A view of the Chattogram port that accounts for more than 90 per cent of Bangladesh export-import business. Riding on the back of apparel exports, the country has managed to grow at about 7 per cent rate for the last one decade.

PHOTO: STAR/FILE

BEYOND RMG: paths to industrialisation

KAZI IQBAL

The conventional textbook approach of export-led growth models rooted in export-oriented manufacturing and climbing up the value chain has been the canonical models for growth for the East Asian countries (e.g., Japan, S. Korea, Taiwan, and China). This model is widely advocated for other developing countries for both enhancing growth and reduction of poverty.

Bangladesh is also not an exception. Riding on the back of apparel exports, the country has managed to grow at about 7 per cent rate for the last one decade. However, eminent economists such as Joseph Stiglitz and Dany Rodrik casted doubt on the effectiveness of such models for the countries outside East Asia.

The fear is that pre-mature deindustrialisation may occur where developing countries will experience the contraction of the industrial labour force well before the point what the current industrialisedcountries experienced much later about a century ago.

While manufacturing sector generally follows an inverted U-shaped path over the course of development, the turning points seem to have arrived much sooner at lower level of income for a large number of middle-income countries, particularly the Latin American countries.

Rapid globalisation, emergence of China as the global manufacturing hub, and the wholesale automation of the production process are argued to dent the comparative advantage in manufacturing and be responsible for such deindustrialisation process. More labours are being absorbed in the low productive service sector than the high productive manufacturing sector from agriculture and this has slowed down the overall growth of the economy in the developing countries.

Hence, the effectiveness of the strategies relying solely on the export-led growth has been questioned, particularly for the economy with large consumer base. The thrust of the growth strategies should lie in both export-oriented strategies and domestic demand-led growth for the country like Bangladesh.

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While the export-oriented large industries remain the main engine for growth, industries serving the local burgeoning market will also play an instrumental role for growth as well as for poverty reduction. In fact, this two-pronged approach has been the underlying mantra for growth in Bangladesh for the last one decade or so, knowingly or unknowingly. The emergence of Walton-RFL is a testament to such strategies.

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Bangladesh experienced a slow emergence but rapid growth of the consumer durable sector targeting the local market in just one decade. Unlike RMG, these industries have some unique characteristics worth noting.

First, these industries have emerged and thrived in a very competitive environment when China remained omnipresent in the global manufacturing market.

Second, it seems they have defied natural competitive advantage which is the cheap unskilled labour, and invested in discovering the 'latent' comparative advantages.

Third, these industries grew through step by step transformation from retailer, to importer/wholesaler to assembler to manufacturer, unlike RMGs which were "born to export".

However, the growth of the domestic demand catering manufacturing sector can be stymied due to two major reasons. First, the size of the domestic market of a product may not be large enough to take the advantage of economies of scale and hence can't compete with the imports. Second, these industries can be subject to high protection and this may lead to the product quality below the global standard due to high inefficiencies.

In order to overcome such challenges, it requires industrial policies with carrots and sticks. Performance-based incentives instead of wholesale benefits across the board will help ensure competition among the local industries and facilitate the transformation from the domestic demand catering manufacturing to export-oriented manufacturing.

While it is argued that local competition can also result in product quality closer to the international level, it is important to sustain threat of international competition with specific sunset clause.

This transformation from local to global can take place in two major ways. First, foreign direct investment in such industries, which are ready to enter global market, can take them to the technological frontier and help achieve the global standard.

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Shipping Corp's share prices double in a week

STAR BUSINESS REPORT

Stocks of Bangladesh Shipping Corporation (BSC), a state-run listed ocean-going vessel management company, doubled in the last week thanks to the company's higher profit in the first quarter of the current financial year.

On December 26, the company disclosed its quarterly report saying its profits surged almost seven times to Tk 66 crore in the July-September period of 2022-23 while it was Tk 8.80 in the same period the previous year.

Soon after the disclosure, the company's stock price started to rise, soaring 111 per cent to Tk 104.6 as of last Thursday.

As the company's profits soared, the share price was hiked, which is a normal rise, according to a stockbroker. "This is a good sign," he said.

The company's profits rose due to higher revenue and other income and besides, foreign trade rose in the recent times following a contraction due to the ongoing coronavirus pandemic.

So as the economy is now opening up and international trade is on the rise, shipping management companies are doing well.

In addition, shipping freight charges rose worldwide, helping them make higher profits, he added. Freight revenue of BSC climbed around 92 per cent year-on-year to Tk 94 in the first quarter of the current financial year.

Similarly, the company's service revenue surged 218 per cent to Tk 19.55 crore compared to Tk 6 crore in the same period the previous year, its financial report shows.

The company's income from bank interest and other sources also rose 40 per cent to Tk 14 crore during the same period.

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WB approves $90m in pandemic aid for Iran

AFP, *Washington*

The World Bank has approved $90 million in additional financing for Iran, to help fight against the Covid-19 pandemic, a spokesperson said Friday.

The Washington-based development lender's board of directors approved the aid on December 21, a World Bank spokesperson said, which "will be utilized only for procuring additional lifesaving, essential medical equipment to strengthen Iran's pandemic response."

"This funding will not go to the Iranian budget and all loan proceeds, as well as procurement and disbursements, are being managed by the World Health Organization," the spokesperson said.

The World Bank had in May 2020 extended Tehran $50 million via the Iran Covid-19 Emergency Response Project, which the spokesperson said was carried out "on an exceptional basis" due to the pandemic.

The spokesperson called Iran "the epicenter of Covid-19 infections in the region" and said quelling the virus there would benefit its neighbors, particularly as the Omicron variant threatens to cause a new wave of cases.

"World Bank support for Iran's Covid-19 response will help mitigate the ongoing humanitarian crisis in the country as well as limit the spread of the disease beyond its borders," the spokesperson said.

Iran has suffered nearly 132,000 deaths from Covid-19 and more than 6.2 million cases, according to data from Johns Hopkins University.

The World Bank spokesperson noted that "distribution and installation of equipment will take place at health facilities approved by the World Bank and will be subject to independent monitoring and verification."

Hard times loom for US economy

AFP, *Washington*

The US economy ended 2021 on a sour note with a worse-than-expected employment report that underscored the challenges awaiting President Joe Biden in the new year as the Omicron variant runs rampant and his legislative agenda stalls.

The world's largest economy gained only 199,000 jobs in the final month of the year, the Labor Department said Friday, defying expectations for an increase of hundreds of thousands of positions fueled by the recovery from Covid-19.

Though a drop in the unemployment rate to 3.9 per cent was welcome news, analysts warn the labor market may be in for some rough months to come as cases caused by the new variant surge and again complicate daily life.

"All of this is before Omicron, which is making lots of people sick and disrupting lots of businesses," Mark Zandi of Moody's Analytics tweeted, noting that the survey was based on data collected before the recent spike in infections.

"This highlights that the economy's performance remains closely tied to the waves of the pandemic. Businesses are getting better at managing through the waves, but the pandemic is still calling the shots for the economy.

"The report was the latest setback for Biden after his marquee spending plan called Build Back Better was put on hold in Congress due to the opposition of a key lawmaker in his Democratic Party, and as a wave of price increases shows no sign of abating.

The most potent actor against inflation is the Federal Reserve, and although analysts say there was enough good news in this report for it to move closer to increasing interest rates as soon as March, the expected damage from Omicron could complicate the situation.

"In the context of a rapidly deteriorating health situation, the (first quarter) lull in economic activity will force Fed Chair Powell to walk a tightrope at the upcoming policy meetings," Gregory Daco of Oxford Economics said.

After taking office in January, Biden promised better days ahead for an economy reeling from the damage done by the business restrictions and mass layoffs that marked the pandemic's start, and the December jobs report showed progress was indeed made.

The number of unemployed people in the world's largest economy dropped by 483,000 in December and by 4.5 million over the course of 2021, closing in on where it was before the pandemic, according to the data, while an average of 537,000 jobs were added each month in the year.

A vendor tries to attract pedestrians along Hollywood Boulevard with a sign directing towards $5 goods in Hollywood, California.

PHOTO: AFP