigation, and he questioned the need for a commission of inquiry.

"People are copying Grameen's management system in other countries," he said. "This is unique not only in Bangladesh but in the [rest of the] developing world. Our staff members transport millions of taka in the villages without armoured cars or armed guards. Nobody steals our money. Surely we're doing something right with our management model."

This is the latest in a long-running tug of war between Yunus and the government, which removed Yunus as the head of Grameen last year, saying he had passed retirement age.

Mirza Azizul Islam, a prominent economist and former economic adviser to the government, said the trend was towards diluting the role of the board of directors and concentrating power in the hands of government appointees.

Prof Muhammad Yunus says there was no failure in the running of Grameen Bank to warrant an investigation, and he questions the need for a commission of inquiry.

"With these unnecessary changes, the government is tinkering with a system that has allowed Grameen to prosper while many state-run banks are embroiled in scandals," said Islam. "If the basic structure of Grameen is changed, the worry is that the poor women who are the rightful owners of the bank will be disenfranchised."

Grameen is governed by a 12-member board, nine members of which are elected from among the borrowers while the other three, including the chairman, are nominated by the government. The government owns 3 percent of the bank based on equity, while the rest of the shares are held by the bank's members, mostly women.

"Grameen Bank was formed as an institution owned by its borrower members, who are poor women," said Yunus. "Through its unique decision-making process, Grameen Bank has given millions of women the means to emerge from the shadows in a male-dominated society and to make something of themselves."

Tahsina Khatun, an elected director of Grameen, says the bank's independence is non-negotiable. "Grameen is our bank," she said. "We bought shares bit by bit with our savings. Now the government has started saying this is a government bank. How can we accept that?"

Khatun said Grameen, which gives small loans without collateral, runs on a system based on trust. "If the trust is ruined, the bank will certainly be affected."

At the heart of the dispute are conflicting interpretations of the bank's ordinance. A government review committee concluded last year that since Grameen was created under a special law, it was a statutory public authority in other words, a government bank.

Yunus contends that Grameen is an independent specialised bank which, according to its founding charter, is run by its board of directors, not by the government. Grameen's employees do not take their salaries from the government budget, which means they are not public servants.

The Awami League-led government's antipathy towards Yunus has been made clear by a series of public comments made by government ministers. The prime minister, Sheikh Hasina, has criticised microfinance institutions for "sucking blood from the poor".

Last month, Finance Minister Abul Maal Abdul Muhith caused consternation when he quoted another Nobel laureate, the Indian economist Amartya Sen, as saying Yunus was responsible for tarnishing Bangladesh's image abroad. Muhith backtracked after Sen swiftly denied the comments.

Mozammel Haque, chairman of Grameen, denied the government was taking over the bank. "The government will not take over the bank," he claimed. "The bank's operations have been running smoothly according to the law." Haque said the change in the ordinance was necessary to resolve a stalemate over the appointment of a new managing director.

The government has reacted to the stiff opposition put up by Grameen's directors by asking a commission to look into the women's "qualifications" to serve as directors. Critics have accused the government of harassment. Yunus said: "I find it outrageous that people are calling into question the qualifications of these women who have become owners of the bank with their own money and through their hard work."