Growth Research Programme

Challenges of economic growth and transformation in Bangladesh

20 February 2014, Dhaka, Bangladesh

Policy dialogue summary: manufacturing

Co-hosted by the DFID-ESRC Growth Research Programme (DEGRP) and the Centre for Policy Dialogue (CPD), Bangladesh

The meeting began with opening remarks from Dr Debapriya Bhattacharya (Member of the Advisory Committee, DEGRP) and an introductory statement by Professor Mustafizur Rahman (Executive Director, CPD) on the importance of the garment sector in Bangladesh, and the potential to expand, upgrade and improve productivity in the 21st century.

Dr Dirk Willem to Velde (Head of Programme IEDG, ODI) began the presentations by introducing DEGRP and explaining the concept of structural transformation. He highlighted the importance of strategic and accountable state-business relationships for upgrading, using the examples of Costa Rica and Cambodia.

This was followed by a presentation from Prof. Chris Woodruff (Department of Economics, University of Warwick, UK), who looked at empirical evidence on human resource upgradation at the micro level. Dr Woodruff, a DEGRP grant holder, is currently researching mid-level management training in the garment sector in Bangladesh, and highlighted two main points: a) there is a lot of heterogeneity in the garment sector (between factories and even within); and b) as a country progresses, the poorly managed companies tend to disappear because the market pushes them out of business. There is a point in development where poorly managed companies can't survive. Dr Woodruff concluded by suggesting there is a hesitancy to innovate in the garment sector, but that this is needed in order to stay ahead.

Mr Azam Mohammed (former Executive General and Additional Secretary, Ministry of Commerce, Pakistan) presented on the upgradation challenges in Pakistan. Pakistan is quite a minor player in clothing manufacture, but its strength lies in the investments that have been made in training and human resources. Upgrading in human resource development has led to the recent inclusion in the GSP+ (access to the European market), creating hopes for new investment, along with strengthened connections to the Chinese market.

Mr Nikhil Treebhoohun (CEO, Global Finance Mauritius) provided another example of national upgradation, in Mauritius, which has moved from sugar exports to a widely diversified economy in 40 years. The problems in Mauritius before transformation included a limited product base, no delocalisation strategy, inappropriate technology and low productivity. These issues resonate with the Bangladeshi experience, along with other problems of labour market issues, complicated banking and customs procedures and political instability. Mauritius achieved transformation through institutional support, creativity, innovation, proactivity with buyers, technology improvement (such as working with

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lycra not cotton), adapting to demand, modernisation with World Bank support (where 50% of all new technology brought in was subsidised): these are strategies that Bangladesh could learn from.

Dr Ludovico Alcorta (Director, Development Policy, Statistics and Research Branch, United Nations Industrial Development Organisation) discussed the long term trends in the textiles industry and provided a warning that the country must prepare for a future decrease in productivity. In Dr Alcorta's opinion, the garment industry in Bangladesh still has potential to grow, but will reach its limit in a decade. Diversification both within and beyond the garment sector is key.

The Chair invited the current president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) to comment. He agreed with the need for upgradation and structural transformation and suggested that schemes were needed to enhance domestic and international productivity, such as the creation of a fund on technology upgradation, and tax exemption on green growth treatment plans and restructuring of buildings. Mr Anwar-Ul-Alam Chowdhury Parvez (former president of BGMEA) followed this up with his opinion that the sector will grow for another 15 – 20 years, but that there is a need to explore new markets, more managers and more design sectors, as well as learning from the lessons of other countries, such as Mauritius. Dr Khonaker Golam Moazzem (Additional Research Director, CPD) suggested the sector needs a long term strategy. Newer and better quality products are being included, such as ladies wear, which helps long term export competitiveness. But, there are incentive failures: higher level training is seen as costly as employees often move across factories, so employers need to increase retention through improved wages and promotion.

The floor was then opened for a general discussion. The idea of incentives was debated – what can be done to promote innovation and creativity? Social capital is often lacking, but should the focus instead be on tax incentives? Or on policy support, and changing policy hindrances, such as creating a training fund within firms? It was suggested that not just any tax system will do - it should be followed up by a plan that is business friendly, such as in Singapore, where the government has worked with private sector to find an effective approach. The general consensus was the need for Bangladesh to focus on these issues, look to a longer term strategy and learn from other countries, whilst at the same time remembering that context is key.

Closing remarks were provided by special guest, Dr Abdul Moyeen Khan (Former Minister for Science and ICT), who emphasised the need for policies to create an enabling environment and a focus on forward linkages in terms of technology adaptation and redistribution in the global market.

Chief guest, Mr Tofail Ahmed (current Minister for Commerce) highlighted the fact he had taken note of all the issues raised, such as the transport and energy issues in the country and the need to raise productivity in order to reach a target of $30bn from garment exports by 2015. He announced he would meet with industry leaders to discuss an action plan and agreed with Dr Khan that it was time to put economics ahead of politics.