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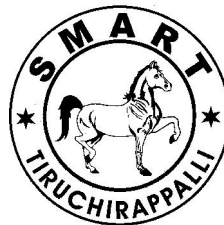
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POLICY GUIDELINES TOWARDS INVESTMENT AND INDUSTRIALIZATION OF BANGLADESH : A CRITICAL APPRECIATION

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Abstract

Industrialization is a long-term process which requires huge investment of capital, machineries, technologies, skilled human resources and other infrastructural support services and needs, among other things, a consistent macro-economic policy support of the government and participation of private sector investment for its continuing growth and development for a country. Bangladesh is a late starter in the process of industrialization and had to undergo divergent policy regimes. Though industrial policy is framed to augment economic and industrial growth, it has to consider many other socio-economic factors of a country.

Key words : Industrial Investment, Industrial Policy (IP), FDI, Good Governance, Poverty, Unemployment, and Economic Development.

1. Introduction

1.1 Bangladesh is a late starter in the process of industrialization. Before liberation, some simple process industries like jute, textiles and sugar mills, and paper mills, a small urea fertilizer plant, a cement factory, a 'mini' steel making plant, a few pharmaceutical units and several minor dockyards and light engineering workshops comprised the industrial base of the country. After liberation, within the overall objective of attaining a self-reliant economy, the First Five Year Plan (1973-78) of the country adopted an import-substitution strategy for industrialization with emphasis on domestic production of basic needs and investment goods.

1.2 The country's industrial policy which was regulatory in the 1970s, moved towards being promotional during 1980s, and assumed a facilitating approach in the 1990s and onwards. In a changed global economic order, the challenge before the Government is to consolidate the socio-economic gains already achieved and continue to improve upon them in a sustained manner to achieve the Millennium Development Goal (MDG) by reducing poverty level. Industrialization is very important in the process of development because it is a source, a user, and a diffuser of technology, which in

turn, drives sustainable development, productivity as well as income growth.

2. Objective of the paper

The general objective of this paper is to describe briefly some policy issues relating to industrialization of the country which cause low performance of the sector and to provide some suggestions for adopting appropriate changes to attain the desired growth. In doing so, specific attention has been paid to examining and analyzing the Industrial Policies (IPs) adopted from time to time for the industrial development of Bangladesh.

3. Methods followed

3.1 Although a country's investment and industrial development is a long term process and depends upon many factors ranging from economic to social, and cultural to spiritual, for the purpose of this paper, only economic, financial, and other policy matters which directly influence the process of industrialization have been considered.

3.2 Data and information used in this article are secondary in nature and they were collected from Government sponsored offices such as Bangladesh Bank, Board of Investment, Ministry of Industries, Ministry of Finance,

Ministry of Planning, Bangladesh Bureau of Statistics, Bangladesh Export Processing Zones Authority, and other published materials of both national and international origins.

4. A brief review of industrial scenario and policies towards industrialization

4.1 In the pre-liberation period of Bangladesh, the development policies of the government emphasized food production through 'Green Revolution'. In the industrial sector, the government adopted, like other developing and least developed countries of the world, import substituting in large-scale industrial enterprises both in private as well as in public sector. As the country emerged as an independent country in the early seventies, the initial orientation of economic policies of the country was a socialist one.

4.2 With the changes in political leadership and world economic order, the country experienced rapid shift towards market based open economic system. During early eighties, the industrial policies focused more on private sector led economic development strategy. During this time, gradual shift from import substitution to export based industrial development started getting priority through different incentive packages. However, effective changes in economic policies and strategies through structural adjustment program with emphasis on trade liberalization and other economic reform packages started in mid eighties with support from World Bank (Ahmed, 2001).

4.3 The New Industrial Policy (NIP) of 1982 marked the real beginning of private sector promotion when many liberalization measures were proposed, large scale disinvestments were implemented and emphasis was given to exports rather than inefficient import substitution, allowed large scale incentives to foreign private investments, caused many procedural simplification and accorded greater autonomy to public sector enterprises arguing in favor of their commercial operation. The Revised Industrial Policy (RIP) of 1986 and the Industrial Policy, 1991 continued to

consolidate the process in favor of the private sector, allowing level playing ground to all kinds of entrepreneurs, public or private, domestic or foreign. Thrust was, however, given to export oriented and export linkage industries, allowing wide range of incentives to Foreign Direct Investments(FDI) and Export Processing Zones(EPZ), including permitting EPZs under private sector, and proposing many other things to make the private sector vibrant and dynamic in a highly competitive and globalized market economy. Continuous revisions and improvements have been brought into the successive IPs up to Industrial Policy 2005.

6. Salient Features of the Industrial Policy-2005

6.1 The GOB reaffirms the role of private initiatives as the main driving force of economic development and upholds the government's position as facilitating one in providing favorable atmosphere in order to augment private investments in the country's industrialization in its latest industrial policy. The chief objectives of the IP-2005 are to augment the industrial sector's contributions to the GDP of the national economy, meet the general demands of local consumers and earn more foreign exchange, provide inspiration for speedy expansion of SMEs in order to create new employment opportunities and make poverty alleviation program a success. The new IP-2005 gives priority to the expansion and development of agro-based and agricultural processing industries, and assists in the expansion of poultry, dairy and goat-sheep industry as agricultural industries.

6.2 A set of attractive facilities, both fiscal and financial, for foreign investments have been envisaged in the Industrial Policy. In view of the sharp decline in the availability of Official Development Assistance (ODA) and also swing of the industrial policy towards the private sector, inflow of FDI became a critical issue. The Industrial Policy tried to induce foreign investments both for export and domestic

market in view of inadequate capital formation in the country, as well as to acquire technology and management skills, besides having access to the export markets. The Foreign Private Investment (Promotion and Production) Act, 1980 provides the legal framework for foreign investments in Bangladesh assuring –

- (a) No discrimination between foreign and local investment,
- (b) Ensuring repatriation of profits and proceeds from sale of shares,
- (c) Protecting foreign investments from nationalization,

7. Some Industrial Achievements and Performance

7.1 Structural change in Bangladesh economy has not taken place as planned from time to time. During the decade from 1991-1992 to 2001-2002, the overall GDP registered a growth rate of 4.96%, and agriculture also maintained a healthy growth rate of 2.64%. In spite of various natural hazards, the contribution of manufacturing industry to the GDP remained more or less static at around 15%. The total growth rate of manufacturing industry being 6.62%, the major contribution to the GDP growth came from the services sector which is over 66%.

7.2 The Small-Scale Industries (SSI) and Small and Medium Enterprises (SMEs) sector have been playing a significant role in the Bangladesh's economy. For the last one decade or so, it has been consistently registering about three per cent growth rate compared to the growth recorded by the industrial sector as a whole. This sector is the second largest employer after agriculture and contributes over 41 per cent of the total industrial production, 31 per cent of the country's total exports, and jointly with traditional industries, the relative percentage goes up to 58 per cent.

In order to further strengthen the country's industrialization process, the present government has identified the Small and Medium Enterprises (SMEs) as a priority sector and as the driving force for industrialization. A

national taskforce led by the Principal Secretary of the Prime Minister's Office has been formed so that proper policies and planning are followed in establishing SMEs. At the same time, with a view to providing entrepreneurs with assistance in the establishment of SMEs, a cell has been created under the supervision of the Ministry of Industries comprising officials experienced in SMEs from the Ministry of Industries, Bangladesh Small and Cottage Industries Corporation (BSCIC), National Productivity Organization (NPO), Asian Development Bank (ADB), FBCCI, National Association of Small and Cottage Industries, Bangladesh (NASCIB) and women entrepreneurs.

8. The Issue of Governance

8.1 Time and again the question of governance has been raised in different policy circles to cure the maladies embedded in our economy, polity and society. No Government so far has said that this is not necessary, but regrettably, none has yet demonstrated their sincere commitment or ability to break the traditions and take hard decisions to bring about major improvements that could radically change the attitude and behavior of the government service systems.

8.2 Governance issues may be looked at from two perspectives. At the lower plain and of immediate importance to all, particularly industrial entrepreneurs and businessmen, is the quality of service delivery. Power, gas, telecommunications, port etc. must function efficiently, customs and taxation dealings must be hassle free, security of the people and their property must be ensured, people's grievances must be heard and redressed and consumers' interests must be protected. Cost of doing business must be kept low and state services must be prompt. On a higher plain, much broader issues like welfare considerations and poverty alleviation, women's and other target group's participation in the development process, various right based issues, independence of judiciary and quality of legal

systems, empowerment of the people, functioning of democracy etc. are matters of concern. The UN Secretary General, Kofi Annan, has rightly stated in 1998 “Good governance is perhaps the single most important factor in eradicating poverty and promoting development”.

8.3 The governance challenges in Bangladesh are so great that this element attracts special attention of the investor, especially in the case of FDIs before investment in Bangladesh. Strengthening government institutions demands improvement of the climate for industrial productivity, jobs creation, and GDP growth. It needs no further mention that the goal of industrialization and economic growth depends largely on good governance and poverty reduction.

8.4 The foreign investors remain very concerned about all the above mentioned points of opportunities and threats and look at them very critically before coming to work and invest their fund in an unknown territory. They are particularly concerned about the image and reputation of a country and about the ease of entry and exit in any business. As most FDIs for industrial investments come in through Multi-National Companies (MNCs), they have options to go countries and economies where challenges are few and opportunities are enormous.

9. Summary

9.1 In the case of Bangladesh, the chief objective being poverty reduction through economic development which is dependent on industrialization and trade, she cannot move in an isolated manner. Policies must, therefore, ensure that these industries have smooth access to finances, technology acquisition, importing efficient capital machinery needed to improve productivity and quality, upgrading production skill and continuous training. Policy must also address undertaking reforms needed to establish true economic freedom. When there is freedom and when the whole world will be the market, it is hoped that the private sector will seize the

opportunity to produce thousands of other products and services on their own to enter the market. Future revisions of our industrial policies are to be reoriented taking into full account of the complexities of international trade and need for the Government with helping attitude to make the policies work.

9.2 It is never too late to recognize that writing merely what we wish to happen in our industrial policy will not automatically lead to growth of efficient industrial manufacturing capability. From the policy of wholesale nationalization and dominant public ownership in 1972 to the latest Industrial Policy 2005, there have been nearly a dozen or so industrial policy instruments, which served a major purpose of relaxing public ownership and signaling the private sector to take up the leadership for industrial growth. But the private sector does not yet have the “economic freedom” as well as the supporting environment and services they need to flourish.

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