Bangladesh Economic Update

INDUSTRIAL SECTOR OF BANGLADESH: STATUS QUO OR RE-VISIONING?

February 2013

উন্নয়ন অন্বেষণ
Unnayan Onneshan
The Innovators
centre for research and action on development

Bangladesh Economic Update
Volume 4, No. 2, February 2013

Acknowledgement

Bangladesh Economic Update is a monthly publication of the Economic Policy Unit of Unnayan Onneshan, a multidisciplinary research organisation based in Dhaka, Bangladesh. A team works under the guidance of **Rashed Al Mahmud Titumir**, comprising **Nibedita Roy, Md. Nasir Hossain and Shahid Md. Adnan**.

For orders and request, please contact:

Unnayan Onneshan
16/2, Indira Road, Farmgate Dhaka-1215, Bangladesh
Tell: + (880-2) 8158274, 9110636
Fax: + (880-2) 8159135
E-mail: info@unnayan.org
Web: www.unnayan.org

Bangladesh Economic Update
Volume 4, No. 2, February 2013
Economic Policy Unit
Unnayan Onneshan

1. INTRODUCTION

The present issue of the Bangladesh Economic Update focuses on current situation of industrial sector in Bangladesh

The present issue of the Bangladesh Economic Update focuses on current situation of industrial sector in Bangladesh. The industrial sector calls for attention for a number of major challenges in recent time the sector faces, besides long-running neglect of addressing the structural bottlenecks in the backdrop of policy makers' apathy of having strong and active industrial policy and the paradigmatic swing in favour of trade liberalization and export orientation.

First, the rate of growth in industrial sector is increasing at a decreasing rate. The major causes attributed are reduction in investment demand owing to inadequacies of supply of utilities and infrastructural tailbacks, increased cost and reduced supply of investible capital due to contractionary monetary policies and rise in government borrowings, and short-supply of matching level of public investment in infrastructure as regards the size of the economy.

The decline in import of intermediate goods, industrial raw materials and capital machineries, and depreciation of Taka suggests adverse implications on the industrial sector

Second, the decline in import of intermediate goods, industrial raw materials and capital machineries, and depreciation of Taka suggests adverse implications on the industrial sector. There is a possibility of banning the Generalised System of Preferences (GSP) facility of USA, which might introduce Bangladesh negatively in the world economy. All these, have pushed Bangladesh down by seven steps according to the Doing Business report, 2013.

Third, the share of industry sector in gross domestic product (GDP) is increasing, yet the average rate of growth in industry has experienced lower trend in the last five fiscal years compared to the previous five years. In addition, the quantum index of production (QIP) in recent time observed a lower trend in terms of manufacturing industries.

Fourth, the rate at which the contribution of industry is increasing is lower than that of the rate at which the contribution of agricultural sector is decreasing. The contribution of small-scale industries in GDP is increasing in a negligible amount whereas the contribution of health and education is constant.

The industrial loan is facing two-pronged problems: the rate of growth in the industrial term loan has been experiencing a decreasing trend and the share of small and medium enterprise (SME) in total loan remains lower while the rate of recovery of industrial term loan is decreasing, increasing pile of default loans.

Fifth, the industrial loan is facing two-pronged problems: the rate of growth in the industrial term loan has been experiencing a decreasing trend and the share of small and medium enterprise (SME) in total loan remains lower while the rate of recovery of industrial term loan is decreasing, increasing pile of default loans.

Sixth, the price of electricity is growing along with the increments in subsidy as well as government is facing fiscal constraints due to purchase of electricity at high cost from rental and quick rental power plants. The gap between installed capacity and maximum generation capacity of electricity is increasing over the years, creating further pressure on supply of electricity in industrial sectors.

Seventh, the progress of implementation in annual development programme (ADP) in industrial sector is very low in the last seven month, despite the fact that the total allocation is already low.

This Economic Update tries to present the current situation of industrial sector and to suggest elements of an alternative industrial policy

Furthermore, the government of Bangladesh has taken various industrial policies in different times, yet these have fallen far short of addressing structural impediments. The plan documents also lack adequate strategies and instruments to crate a thought through process of technological catching up and dynamic structural shifts.

Against this backdrop, this Economic Update tries to present the current situation of industrial sector and to suggest elements of an alternative industrial policy.

2. CURRENT SITUATION

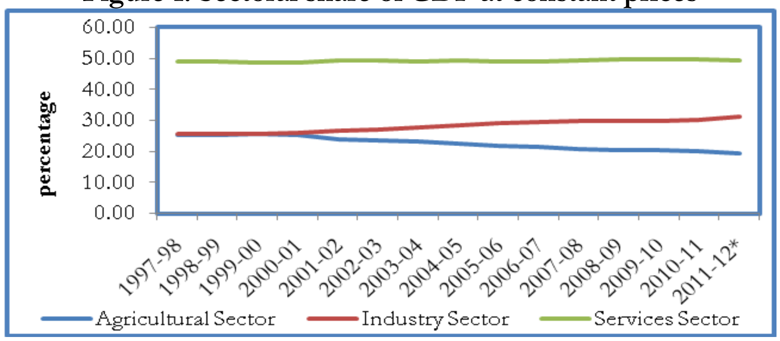
2.1 GDP and Industrial Sector

The rate at which the contribution of industry is increasing is lower than that of the rate at which the contribution of agriculture sector is decreasing due to inactive industrial policy.
The yearly average rate of decrease in agriculture is 40 percentage points whereas the yearly average increasing rate of industry is 37 percentage points during the FY 1997-98 to FY 2011-12. The position of service sector is quite stable.

The contribution of crops and horticulture has decreased from 14.59 percent to 10.74 percent whereas the contribution of large and medium scale industries has increased to 11.29 percent from 13.75 percent

In FY 2011-12, the share of agricultural, industrial and service sector in GDP was 19.29 percent, 31.26 percent and 49.45 percent respectively which was 73 percentage points lower, 89 percent higher and 1.5 percentage points less than that of FY 2010-11. The contribution of crops and horticulture has decreased from 14.59 percent to 10.74 percent whereas the contribution of large and medium scale industries has increased to 11.29 percent from 13.75 percent.

Figure 1: Sectoral share of GDP at constant prices



Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, 2012

In FY 1990-91, the share of agricultural, industrial and service sector in GDP was 29.21 percent, 21.04 percent and 49.73 percent respectively.

The share of broad industrial sector in GDP is increasing year on year basis, yet the average rate of growth in broad industry experienced a lower trend in the last five fiscal years compared to the previous five fiscal years for the shortage of private sector credit as well as inadequate supply of electricity

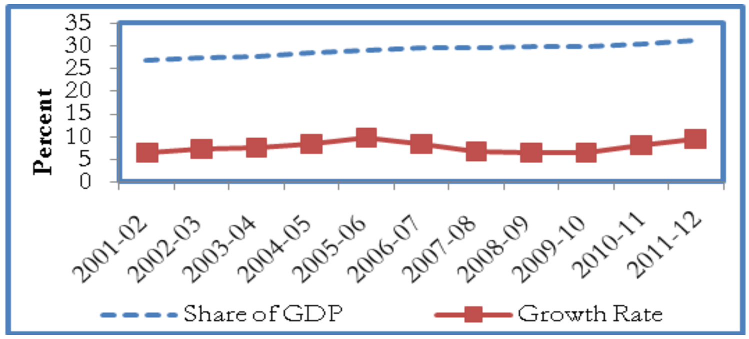
The share of broad industrial sector in GDP is increasing year on year basis, yet the average rate of growth in broad industry experienced a lower trend in the last five fiscal years compared to the previous five fiscal years for the shortage of private sector credit as well as inadequate supply of electricity. Moreover,the price of electricity has been increased six times by the goverment.

The average rate of growth in broad industrial sector was 8.25 percent during the FY 2001-02 to FY 2006-07 whereas 7.48 percent in the last five fiscal years from FY 2007-08 to FY 2011-12, indicatig a slower rate of growth of industrial sectors in GDP. The rate of growth in broad industrial sector has increased at 9.47 percent at the end of FY 2011-12 compared to FY 2010-11. The share of broad industrial sector in GDP was Tk. 1129350 million, Tk. 1043720 million and Tk. 980150 million respectively in FY 2010-11, FY 2009-10 and FY 2008-09. The contribution of industrial sector on total GDP was 31.26 percent in the FY 2011-12 which was 0.93 percent higher than that of FY 2010-11.

The contribution of small-scale industries in GDP is increasing in a negligible amount due to structural inefficiency.

The contribution of small-scale industries in GDP is increasing in a negligible amount due to structural inefficiency. In the FY 2011-12, the share of small scale industries in GDP increased by only 4 percentage points than that of the previous fiscal year.

Figure 2: Rate of growth and share of broad industrial sector in GDP



Source: Bangladesh Bureau of Statistics, Finance Division, Ministry of Finance, 2012

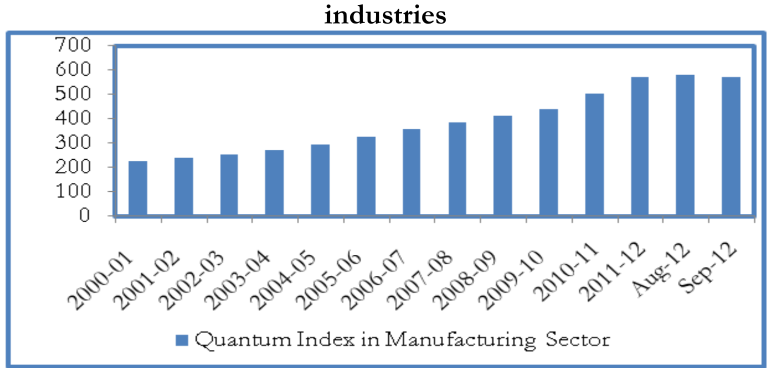
2.2 Industrial Index

The QIP in medium and large scale manufacturing industries was 570.49, which were 13.44 percent higher than that of FY 2010-11. The QIP was 502.89, 442.12 and 413.72 in FY 2010-11, FY 2009-10 and FY 2008-09 respectively

The last available data of Quantum Index of Production (QIP)[1] suggests a downward trend in manufacturing industries. In January 2012 the QIP in manufacturing industries was 603.69 and decreased to 581.27 and 571.64 respectively in the month of August and September, 2012, expressing a reduction in the manufacturing industries.

The QIP in medium and large scale manufacturing industries was 570.49, which were 13.44 percent higher than that of FY 2010-11. The QIP was 502.89, 442.12 and 413.72 in FY 2010-11, FY 2009-10 and FY 2008-09 respectively.

Figure 3: The Quantum Index of Production of manufacturing industries



Source: Major Economic Indicators, Bangladesh Bank, January, 2013

[1] The Quantum Index of Production (QIP) is the most important indicator of industrial production in Bangladesh. Quantum Index of Industrial Production (QIP) is also produced and disseminated by National Accounting Wing.

The QIP has been accounted by taking FY 1988-89 as the base year and will continue till FY 2011-12. The Ministry of Industry has recently announced that from the FY 2012-13, the QIP will be measured by taking FY 2005-06 as a new base year.

Allocation of development and non-development expenditure is necessary for rapid industrialisation. Over the years, the allocation of development expenditure is lower compared to the allocation of the large ten ministries while the allocation of non-development expenditure is increasing

2.3 Development and Non-Development Expenditure

Allocation of development and non-development expenditure is necessary for rapid industrialisation. Over the years, the allocation of development expenditure is lower compared to the allocation of the large ten ministries while the allocation of non-development expenditure is increasing.

The allocation of non-development expenditure in the industrial sector has been increasing since FY 2009-10. The rate of growth in allocation of non-development expenditure was 7 percent in FY 2012-13 which was 1.74 percent more than that of FY 2011-11. The allocation of non-development expenditure in the industrial sector is USD 1070 million in the FY 2012-13 which is USD 70 million higher than that of FY 2011-12. In the last six years, the average rate of growth in the allocation of non-development expenditure in the industrial sector was 29.57 percent.

The rate of growth in the industrial term loan has been experiencing a decreasing trend since FY 2010-11 for contractionary monetary policy.

In FY 2012-13, the allocation of development expenditure in the industrial sector is only Tk.17222.70 million under 26 projects. During July to January of FY 2012-13, total expenditure was only Tk. 1942.30 million in the industrial sector.

2.4 Industrial Loan Allocation

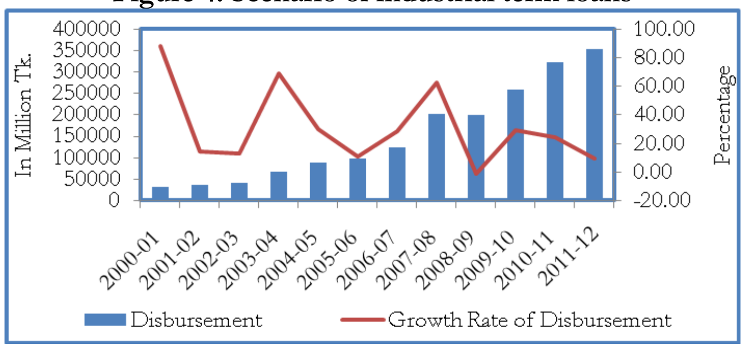
The rate of growth in the industrial term loan has been experiencing a decreasing trend since FY 2010-11 for contractionary monetary policy. Rapid industrialisation requires adequate capital for a country. Loan is one of the most important components of capital formation especially for developing country like Bangladesh.

The disbursement of loan in industrial sector was Tk. 352781 million in FY 2011-12. The rate of growth in industrial term loan was 9.68 percent in FY 2011-12 which were 24.30 percent and 29.56 percent in FY 2010-11 and FY 2009-10 respectively.

The share of SME in total loan has traditionally been lower. Accompanied with the rate of growth in GDP, the share of SME loan in total loan has not increased at a satisfactory level.

The disbursement of loan in industrial sector was Tk. 97203 million in the first three month of FY 2012-13 whereas Tk. 321632 million, Tk. 258757 million and 199727 million respectively in FY 2010-11, FY 2009-10 and FY 2008-09. The average rate of growth on industrial loan was 37.55 percent from FY 2000-01 to FY 2005-06 whereas it was only 25.61 percent from FY 2006-07 to FY 2011-12.

Figure 4: Scenario of industrial term loans



Source: Bangladesh Bank

Recovery of industrial term loan was Tk. 78888.30 million during April-June, 2012 against Tk. 83609.80 million in October-December, 2011. The average rate of recovery on industrial term loan was 87.08 percent from FY 2000-01 to FY 2005-06 whereas it was only 76.54 percent from FY 2006-07 to FY 2011-12, indicating a worse rate of recovery of industrial term loan.

The disbursement of total SME loan was 22.84 percent of the total loan in September, 2012 whereas 21.82 percent, 21.80 percent, 20.76 percent and 21.21 percent respectively in the months of June, 2012; March, 2012

The share of SME in total loan has traditionally been lower. Accompanied with the rate of growth in GDP, the share of SME loan in total loan has not increased at a satisfactory level. The industrial loan is being faced double problems at the same time: in one hand, the rate of growth of SME loan is lower; on the other hand, recovery of industrial term loan is decreasing.

The share of SME loan in state owned banks is decreasing whereas it is increasing in case of the private banks.

The disbursement of total SME loan was 22.84 percent of the total loan in September, 2012 whereas 21.82 percent, 21.80 percent, 20.76 percent and 21.21 percent respectively in the months of June, 2012; March, 2012; December, 2011 and September, 2011 which indicates that total SME loan as percent of total loans was almost the same around the year. An erratic trend has been seen in the rates of growth of SME loan allocation.

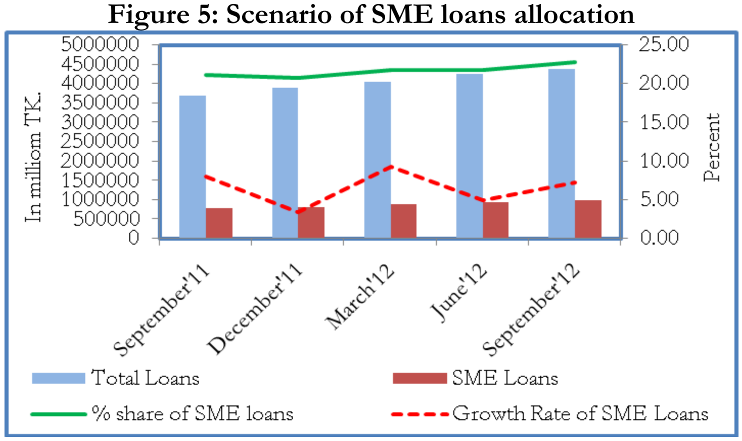
The rate of growth on SME loan was 7.4 percent at the end of September, 2012 whereas 5.0 percent, 9.3 percent and 3.5 percent respectively at the end of June, 2012; March, 2012 and December, 2011.

The rate of growth on SME loan was 7.4 percent at the end of September, 2012 whereas 5.0 percent, 9.3 percent and 3.5 percent respectively at the end of June, 2012; March, 2012 and December, 2011. In September, 2012 the contribution of SME loan in the total loan of state owned banks and private banks were 27.82 percent and 23.45 percent which were 0.28 percent less and 1.67 percent more than those of June, 2012.

Recovery of industrial term loan was Tk. 78888.30 million during April-June 2012 against Tk. 83609.8 million during October-December 2011.

At the end of September, 2012 total SME loan increased by Tk. 216221.3 million or 27.59 percent to Tk. 1000018.7 million compared to Tk. 783797.4 million at the end of September, 2011. Total SME loans were Tk. 931476.2 million, Tk. 886702.6 and Tk. 810992.3 million respectively at the end of June, 2012; March, 2012 and December, 2011.

Figure 5: Scenario of SME loans allocation



Source: Major Economic Indicators, Monthly Update, Bangladesh Bank, January 2013

2.5 Opening and Settlement of Letter of Credits (LCs)

During July to December of FY 2012-13, the overall import payments of Bangladesh showed a negative trend in Opening and Settlement of Letter of Credits (LCs). During this time, fresh LCs opening and settlement for petroleum, capital machinery and industrial raw materials (the main elements of industrialization) decreased and food items increased. For implementing contractionary monetary policy and depreciation of taka, the central bank has reduced the amount of import.

Table 1: LC Opening and Settlement for Various Sectors

	July-December, 2011-12		July-December, 2012-13		Percentage Change in LCs	
	Fresh LCs opening	Settlement of LCs	Fresh LCs opening	Settlement of LCs	Fresh LCs opening	Settlement of LCs
	(In million USD)					
Food Grains	422.8	552.52	449.4	337.08	6.29	-38.99
Capital Machinery	1074.38	1285.78	1091.98	981.3	1.64	-23.68
Petroleum	2315.55	2418.54	1985.73	2274.51	-14.24	-5.96
Industrial Raw Materials	7181.18	6785.12	6890.44	6425.61	-4.05	-5.3
Others	7227.58	6821.49	6636.72	5930.64	-8.18	-13.06
Total	18221.49	17863.45	17054.27	15949.14	-6.41	-10.72

Source: Bangladesh Bank, Selected Indicators, February 2013

During July to December in FY 2012-13, total fresh opening of LCs was USD 17054.27 million which was USD 1167.22 million lower than the corresponding time of the previous FY 2011-12

During July to December in FY 2012-13, total fresh opening of LCs was USD 17054.27 million which was USD 1167.22 million lower than the corresponding time of the previous FY 2011-12. During this time, fresh LCs opening for food items and capital machinery were respectively USD 449.4 million and USD 1091.98 million which were respectively USD 26.6 million and USD 17.6 million higher than the same period of the previous fiscal year. On the other hand, fresh opening of LCs for petroleum and industrial raw materials were respectively USD 1985.73 million and USD 6890.44 million which were respectively USD 329.82 million and USD 290.74 million lower than the same period of the previous fiscal year.

During July to December in FY 2012-13, the rate of growth in overall import declined by 6.41 percent from the corresponding period of the previous FY 2011-12. In this time, fresh opening of LCs for petroleum decreased by 14.24 percent, the highest percentage and fresh opening of LCs for food grains increased by 6.29 percent as the highest percentage.

During July-December, 2012-13 the settlement of LCs on capital machinery and industrial raw materials decreased by USD 304.48 million and USD 359.51 million than those of July-December, 2011-12.

To produce rental and quick rental power plant based electricity, the fresh opening of LCs for petroleum was very high in the previous FY 2011-12. In the last few months, a worst situation in the garments sector has been seen, which has had a negative impact on the opening of fresh LCs for industrial raw materials.

2.6 Ease of Doing Business in Bangladesh

According to Doing Business-2013, Bangladesh has gone down seven and eleven steps than those of the Doing Business Report-2012 and 2011. Bangladesh ranked 129 among 183 economies

According to Doing Business-2013, Bangladesh has gone down seven and eleven steps than those of the Doing Business Report-2012 and 2011. Bangladesh ranked 129 among 183 economies, where Singapore ranked first position and Pakistan secured the 107th position (Doing Business-2013). Bangladesh, however, enabled the 122th and 119th position in Report-2012 and 2011 respectively.

In the ranking of trading across border, the ranking position of Bangladesh is 119 in 2013 whereas 115 in 2012, 112 in 2011 and ranked 107 in 2010. In export and import, Bangladesh needs 25 and 34 days respectively, that is very high in comparison with the rest of the world, whereas Pakistan needs 21 and 18 days, India needs 16 and 20 days and Singapore needs 5 and 4 days. To import goods and service, Bangladesh increased 3 days in 2013 than 2012.

Table 2: The position of Bangladesh in trading (across border)

		Trading Across Borders (Rank)	Time to Export (Days)	Cost to Export (USD per Container)	Time to Import (Days)	Cost to Import (USD per Container)
Doing Business Report 2012	Bangladesh	115	25	965	31	1370
	Singapore	1	5	456	4	439
	India	109	16	1095	20	1070
	Pakistan	75	21	660	18	705
Doing Business Report 2011	Bangladesh	112	25	915	31	1390
	Singapore	1	5	456	4	439
	India	100	17	1055	20	1025
	Pakistan	81	21	611	18	680

Source: Ease of Doing Business Report-2013, International Finance Corporation, the World Bank, 2013

The current industrialisation strategy is yet to come terms with addressing the emerging challenges and structural bottlenecks adequately

The cost of export and import per container needs USD 1025 and USD 1430 respectively in Bangladesh but only USD 456 and USD 439 in Singapore as well as USD 660 and USD 705 in Pakistan. Bangladesh is in 5th position in the ease of doing business ranking among the eight economies of South Asia.

3. REASONS FOR DECELERATED GROWTH

The current industrialisation strategy is yet to come terms with addressing the emerging challenges and structural bottlenecks adequately, both in domestic and global levels. The major problems of the existing strategy include failure of creating adequate domestic demand as well as inability to address the pressure of a growing labour force in search of gainful employment. The challenges in industrial sector have, amongst others, emanated from backlash of pursued policies, inadequacies of infrastructure, lack of sufficient of investment demand, besides structural weaknesses.

3.1 Policy Inducement

The contractionary monetary policy has been pursued when the economy of Bangladesh is confronted with declined rate of growth in GDP, slump in investment, depreciation of Taka, continuation of inflationary pressure, and faux-pas in fiscal management

The contractionary monetary policy has been pursued when the economy of Bangladesh is confronted with declined rate of growth in GDP, slump in investment, depreciation of Taka, continuation of inflationary pressure, and faux-pas in fiscal management. The contractionary monetary policy in Bangladesh has restrained the productive growth-conducive activities by way of hindering access to credit to the private sector and declining the import of raw materials, intermediate goods and capital machinery. Private sector investment has squeezed already due to the higher rate of interest. Considering six months of FY 2012-13, the availability of private sector credit is the lowest among the last four years and even this target, the lowest one has not achieved.

3.2 Infrastructure

Now a day, the industries are facing inadequate supply of electricity and gas. The gap between installed capacity and maximum generation of electricity is increasing over the years, which create pressure on supply of electricity. Moreover, power price is increasing with the increments of government subsidy. Electricity generation is not reliable as well as the peak demand cannot be met up. All these are responsible for the drawback of industrialization and induce production cost.

In FY 2011-12, peak demand was 7518 MW whereas maximum generation was 6066 MW and installed capacity was 8625 MW. The same scenario has been found in FY 2010-11 whereas maximum generation and installed capacity were 4890 MW and 7264 MW against the peak demand of 6,765 MW. The gap between installed capacity and maximum generation of electricity was 2559 MW in FY 2011-12 which was 185 MW more than that of FY 2010-11 (Table 2). In FY 2010-11, the rate of growth in electricity generation was 73.03 percent lower than that of the installed capacity. The mismatch between installed capacity and maximum generation of electricity was 2374 MW, 1372 MW and 1641 MW in FY 2010-11, FY 2009-10, FY 2008-09 respectively.

Table 3: Install capacity and maximum generation of electricity

Fiscal Year	Install Capacity	Maximum Generation	Gap
2004-05	5025	3751	1274
2005-06	5275	3812	1463
2006-07	5262	3718	1544
2007-08	5262	4130	1132
2008-09	5803	4162	1641
2009-10	5978	4606	1372
2010-11	7264	4890	2374
2011-12	8625	6066	2559

Source: Bangladesh Power Development Board (BPDB)

Subsidy in power sector was Tk. 63570 million and Tk. 40000 million in FY 2011-12 and FY 2010-11 respectively.

The gap between installed capacity (MW) and maximum generation (MW) is increasing (Table 2). It is however, a matter of concern that the demand of the required electricity could not be met up because of low power plants efficiency and usage of second hand equipment, keeping the demand far away from the installed capacity, though industrial production is fully dependent on electricity. Moreover, government has taken some myopic initiative to meet electricity demand, which induces increased electricity price and subsidy to a few.

The price of electricity is growing despite the increments in subsidy and the government is facing financial trouble due to purchase of electricity from high cost rental and quick rental power plants. The price of power in industrial sector is increasing which has also contributed to reduction in industrial production in different years.

Subsidy in power sector was Tk. 63570 million and Tk. 40000 million in FY 2011-12 and FY 2010-11 respectively. In the budget of FY 2012-13, the government has estimated Tk. 64000 million as subsidy in the power sector. The average price of power was TK. 3.76 in March 2010, which was Tk. 6.00 in September, 2012. According to newspaper report[2], in FY 2013-14, power subsidy might be increased to Tk. 100000 million and

[2] http://newagebd.com/detail.php?date=2013-01-04&nid=35604#.UTEy86KKIqM

Power Development Board (PDB) has estimated Tk. 89513.10 million as subsidy for supplying bulk power to the distribution companies

In FY 2012-13, power sector subsidy will need Tk. 80000 million whereas budget allocation of the government is Tk. 64000 million

In FY 2012-13, power sector subsidy will need Tk. 80000 million whereas budget allocation of the government is Tk. 64000 million. Bangladesh Power Development Board (BPDB) has anticipated that they would need about Tk. 68117.30 million as subsidy for purchasing electricity from the fuel oil-fired rental power plants.

Table 4: Price of power in industrial sector increase in different year

Category/ Month	March 2010 (after 5 percent average increase)	February 2011	December 2011	February 2012	March 2012	September 2012
Small industries	Tk. 4.35	Tk. 4.56	Tk. 5.27	Tk. 5.67	Tk.6.02	Tk. 6.95
Heavy Industries (32KV)	Tk. 3.10	Tk. 3.25	Tk. 4.59	Tk. 5.02	Tk.5.33	Tk. 6.16
Heavy Industries (33KV)	Tk. 3.92	Tk. 4.11	Tk. 4.88	Tk. 5.28	Tk.5.61	Tk. 6.48
Medium Industries (11KV)	Tk. 4.17	Tk. 4.37	Tk. 5.14	Tk. 5.55	Tk.5.90	Tk. 6.81

Source: Bangladesh Power Development Board (BPDB)

Scarcity of power is causing serious interruption on all spheres of life particularly on agriculture and industry as most of the people are engaged in those sectors

Scarcity of power is causing serious interruption on all spheres of life particularly on agriculture and industry as most of the people are engaged in those sectors. To meet up the existing power crisis, government established quick rental power plants as a short run solution instead of a long run one. To solve electricity crisis, government should have established coal-fired power plants along with improving the existing power plants.

Overall price of electricity in industry is rising. Especially, in case of the small industry, this price was the highest as Tk.6.95 in September, 2012. In September 2012, power price for heavy industries (32KV), heavy industries (33KV) and medium industries (11KV) were Tk. 6.16, Tk. 6.48 and Tk. 6.81 which were only Tk. 3.25, Tk. 4.11 and Tk. 4.37 respectively in February, 2011.

As electricity is the mainstream of industrial production, the higher price of power adversely affects the industrial production of local manufacturing industries like drugs and pharmaceuticals, steel, cement, paper, chemicals etc. and lowers the export capacity of products such as RMG, medicine etc.

Public investment is decreasing and the private investment has been squeezed due to lack of credit for increased rate of interest and public borrowing. Implementation of the current monetary policy may leave major macroeconomic challenges by the way not allowing the investment to increase at desired level

In Bangladesh, natural gas is one of the important sources of energy that accounts for most of the profitable energy of the country. Natural gas is needed for any kind of development of the country especially in industrial sector because it is less expensive to use and good for environment as well. In The production cost of gas is increasing day by day along with little exploration gas field.

In FY 2011-12 (up to December), total production decreased from 708.90 (BCF) to 361.50 (BCF) and demand increased from 714.40 (BCF) to 962.0 (BCF) than those of FY 2010-11. In FY 2011-12, the use of gas reduced by 66.03 (BCF). Now, it is a matter of fact that if the increasing demand of gas for industry is not met up, the industries will definitely face low production.

3.3 Public and Private Investment

Public investment is decreasing and the private investment has been squeezed due to lack of credit for increased rate of interest and public borrowing. Implementation of the current monetary policy may leave major macroeconomic challenges by the way not allowing the investment to increase at desired level. This is owing to high rate of interest despite the reduction of the repo rate by 50 basis points. The high rate of interest, an outcome of contractionary monetary policy, is contributing to the mounting savings-investment gap as well. If the existing policies remained unchanged, the savings-investment gap might increase sharply and will continue to increase in the upcoming fiscal year, which will hamper the industrial production. This gap might be 5.14, 5.47 and 5.81 percent of the nominal GDP in FY 2012-13, FY 2013-14 and FY 2014-15 respectively[3].

Comparing the large ten ministries or divisions, the allocation and implementation status of industrial sector is underprivileged. During July to January, 2012-13 the allocation of ADP in industrial sector was Tk. 17222.70 million whereas

[3] http://www.unnayan.org/reports/meu/dec_12/MEU_DEC_12.pdf

Tk. 49756.50 million and Tk. 78496.40 million has been allocated in Local Government Division (including block allocation). Total expenditure as percentage of total ADP allocation was 19 percent and 14 percent in Local Government Division (including block allocation) and Power Division; however, it was only 3 percent in Ministry of Industry.

In order to generate accelerated economic growth, Bangladesh needs to opt for a radical structural shift in favour of a strong, active, targeted, dynamic and creative industrial policy.

The rate of growth in Revised Annual Development Programme (RADP) allocation in industrial sector was 25.46 percent, -29.29 percent and 192.75 percent respectively in the FY 2009-10, FY 2010-11 and FY 2011-12.

4. RE-VISIONING THE INDUSTRIAL POLICY

In order to generate accelerated economic growth, Bangladesh needs to opt for a radical structural shift in favour of a strong, active, targeted, dynamic and creative industrial policy. These are underpinned by the current predicaments described below:

Import-substituting industrialisation has been neglected in the country due to regime change in the country as part of structural adjustment programme, pursued as a diktat of the International Monetary Fund (IMF) and the World Bank

First, import-substituting industrialisation has been neglected in the country due to regime change in the country as part of structural adjustment programme, pursued as a diktat of the International Monetary Fund (IMF) and the World Bank. A statistically positive and significant correlation exists between the export as percentage of GDP and import as percentage of GDP in Bangladesh. This indicates a low value addition to the economy from export. Most of the raw materials of the exportable goods industries are being imported from abroad. This dependency of export on import has a long-term negative impact in the economy of Bangladesh.

Second, again the IMF has dictated the country to pursue contractionary monetary policies under a three-year reform programme, despite the fact there is no evidence that suggests inflation causes decline of growth in Bangladesh in short run nor the inflation is pulled by demand rather increased cost emanating from supply has pushed inflationary pressures. The contractionary monetary policy has led to decline in imports of intermediate goods, industrial raw materials and capital machineries. Simultaneously, the rise in rate of interest along with structural rigidities in banking sectors such as high interest rate spread has led to decline in industrial term loan. All these suggest adverse implications on the industrial sector while the failure in meeting export targets also pause a challenge in attainment of the target of growth in GDP.

Public sector investment in infrastructure creates positive externalities, particularly for a growing economy. Lack of farsightedness has resulted in the government's capacity to invest in such much-needed sectors

Third, public sector investment in infrastructure creates positive externalities, particularly for a growing economy. Lack of farsightedness has resulted in the government's capacity to invest in such much-needed sectors, as the payment of principal and interest has become government's largest head of expenditure due to increased subsidy to quick and rental plants. Such increments have also led to increased government borrowing from the banking sector, reducing further the availability of credit to the private sector. Moreover, the increasing savings-investments gap may hinder the attainment of the desired level of growth in FY 2012-13.

Fourth, most of the industrial production concentrated in a few products is export oriented and the destination countries are facing recession. Yet new markets are not being tapped, nor there are signs of diversifications while local demand remains low due to a third person lives below the poverty line and there are less incentives for increasing production capacity, particularly by the SMEs to meet domestic demand.

The Bangladesh case suggests the opposite of what other countries have done to build up their industrial base

Fifth, the SMEs has not been able to grow in the country as much as their potentials because of liberalization in absence of supportive measures. In countries like the USA that propagates unilateral liberalisation, has created protected shields in favour of SMEs.

Sixth, during the past three decades, Bangladesh carried out extensive trade policy reforms. In particular, the country has been pursuing a liberal trade policy since the beginning of the 1990s, which is consistent with the trends in the global market economy, Uruguay Round Accord of the World Trade Organisation (WTO). The government formulated a four-year export policy along with a more liberal five-year import policy. Keeping this goal in mind, the government has been pursuing a limited protective policy only considering the several important issues like public health, security and religious restrictions.

The Bangladesh case suggests the opposite of what other countries have done to build up their industrial base. There are various evidences: first of all, the successful industrial policy experiences in the late 20th century are not only in East Asia, but a few other European economies, such as France, Finland, Norway and Austria are also guided by strong industrial policy. Second, in the 19th and the early 20th centuries, the present developed countries imposed optimum degrees of protectionism for substantial levels.

A new type of development finance institutions has to be established that provides access to credit at lower rate, but has an inbuilt system that reduces moral hazard and adverse selection.

These tariffs were not as systematically designed as like the late 20th century. Selective industrial policy, however, had been assigned to achieve the targeted goal. In this time, they provided subsidies to promote targeted industries, set up state-owned enterprises or public-private joint ventures for risky projects, regulated foreign direct investments, and implemented many other measures of industrial policy during this period. Thirdly, the long-term historical evidences of the developing countries also provide thoughts for the dynamic industrial policy. Industrial policy in the late-20th century was not defined specifically (Chang, 2009).

To strengthen the current industrial policy, some broad suggestions are placed below:

- There is need for a long-term vision that guides the strategy for industrialisation. The expansion of such productive capacity factors into creation of decent employment opportunities by way of setting up small, medium and large industries in the country for moving away the underemployed from the agricultural sector.
- The infant industries especially small industries set in rural areas that reduce rural-urban migration should be given tax holiday, subsidised energy, and other incentives to expand and to protect them from international competition.
- A new type of development finance institutions has to be established that provides access to credit at lower rate, but has an inbuilt system that reduces moral hazard and adverse selection.
- A thorough reform to financial sector and exchange regime that addresses the rent-seeking coterie that keeps the interest rate, particularly the spread high and let the exchange rate to constantly adjust downward. To establish employment generated industries is welcomed. These industries with accurate planning will decline unemployment and accelerate poverty alleviation.

- Expansion of production for domestic market to stave-off the backlash of volatility in international market requires augmentation of domestic demand and such consumption demand could be increased by way of gainful employment. An incentivised system of employment credit could be installed for the industries. The system could interface with a statutory employment guarantee scheme, which would not only lift people out of poverty, but will act as deterrent to creation of poverty.

The industrial sector has a major role to play in environmental sustainability and active industrial policy could lead to diversification of products that reduces green house gases

- The country has yet to exert its rights over natural and mineral resources such as gas, coal, hard rock, limestone, silicon, monazite, zircon, rutile, oyster, pearl, coral fossil, seaweeds, etc. while in certain cases she is at mercy to the international oil companies (e.g. one IOC controls more than half the supply of current gas supply in the country).
- The state on its march from a least developed country to a middle income country puts emphasis on innovation and technological catching up by way of subsidising innovation (monopoly rent), creation of partnerships between industries and universities, and investing in adoption of tacit knowledge, reverse engineering and greening technologies.
- The industrial sector has a major role to play in environmental sustainability and active industrial policy could lead to diversification of products that reduces green house gases.
- Important changes have occurred in economic and social lives around the world in the terms of participation, contributions and successes by women. So, the women entrepreneurs and their participation in industrialisation can sustain growth.
- The search for new market and new products needs improved quality of industrial products, competitive prices, and enhanced productivity in the industrial sector. An effective state with strong diplomacy and intelligence is the guarantee to such achievements.

5. CONCLUSION

The current policies for the industrial sector are incapable of servicing the constraints facing the sector and inducing the targeted rate growth in her quest for being a middle-income economy

The industrial sector is now facing two fold problems: policy induced impediments and structural bottlenecks. The current policies for the industrial sector are incapable of servicing the constraints facing the sector and inducing the targeted rate growth in her quest for being a middle-income economy. So, it is time to re-think and redraw the elements of industrial policy. The manufacturing base is small and concentrated in a few products, which are mostly export oriented to a few destinations. Due to recession in destinations, the markets of the exportable goods are facing challenges, as the country would miss the export target this year. In this situation, the country is facing major challenges of increasing the domestic demand, diversifying products in new markets, and absorption of huge new entrants of young generation in labour market.

As the growth of economy is still driven by consumption, this hardly requires any emphasis of bringing changes in the drivers to that of production or industrialisation to ensure sustainability of growth. Thus, the economy of Bangladesh requires a paradigm shift towards a strong, active, targeted, dynamic and creative industrial policy. The design of such a policy regime has to be evidence-based as opposed to the current practice of being founded on dogma. Such articulations also require innovative research. Such an industrial policy is contingent upon a political settlement that unleashes creative energy for a state to serve its people.

References

Bangladesh Bank. 2013, *Major Economic Indicators: Monthly Update*. Dhaka, Bangladesh: Bangladesh Bank. Available at: http://www.bangladesh-bank.org/econdata/openpdf.php?i=6 [Accessed 12 February 2013]

Bangladesh Bank. 2013, *Monthly Economic Trends*. Dhaka, Bangladesh: Bangladesh Bank. Available at: http://www.bangladesh-bank.org/econdata/index.php [Accessed 2 February 2013]

Bangladesh Bank. 2012, *Selected Indicators*. Dhaka, Bangladesh: Bangladesh Bank. Available at http://www.bangladesh-bank.org/econdata/index.php [Accessed 10 February 2013]

Implementation Monitoring and Evaluation Division (IMED).2012, *ADP Implementation Status,* Dhaka, Bangladesh: Ministry of Planning, Implementation Monitoring and Evaluation Division. Available at: http://www.imed.gov.bd/index.php?option=com_content&task=view&id=337&Itemid=368

Humaiyun Kabir, FHM.2012, Industrial growth up, agri sector's contribution to GDP marks fall in current fiscal**.***The Financial Express[online]* 9 June, p.6 Available at: http://www.thefinancialexpress-bd.com/more.php?news_id=132288&date=2012-06-09[Accessed 20 February 2013]

Ministry of Finance (MoF). 2012, *Bangladesh Economic Review FY 2012-13*. Dhaka, Bangladesh:
Finance Division, Ministry of Finance, Government of Bangladesh. Available at: http://www.mof.gov.bd/en/index.php?option=com_content&view=article&id=210&Itemid=1 [Accessed 11 February 2013]

Chang, Ha-Joon.2009, *Industrial Policy: Can we go beyond an unproductive confrontation? :A Plenary Paper for ABCDE (Annual World Bank Conference on Development Economics). Seoul, South Korea, 22-24 june 2009*.

Faculty of Economics: University of Cambridge. Available at: http://siteresources.worldbank.org/INTABCDESK2009/Resources/Ha-Joon-Chang.pdf [Accessed 2 February 2013]

Unnayan Onneshan - The Innovators
16/2, Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tell: + (880-2) 8158274, 9110636
Fax: + (880-2) 8159135
E-mail: info@unnayan.org
Web: www.unnayan.org