

Are South Asian countries 'deindustrialising' prematurely?

USD 75 billion in capital flight! Fraudulent misinvoicing main culprit!

THE Global Financial Integrity (GFI) in its latest report titled 'Illicit Financial Flows to and from Developed Countries: 2005-2014' states Bangladesh has lost anywhere between USD 6 billion to USD 9 billion thanks to trade misinvoicing and other unrecorded outflows. As per 2014 data, our total international trade value stood slightly over USD 70 billion and trade misinvoicing was between 7 to 11 percent. If we take the highest estimate (USD 8.97 billion), that figure is big enough to pay for three Padma bridges!

Illicit financial flows (IFFs) represent a major hurdle for emerging economies such as ours because the flow can be both outgoing and incoming. The decade under review (2005-2014) reveals that the outflow has nearly doubled over the 2004-2013 period, and as in our case, the highest capital flight was recorded in 2013 when Bangladesh experienced serious political turmoil.

When we take into context the areas of illicit fund flow, it is trade misinvoicing that remains the primary tool for illegal transfer of funds out of a country. In this practice, trading partners write their own trade documents, or arrange to have the documents prepared in a third country (also known as re-invoicing). The practice allows for "fraudulent manipulation of the price, quantity, or quality of a good or service on an invoice and allows criminals, government officials, and commercial tax evaders to shift vast amounts of money across international borders quickly, easily, and nearly always undetected" as stated in the last GFI report. What it all boils down to is this: a failure to check this unethical practice is basically depriving the national economy of much-needed financial resources which could be utilised for our national development.

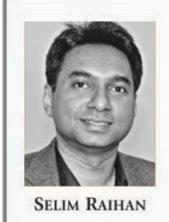
Recognising women change-makers Role models for us all

ON Tuesday, *The Daily Star* and IPDC Finance Limited jointly presented the "Unsung Women Nation Builders Awards" to seven exceptional women at the Krishibid Institution. These women were awarded for their courage, persistence, generosity and hard work and for their immense contributions to Bangladesh's socio-economic development. The awards – a crest and a cheque of Tk 2 lakh – were given out to each of the awardees in the categories of child rights, agriculture, law enforcement, education, entrepreneurship and health.

Each of these women has shown incredible resilience and braved all odds to fight for social justice. Some of these women have personal struggles of their own such as a physical disability or financial constraints despite which they were able to make a difference in their communities.

Irani Baroi, who has been paralysed from the waist down for two decades, is now a senior nurse at a general hospital in Madaripur. Rokeya Begum, despite being blind, is a successful educationist who teaches at a government primary school. Sonajan Akter has been serving as a midwife free of cost – despite hailing from a poor family – in her village and in fifteen others for the past 50 years. The stories of the four other women are just as awe-inspiring.

In a society where women face innumerable hurdles such as sexual harassment, discrimination and forced early marriage, the feats accomplished by these women are nothing short of remarkable. They serve as a role model for us all. We hope that more such people, whether it be a man or a woman, who are silently and selflessly serving their communities, are recognised for their contributions to build a better, more prosperous Bangladesh.



SELIM RAIHAN

INDUSTRIALISATION is the process by which an economy can transform its base from agriculture to manufacturing of goods. In contrast, deindustrialisation is the process of reducing manufacturing activities in an economy. Historically, all developed economies, after reaching a certain level of development, have experienced a decline in the share of manufacturing value-added



SOURCE: WEARECATALYST.CO.UK.COM

in GDP with the rising share of services value-added. Deindustrialisation thus appears to be a natural outcome of economic dynamism in those developed economies.

Contrary to the aforementioned natural outcome, a premature deindustrialisation is being observed in a number of developing countries where the share of manufacturing value-added in GDP starts to decline. Compared to the early industrialisers this share is already much lower and is declining at much lower levels of income than those industrialisers. As Dani Rodrik in his 2016 article ("Premature deindustrialisation,"

Journal of Economic Growth, vol. 21, no. 1) suggests, this means that many developing countries are becoming service economies without having had a proper experience of industrialisation. Latin American countries have been especially hard hit by such premature deindustrialisation.

Are South Asian countries also experiencing premature deindustrialisation? To answer this question, we have analysed the data of GDP per capita and the share of manufacturing value-added in GDP for the years from 1960 to 2015 for five South Asian countries (Bangladesh, India, Nepal, Pakistan and Sri Lanka) and a Southeast Asian country (Malaysia). The analysis

shows that Malaysia, over the years, with the rise in GDP per capita, was able to firmly increase its manufacturing value-added share in GDP from 10 percent to 30 percent (during 1960 and 2004). However, after reaching a high level of per capita GDP of around USD 8,000, the share started to decline, and this pattern follows the typical pattern of the deindustrialisation process of the advanced countries. In contrast, with many fluctuations, India very slowly increased its share of manufacturing value-added in GDP from 13.7 percent to 18 percent (during 1960 and 2008). However, for India, the challenge is the

declining share of manufacturing value-added in GDP since 2008 (by 2015 the share declined to 16.6 percent) which resembles premature deindustrialisation. The phenomenon of premature deindustrialisation is also very prominent both for Pakistan (the share declined from 14.7 percent in 2000 to 13.4 percent in 2015) and Nepal (the share declined from 9.4 percent in 2000 to 6.3 percent in 2015). Sri Lanka too has started experiencing a declining share of manufacturing in recent years. Contrary to all other South Asian countries, Bangladesh has been experiencing a rising share of manufacturing value-added in GDP at a

role in the economic growth and overall development processes for many developed and advanced developing countries. As Rodrik in his 2016 article suggests, manufacturing contributes to growth both because of the positive reallocation effect and because manufacturing tends to experience relatively stronger productivity growth over the medium to longer term, which has large positive economic and social benefits. Successful countries have changed their economic structures to benefit from manufacturing as the driver of economic growth. Therefore, premature deindustrialisation as well as low level of manufacturing base is not good news for South Asian countries. It thwarts the opportunities of rapid economic growth. It is very pertinent to mention here that one of the targets of the 9th Sustainable Development Goal is to "promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries."

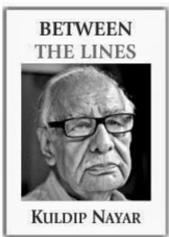
How do we substantially increase the manufacturing value-added share in GDP and thus promote manufacturing led economic growth in South Asia? South Asian countries have to adopt the right kind of policies and programmes, which can trigger much faster rate of growth of the manufacturing sector compared to those of agricultural and service sectors. The experiences of the successful countries show that human capital has made a major difference. In South Asia, compared to the East and Southeast Asian countries, both the quantity and quality of human capital are at much lower levels. Therefore, policies and programmes should be targeted at the rapid enhancement of human capital in South Asia. There is also a need for pro-active trade and industrial policies in terms of providing effective incentives to domestic investors, setting up special economic zones and attracting foreign direct investment for diversified manufacturing industries. Such policies should also be aimed at integrating the domestic manufacturing industries with the global value chains.

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much faster rate than both India and Pakistan at similar levels of per capita GDP. This suggests that, so far, Bangladesh has been the only exception in South Asia with respect to premature deindustrialisation. However, for Bangladesh, the major challenge is that the manufacturing value-added share in GDP is still low (17.6 percent in 2015), and the country needs to increase this share substantially to turn the manufacturing sector into the major driver of economic growth.

What is then the concern for South Asian countries? There is no denying the fact that manufacturing has played a key

UGLY SIDE OF WAR



KULDIP NAYYAR

BETWEEN THE LINES
 WAR is ugly. It becomes uglier when it is between two inveterate neighbours. They go to any extent to harm and humiliate each other. Pakistani soldiers have allegedly mutilated and killed two Indian soldiers, claiming that they crossed the Line of Control (LoC). Understandably, India has retaliated and destroyed Pakistan's posts on the border. Defence Minister Arun Jaitley has condemned the reprehensible and inhuman act saying that "such acts don't take place even during war. It is an extreme form of barbarism. The whole country has full faith in our armed forces which will react appropriately. The sacrifice of these soldiers will not go in vain." Condemning the despicable act, Army Chief Bipin Rawat, too, has vowed an "appropriate" response.

This has come closely on the heels of Turkish President Recep Tayyip Erdogan's suggestion that multilateral dialogue on Kashmir could be the solution to end the impasse between India and Pakistan. New Delhi is opposed to his view because it believes that Kashmir is a bilateral issue and it should be solved by the two countries while sitting across the table.

Beheading soldiers is nothing new. The army on both sides is said to have indulged in it before. What is annoying is Pakistan's flat denial of the incident. Unfortunately, there was no regret, no grief expressed. The UN probe to verify facts could have been a possibility. But since New Delhi has stopped the International Court at The Hague from taking up a Pakistan complaint against India on the plea that the two countries settle their disputes bilaterally, it could not allow a third party.

However, the incident is too serious to be left at that. India had evidence to prove that Hafiz Saeed, the Lashkar-e-Taiba chief, who has been placed under house arrest now, was at the border before the 26/11 incident. But Pakistan, on its part, had failed to order a probe. Maybe, it is the doing of 'irregulars' who, regrettably, seem to constitute a part of Islamabad's combative force. The country is already experiencing violence from within. The Taliban are killing Pakistanis on a daily basis, and there is no place which is beyond the range of their guns.

With unabated domestic violence and with Pakistan fighting against the Taliban in the Federal Administrative Tribal Area,

it is not understandable why the country should open a front with India. In fact, Islamabad has withdrawn some forces from the Indian border to fight on the west. Inter Services Intelligence (ISI) has declared publicly that it would concentrate on the threat posed by internal forces instead of engaging India. Therefore, there is no question of unnecessary hype.

New Delhi should realise that Pakistan is its front state. If it ever goes under, India would be directly threatened by the Taliban and face the danger of destabilisation. The policy should focus on how to retrieve Pakistan from the hopeless situation it is in. A weak Pakistan

Minister Narendra Modi's statement that business with Pakistan cannot be as usual is understandable, and his previous orders of surgical strikes have had the desired effect.

Yet my experience shows that Islamabad draws back from its rigid stand if and when New Delhi steps back and reflects. We have to learn how to live with an intransigent Pakistan. I recall what Director General of Trade Ismail Khan in Pakistan-occupied Kashmir had said a couple of years ago. He said that trade and travel across the ceasefire line would remain suspended until the skirmishes subsided. This was an unwise step which must have hurt Pakistan as much as it

of analysing the situation dispassionately, they have supported the stand of their respective country. Regrettably, the civil society is always on the side of the establishment whenever there is a clash on the border or when a dispute assumes dangerous proportions. Were the two civil societies to put their weight behind peace and call a spade a spade, their voices would be heard.

New Delhi's estimate that the ceasefire violations were meant to give cover to terrorists to sneak into Kashmir could be true. But the security forces in the Valley are strong enough to control them. The fallout of tension affects the people in Kashmir. They feel more insecure and fear



SOURCE: BLOGQPOT.COM

is a threat to India. Any escalation of tension or a suitable retaliation at an appropriate time would only aggravate the situation. Dialogue is the only way to improve the situation, and it should never be suspended or downgraded. But I am surprised at some irresponsible statements emanating from Pakistan that dialogue between the countries should go on despite skirmishes on the border.

Indian Foreign Minister Sushma Swaraj has shown restraint and maturity, and has not made any damaging comments. But the government's decision to keep the new positive visa policy on hold will only lessen people-to-people contact which is essential for better understanding. Prime

hurt India. For some reason, former military officers on both sides have turned out to be more hawkish. Some years ago, I was shocked to hear Admiral Iqbal of the Pakistan Navy reminding India about Muslim rule in the country for 1,000 years. Equally jingoistic was the suggestion by a retired Army Major General that the solution to India's problems with Pakistan was thorough military action. Both should realise that the engagement of the two countries would not be a street brawl. Both have nuclear weapons and we cannot ignore the danger this poses.

Civil societies in both the countries have proved to be disappointing. Instead

the worst. The separatists, including Yasin Malik and Shabbir Shah, do not realise that they are increasingly becoming irrelevant. The same is the case with the Hurriyat.

I wish the establishments in both the countries would consider the ceasefire line sacred. This has been converted into LoC through the Shimla Agreement. The then Prime Minister Zulfikar Ali Bhutto hailed it as the "line of peace" in an interview to me. And it has been seldom violated for the last three decades. Blood at the border has unnecessarily disturbed the status quo. Soon the two sides should realise that some agreement is necessary.

The writer is an eminent Indian columnist.

LETTERS TO THE EDITOR

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Consumers will bear the brunt of the new VAT rate

A 15 percent flat VAT rate on 4,800 consumer products will limit our purchasing power. Production of some local products may also collapse because of competition from cheaper alternatives from India.

It is the mutual responsibility of the NBR and the registered businessmen to help the government collect tax. But according to the Finance Minister, 32,000 of the 8 lakh registered firms in the country submit VAT returns far below expectations. Instead of imposing a flat VAT rate on all products, the government should help the NBR plug the loopholes in VAT regulations and bring to justice the businesses that avoid paying taxes. The government should first take care of the existing issues in VAT collection before implementing a blanket policy that will affect most strongly the general consumers.

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