

THE MANUFACTURING SECTOR IN BANGLADESH

Is it a sustained driver of economic growth and employment creation?

SELIM RAIHAN

THE Bangladesh economy has witnessed significant structural changes over the last four decades. The share of agriculture in GDP has declined while the relative significance of industry and services sectors has increased substantially.

Manufacturing is now an overwhelmingly salient component of the country's export composition, thanks largely to the rapid expansion of the RMG industry. RMG has been an important contributor to the growth and employment generation in Bangladesh.

reasons. Firstly, given the existing heavy reliance on the RMG sector and weak performance of most of the non-RMG manufacturing sectors, achieving sustained and long term growth in the manufacturing sector in Bangladesh remains a challenge.

There is need for a well-designed and effective industrial policy wherein monetary (interest rate subsidies) and fiscal incentives (reduced taxes or tax holidays) should be transparent and time-bound.

due to both domestic and international factors. There have been five major sources of 'rents': the Multifibre Arrangements (MFA) quota (which no longer exists) and the Generalised Systems of Preference (GSPs); different forms of subsidies; tax exemption; the labour regime; and compliance.

The MFA regime was phased out by the end of 2004, though the GSP facility of the EU is still in place. However, there are concerns with regard to the continuation of such

facilities in the future on grounds of lack of compliance, weak labour standards and the conflictual political situation in Bangladesh.

The RMG industry also enjoys support from the government in the form of export subsidies, interest rate subsidies and subsidies on the cost of utilities. 'Rent' in this sector is also generated by the tax exemption facilities. It is estimated that the size of the tax foregone in the RMG sector due to the provision of tax exemption facility in recent years could be as high as 6.3 percent of the total tax revenue. However, the

size of such 'rent' could shrink over time due to the budgetary constraints of the government.

Over the past three decades, the RMG industry has benefited from a labour regime, supported by the major political parties, which has been able to keep the wages of labour in this industry very low. However, recent labour unrest over the hike of the minimum wages in this sector as also the pressure exerted by the international community poses serious challenges in terms of the

'sustainability' of such a labour regime. Similarly, a regime of lack of compliance, especially with regard to the working environment and factory standards, in the context of weak regulatory institutions, has generated 'rent' for this sector over the years.

However, such 'rent' has become highly unsustainable due to the serious international pressure for enforcing compliance in the wake of recent incidents of fire and building collapse, which have resulted in a large number of deaths of RMG workers. All these developments suggest that the RMG sector in Bangladesh needs to undergo some major structural changes in the future for ensuring its sustainability, which would have important implications for the growth of both the manufacturing sector as also of the overall economy.

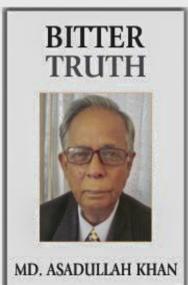
Against this backdrop, it is important to highlight that in order to become a sustained driver of economic growth and employment creation in Bangladesh, the manufacturing sector needs to lay stress on expanding and diversifying its base. It is important to support macroeconomic, trade and industrial policies, and to address the policy-induced and supply side constraints, which have hampered the growth of the non-RMG sectors. Some of these constraints include the lack of investment funds and working capital, prevalence of high interest rates, shortage of skilled workers, lack of entrepreneurial and managerial skills, availability of poor physical infrastructure, and inefficient ports along with high transport

costs, weak institutions, a poor law and order situation, and high invisible costs of doing business, among other things.

Apart from RMG, the export response of all other major commodities has been very weak. The RMG sector also appears to be the main beneficiary of the export incentives while for the non-RMG sectors, such schemes have proved to be less effective. This situation also raises a critical question as to whether rents are needed for the promotion of the non-RMG sectors. The current industrial policy highlights the importance of economic diversification and of providing incentives to other sectors in order to generate some rents in the non-RMG sectors. However, it should be kept in mind that the manner in which the RMG sector has been able to generate 'rents' through the suppressed labour regime and weak compliance is not sustainable and cannot be replicated in the other sectors. Hence, there is need for a well-designed and effective industrial policy wherein monetary (interest rate subsidies) and fiscal incentives (reduced taxes or tax holidays) should be transparent and time-bound. The current industrial policy, however, lacks vision and is also poorly designed. In addition, industrial policy needs to address issues of education and skill development for facilitating higher capabilities, in which Bangladesh is lacking.

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Poor administration erodes confidence



MD. ASADULLAH KHAN

IF what is happening is any indication, governance at all levels of administration seems to be flawed. With AL in the seat of power, the electorate was yearning for stable governance—a factor seemingly missing long since.

Stability requires a degree of rectitude, coherence, policy pattern, determination, courage, capacity to make intellectual guesses and an attitude to stand firm in the face of all odds.

The weakening moral standard and authority of politicians only increases the arbitrary power and recklessness of officials at different tiers of administration. People feel all this has led to a situation where bureaucrats are either indifferent or shying away from their administrative responsibilities.

Public employees demand pay-offs for each work required to be done, even for moving a file from one table to the other. Water, gas, electricity, land registration, income tax and city corporation tax assessment, train and bus tickets on Eid rush can all be had but for a small price. Shocking lapses of the agencies concerned and unforgivable bad governance now see Bangladesh sliding into a distress zone.

Reports have it that three weeks after the two-storey tin-shed structure in the marshland near Matir Masjid at Malbagh caved in and collapsed, causing 12 deaths instantly, some greedy people close to the Jubo League leader Moniruzzaman, now in police remand, gathered enough strength to build new structures in the marshland near the disaster area.

Ominously, all the sectors we look around are redolent with the stench of corruption. In the human trafficking racket in Malaysia en route to Thailand, a newspaper report published on May 5 revealed that traffickers engaged in this clandestine trade enjoy the blessings and patronage of a section of the powerful. And that's the reason they can run their trade uninterrupted, evading police arrest.

Our country seems to have different laws for different people, and that's why the judiciary was compelled to step in where our leaders or bureaucracy feared to tread. The only solace is that, delays and expenses notwithstanding, the judiciary continues to be vibrant and energetic, something reflected in the recent Supreme Court judg-

ment allowing prosecution of four doctors in Shariatpur for giving false autopsy report on a Shariatpur rape victim who succumbed to her injuries after being lashed 50 times upon a fatwa in 2011.

What strikes most is that many of these people either in public offices or outside escape punishment due to some lacunae in the law itself or political interference or a flawed legal process or manipulation in evidence. The big loan fraud in Sonali Bank and Basic Bank, in collusion with the high officials and directors in these banks, points to simply poor governance in the financial sector. It seems, some of our so-called prominent businessmen have sworn themselves to unbridled corruption, scam, defiance of rules and irresponsibility.

An elected government unlike an authoritarian ruler has only five years time to cleanse, relocate, and adjust structural reforms. Once they resort to dithering or they are accused of narrow vision and ethical flexibility, it will cost them heavily in terms of diminishing popularity, increasing public disgust and future election debacle.

Let us try to see how administrative paralysis, apathy, dithering and bureaucratic high-handedness have disrupted development works in the country. Even after Ecneec approved the recovery project of the Uttara Lake in May 2014 costing Tk 38 crore, Rajuk didn't take up the work during the last one year for reasons best known to them. Now because of persistent public pressure when they want to start the work by stopping discharge of polluted water into the lake, they can't proceed because DCC will not accord permission to Rajuk for the road cutting needed for reversing the discharge to the nearest storm sewer built by WASA unless they have deposited money as per DCC estimate.

This they are doing in spite of the fact that Rajuk has given DCC a written undertaking that they will repair the damage and restore the road to its previous condition with their own resources. We are inclined to believe that Rajuk has the resources, manpower and even contractors ready at their disposal to undertake the work. Files and notes fly from Rajuk to Nagar Bhaban (North) at Gulshan to DCC office at Uttara but with no positive result. The development project initiated at the directive of the Prime Minister's Office in 2011 is now in a limbo. If this 3.5km long and 200m wide lake could be restored to its past state with consequent recharging of ground water, as proposed in the DPP, it could be a vast source of fresh surface water for the people in this area.

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Leading from the front



NIZAMUDDIN AHMED

THAT our Sangsad has become dull and drab since the ascension to Bangabhaban of the previous Speaker would be discourteous to the existing fellows that constitute our house of parliament, but it is a fitting compliment to our president Abdul Hamid.

The former Speaker's wit and charm not only caught the House off guard, throwing also the many glum members into rapture, albeit intermittently, but also allowed national newspapers to light up their otherwise gloomy front page columns with titbits. So secure is his present abode that the seasoned politician's jocularly had been long forgotten, that is, until he broke the ice in this May heat at the third Convocation of Northern University Bangladesh last Tuesday.

After the usual salutations, the President as Chancellor of the University skipped his scripted text, (he spoke in Bangla, my translation):

"You all know that my speech is already written. (laughter) There is no scope for me to speak beyond what is written. (laughter and cheer) My health is in a very bad state, and there was no time, and so what the higher officials from my office have written, I did not see that by giving even one reading. (laughter and cheer) What I will say, that I myself do not know. (laughter and cheer) But, despite my health being bad, I had to come, because you know that there are lot of problems for the president and the prime minister. If I go out, especially standing on my right and behind is the SSE, (laughter and cheer)... Special Security Force.

"I was a little reluctant to come, not feeling well, so I shall not go today. But the DG, Director-General of that SSE, Major-General Aman Shaheb, he also said, 'No, Sir, you have to go'. I thought, if I do not go, as it is the tight security which he maintains, (laughter) how much tighter he will make that there is no surety about that. (laughter and cheer) So, despite my sickness, I had to



come. And, actually what I have said that has been rightly proven because here I have seen that General Aman Shaheb is present along with his wife. (laughter and cheer)

"And what my sickness is I do not understand that either because I have been given instructions that from after giving my speech I shall be taken to the CMH. (laughter and cheer)

"My greatest discomfort is in getting up, sitting and sleeping. (laughter and cheer) And, if I cough, then I feel pain in my chest and also a little in the back. (laughter) Many think that because it is chest pain, it could also be the heart. But, it is my belief that this will not be the heart. The reason is I married a long time ago. (laughter and cheer) It is now 51 years. Since right after my marriage, this lady says that I am cruel, unkind... (laughter and cheer) while saying it in English, she says... I have also been called heartless. (laughter and cheer) Therefore, if I do not have a heart at all... since I do not have a heart, I should not be having any problem in my heart. (laughter and cheer)

"In the meantime I have heard that soon after this programme, most likely there will be a concert. (cheer) With a concert forthcoming, this sort of talk is not supposed to be enjoyable. (laughter) But, since we are also people of the old times, that is why the concert that says, 'Melay jabey go? Jabey go? Jabey go?' (laughter and cheer)... that we do not like. We like the songs of the olden days. But, again, to you, especially those

who are now students, they like concerts a lot.

"Whatever, the three-and-a-half pages, which I have been advised to read, I shall read now..." And then he read from the written speech. (laughter and cheer)

Link to the president's speech: (www.youtube.com/watch?v=1J2dpLgWVWk)

Now that was a great alaap before the designated speech, but no prizes for guessing which part the audience will cherish for a long time.

To us it may be something new, but US presidents have been known for their humour and wit. Jimmy Carter once joked: 'I have often wanted to drown my troubles but I can't get my wife to go swimming', while Obama has said: 'I'm so over-exposed I'm making Paris Hilton look like a recluse'. There's more: John F. Kennedy once said, 'When we got into office the thing that surprised me the most was that things were as bad as we'd been saying they were'. And Bill Clinton jibed, 'Being president is like running a cemetery. You've got a lot of people under you and nobody's listening'.

But, I think our president beats them hollow when wit is the measure. He is truly the president to the people. Salute, Sir!

The author is a practising Architect at BashaBari Ltd., a Commonwealth Scholar and a Fellow, a Baden-Powell Fellow Scout Leader, and a Multiple Paul Harris Fellow-cum-Benefactor Rotarian

QUOTABLE Quote Life is really simple, but we insist on making it complicated. Confucius

CROSSWORD by Thomas Joseph. ACROSS 1 Drift onto the beach 7 Chihuahua cat 11 Galahad's mother 12 Yemen neighbor 13 Human dynamo 15 Caruso, for one 16 Marshy wasteland 18 Reduced amount 21 Old German capital 22 Nodding, perhaps 24 Play division 25 Gift from Santa 26 Neckline shape 27 Poet Dylan 29 Noggin 30 Pinnacle 31 Military level 32 Cruise ship 34 Menu 40 Bread spread 41 * G u n - s m o k e * 42 Radiance 43 Did salon work DOWN 1 Spider's home 2 In the style of 3 Mineo of movies

CRYPTOQUOTE NGIO ZDGGBTC ODIOZD QVI LI NI ZBGGZD PIJ RIH FITGJIZ NI XHFV IP RIHJ ZBTL, PDDZBTCN WTL DXIGBITN. --QBZZ NXBGV Yesterday's Cryptoquote: AS SURE AS THE SPRING WILL FOLLOW THE WINTER, PROSPERITY AND ECONOMIC GROWTH WILL FOLLOW RECESSION. BO BENNETT

Yesterday's answer BAMB I ROMAN ACORN ADELE TEPEE TEASE JACKTARS ELLA RAHRAH SOULS PAULA STEEPS KNOT GOODEGGS GOD IDEA EMAIL LLAMA MINCE TEXAN STEED AGENT

BEETLE BAILEY by Mort Walker. HENRY by Don Trachte. SARGE IS MAD! HE'S LOOKING FOR YOU! YOU'D BETTER RUN! WHERE WOULD I RUN? I SUGGEST YOU RUN AT LEAST AN ARM'S LENGTH AHEAD OF HIM. HAND IT OVER, BALDY! BOP