50 Years of Bangladesh: Accelerating export-led industrialisation

FAHMIDA KHATUN

Bangladesh's economy has experienced significant structural transformation during the last five decades. At the time of its independence, the country used to be characterised as an agrarian rural economy. In the early 1970s, the share of agriculture in the Gross Domestic Product (GDP) was around 60 percent, and the industry and services sector had only a small share. The share of agriculture in Bangladeshi economy has now declined to 13.6 percent, while that of industry and services sectors stands at 34.6 percent and 51.8 percent, respectively. Within the industry sector, the manufacturing sector plays a dominant role with a share of 23.3 percent in the GDP. This has increased from only four percent in 1972. Along with structural change, the composition of employment generation by the sectors has also changed. Though agriculture still employs about 40 percent of the total labour force, industry has become an important source of employment generation.

The rise of the export-led industrialisation is one Bangladesh's success stories

Among the export-oriented industries, that of readymade garments (RMG) has been a forerunner which flourished in the mid-1980s thanks to enabling global and domestic policies. Since the early 2000s, a number of other potential industries were also identified by the government as thrust sectors with export potentials. These include software and information and communication technology, pharmaceuticals, leather products and footwear, and shipbuilding, among others. Export-led industries have generated employment and helped in reducing poverty. The RMG sector has also supported women's empowerment. The newly adopted Eighth Five-Year Plan of Bangladesh for the period 2021-25 has put emphasis on export-oriented industrial development.

Industrial policies have changed focus over time

However, the industrialisation process in Bangladesh has been built on a very weak ground. In the 1970s, the country followed an import-substituting industrialisation strategy. Specifically, Bangladesh followed a public sector-led industrial development plan during 1971-1975. This was largely attributed to the existence of a number of industrial units abandoned by non-Bangladeshis after independence. Small and cottage industries and foreign enterprises were kept outside the public sector. The revised industrial policy of 1975 allowed both foreign and local private investors to set up industries in collaboration with public sector corporations, so that public enterprises would keep the major share. Following a change in government in 1975, a process of de-nationalisation was implemented. The major objective of industrial policy during this period was the development of private sector-led growth. So, private investment was encouraged through liberal credit policies. The Industrial Policy of 1978 allowed the public sector to participate in joint investment with the private sector as a minority shareholder. The private sector could be bestowed with the responsibility of management of the investment in cases where the public sector corporations had the major share in such investments.

> The denationalistion of industries gained further momentum in the following decades under structural adjustment policies. The New Industrial Policy 1982 and the Revised Industrial Policy of 1986, and also Industrial Policies during the trade liberalisation phase from 1991 onwards, were crafted on the philosophy of a market-based competitive economy that emphasised export- oriented growth. The role of the public sector was downsized significantly, except for keeping its existence in a limited number of restricted areas. competitive economy that emphasised export- oriented growth.

The denationalistion of industries gained further momentum in the following decades under structural adjustment policies. The New Industrial Policy 1982 and the Revised Industrial Policy of 1986, and also Industrial Policies during the trade liberalisation phase from 1991 onwards, were crafted on the philosophy of a market-based competitive economy that emphasised export- oriented growth. The role of the public sector was downsized significantly, except for keeping its existence in a limited number of restricted areas.

The industrial policies of 1999, 2005, and 2010 devised action programmes for stimulating the involvement of the private sector, both domestic and international. Privatisation of state-owned enterprises continued to be a major focus in these policies. In addition, export orientation of the industrial sector, improved competitiveness of industries, and effective utilisation of resources for industrial development were emphasised, so that the contribution of the manufacturing sector to overall GDP could be raised substantially. The Industrial Policy of 2016 had a number of specific targets. Notably, it aims to increase the share of the industry sector in GDP to 35 percent by 2021. The policy also targeted to employ 25 percent of the total labor force by 2021.

Industrial policies during the post-1990s introduced a set of action programmes to raise the productivity of the industrial sector. The list of the thrust sectors that would be promoted through policy measures and foreign investment were expanded. These sectors, in turn, were encouraged through special incentives. The agro-based and agro-processing industries, the small and medium enterprises, and cottage industries received attention. As a continuation of earlier policies, the Industrial Policy 2016 also aimed to establish import substitution industries to cater to the local demand and promote export-oriented industries.

Industrial policies have been complemented with trade policies

Successful industrialisation is not possible without an effective trade policy. Bangladesh's trade policy has

SEE PAGE 14

PROMOTIONAL CONTENT

"There should be at least five more MFS competitors"

In conversation with Tanvir A Mishuk, Co-founder & Managing Director, Nagad

What was the situation of the Mobile Financial Services (MFS) industry before Nagad came onto the scene?

Nagad's journey began on March 26, 2019. Until then, opening an MFS account was possible only using the traditional method of filling out a two-page form that funnelled through customer service and then arrived at the office via a courier service. It took seven to ten days to open a new account, which was highly inconvenient for users. Consequently, only 33 percent of the population was under financial inclusion, including banks and all MFS, and within that, only 25 percent were active users. Another issue was that people began opening multiple accounts using one NID. People without much education were also unable to fill out such long forms accurately, so the customer service officers would accept forms containing wrong information just to get a commission.

What innovations did Nagad bring to the MFS industry?

We were the first to introduce Electronic Know-Your-Customer (e-KYC) in Bangladesh. Through this, people can take a picture of their NID, and our Bangla optical character reader (OCR) can extract all the information from the NID using Artificial Intelligence. The information is then sent to the Election Commission database to be cross-checked and the account is activated. This entire process only takes one minute. Within six months of being launched, the e-KYC technology began being used by all banks and MFS providers.

We then realised how, apart from people living in the metropolitan cities, nobody in Bangladesh owned smartphones. 70 percent of the population still use bar phones. These users are left out of the process since they are unable to take photos using their phones. Only telecom operators in Bangladesh have biometric KYC. So, we partnered with some of the most prominent telecom operators to make the process accessible to those with bar phones. Now, people can dial *167# on their phone and their operator will know that they wish to open a Nagad account. The operator will then send a confirmation message, and upon user agreement, their identification data is sent to Nagad, and the account is opened. The process is now so user-friendly that, every day, 2.5 to 3 lakh people are opening Nagad accounts.

2.5 to 3 lakh new users per day is an impressive feat. What is the reason behind Nagad's success?

People were already making transactions through merchants, so having their own accounts, that too by just dialling a code on their phone, have been much more convenient for users. They also no longer need to pay 20 taka per 1,000 taka transaction since our charge is only 10 taka—half the market rate. Our "Send Money," "Bill Pay," and "Merchant Payment" options are also free of charge. The ease that this service brings to people's lives has attracted many users.

Tanvir A Mishuk, Co-founder & Managing Director, Nagad

Do you find the MFS industry to be sufficiently competitive?

Even though people were dissatisfied with all the hidden charges they had to pay using MFS back in the day, they had no alternatives. So there was no competition until Nagad came into the market. I believe there should be at least five more real MFS competitors. Regulators need to control the competition so that one or two players don't have the entire market share. It is a massive risk for the government if regulators do not take immediate action on this. The Bangladesh Competition Commission could take charge here and provide recommendations to Bangladesh Bank on how best to tackle this issue.

> We were the first to introduce Electronic Know-Your-Customer (e-KYC) in Bangladesh. Through this, people can take a picture of their NID, and our Bangla optical character reader (OCR) can extract all the information from the NID using Artificial Intelligence. The information is then sent to the Election Commission database to be cross-checked and the account is activated. This entire process only takes one minute. Within six months of being launched, the e-KYC technology began being used by all banks and MFS providers.

Do you recommend any policy revisions to make the market more competitive?

We have already enhanced competition by offering lower cost and using state of the art technologies. However, the banking regulator can play a role here to improve the situation from the competition point of view.

The Honourable Prime Minister issued a directive to all government agencies to use Nagad for Social Safety Net (SSN) allowance disbursement. Why is Nagad the right choice for this?

Nagad is being used to disburse 100 percent of the primary education stipend, 75 percent of the social welfare allowance, and a handsome amount for the fisheries and livestock sector. Nagad is a great choice here because of our low rates and efficient services. These allowances are meant to help people. But, if there are high charges when sending the money and also when withdrawing the cash, the government's purpose is no longer served. Since Nagad offers these transaction options for free, all of the money can go towards supporting the people who need it the most.

On the other hand, when the government has tried to arrange cashless payment for COVID-19 testing none but Nagad came forward to support the government initiative considering stand beside the people.

What are Nagad's plans for the future?

The MFS guidelines were launched a decade ago in the country. During the ongoing fourth industrial revolution, I'd say that MFS has become dated. The world has moved to digital banks, so Bangladesh should follow suit. Digital banks will allow for the 360-degree financial needs of users to be fulfilled. We are working with our platform, our technology, and our regulators to turn digital banks into a reality in the country by this year.