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DIVERSIFY AND CONQUER.

Transforming Bangladesh into
an industrialised country



Women learning refrigerator servicing under the Skills Development Project in Bangladesh. The project aims to reduce poverty and unemployment, which may help economic growth of Bangladesh.

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SUMMARY

Bangladesh has halved extreme poverty in the last two decades and created jobs via the development of its garments sector. But there is still a very long way to go before all Bangladeshi children, women and men enjoy all their human rights and have a thriving and enjoyable life, and the current strategy for development may have reached its limit. Now, Bangladesh needs a new and innovative National Development Strategy, to diversify its economy into sectors which add more value, creating more wealth for the country and jobs for the Bangladeshi people.

Largely an agricultural economy in the 1970s, Bangladesh has become highly liberalised and developed a thriving garment industry. By 2013-14 it exported garments worth more than US\$24 billion, employing 4 million workers. Garments account for 84% of the country's export earnings and contribute more than 10% of GDP.

At first glance, the country appears to be on the path to economic transformation. Bangladesh has moved from low-productivity activities in agriculture towards higher productivity manufacturing; in theory this allows well-paid jobs to be created. But in practice Bangladesh's transformation is stuck.

In focusing almost exclusively on garments, Bangladesh has neglected investment in emerging industries. High value-added manufacturing has the potential to generate high wages and profits, and would yield higher tax revenues for the state to re-invest in social and economic development. As the foundation to this, investment in agriculture is also needed to provide livelihoods for the majority and ensuring that future industrialisation is equitable.

In developing the garment sector, Bangladesh relied on the fact that it had a large population and therefore a plentiful supply of cheap labour. But so do many other countries in South Asia. Competition from other garment exporters means that wages need to stay low so that suppliers in Bangladesh can provide garments at competitive prices. Bangladesh is stuck in a low value-added segment of the global value chain; low profits and even lower wages characterise the industry.

Garments is seen as an industry that creates jobs for women. But it replicates societal discrimination against women; women are paid less than men and often dismissed when they start a family, so jobs

are not life-long careers. Garment jobs involve long hours and, even if minimum wages have increased over time, they still do not pay a living wage. Those women brave enough to stand up for their rights are often blacklisted and struggle to find another job.

Job creation in the garment industry barely addresses unemployment in Bangladesh. On average, only 200,000 formal jobs per year were created in the past decade, while the population is growing at a rate of more than 2 million people per year. The lack of alternatives forces the vast majority of Bangladeshis into precarious, underpaid and often unsafe jobs in the informal sector.

To lift the country out of poverty, the government will need to do a lot more to support economic transformation, learning from the successful industrialisation of countries like South Korea and Taiwan. Starting with established sectors that have significant potential to grow – like electronics and engineering – the government should support the emergence of a diversified and high value-added economy for the future. But many of the policy tools that today's rich economies relied upon to industrialise are prohibited under WTO rules and trade and investment agreements.

During 2015, ActionAid Bangladesh was invited to contribute to the development of Bangladesh's new Five Year Plan (its new National Development Strategy). In this report we draw from interviews with experts and businesses in emerging industries we worked with as part of this process. We also represent the views of garment workers we have worked with for many years.

The report shows that Bangladesh needs a carefully designed, long term National Development Strategy to grow high value-added, technology-intensive manufacturing industries like electronics and engineering. In order to do this, Bangladesh will have to regain its policy space vis à vis global rules and actors. Bangladesh's industrial transformation has to be sustainable both environmentally and socially. The government will have to ensure that there is green industrialisation leading to decent and dignified jobs. Labour movements, unions and civil society in general must be included in the planning, implementation and monitoring of industrialisation to ensure that economic transformation fulfils its potential for all Bangladesh's people.

1. AN ECONOMIC RECIPE OF LIBERALISATION AND INTEGRATION TO GLOBAL MARKETS

In recent decades Bangladesh has liberalised its economy extensively

If donors published a textbook for developing countries on good practice in implementing their favoured kinds of economic policies, Bangladesh would almost certainly be featured as a star pupil.

"Bangladesh has managed to accelerate overall GDP growth by one percentage point on average every decade - from 3% in the 1970s to 6% in the last ten years... The country's remarkably steady growth was possible due to a number of factors, including population control, financial deepening, macroeconomic stability and openness in the economy."

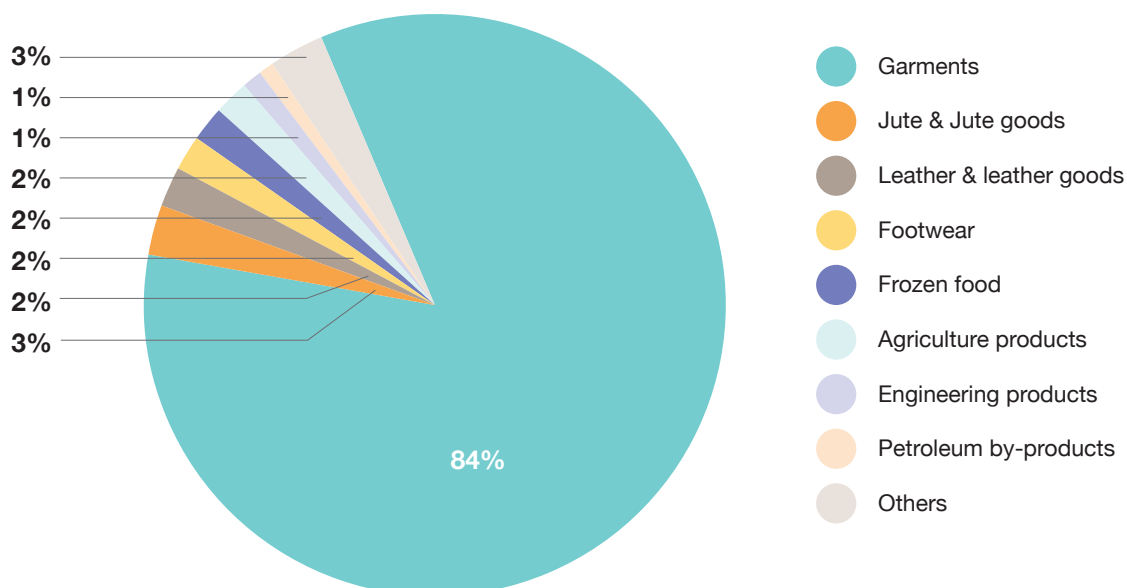
World Bank¹

Developing countries, the story goes, must join the global market economy in order to succeed in economic growth and development. For decades, donor countries have encouraged least developed countries (LDCs) to liberalise their economy and integrate into global markets so they can create jobs and generate much needed income.²

Bangladesh has taken liberalisation very seriously. It became a member of the WTO in 1995 and has signed 34 investment agreements – both bilateral and multilateral.³ It is also a member of several multilateral bodies and signatory to regional preferential trade agreements like D-8 and the South Asian Free Trade Area.⁴ Measured in terms of simultaneous rise in export and import, its openness has increased from 22.3% in 1990 to 26.2% in 2000 and 50.5% in 2011.⁵ Bangladesh imports a large range of goods, including food, fuel and capital machinery,⁶ while export earnings are predominantly from garments (84%), with a smaller proportion coming from other products (see Figure 1).⁷

In 1970 Bangladesh was a largely agricultural economy, with a very limited range of products and services to trade in the global economy – jute and agricultural products mainly.⁸ However, it did have a large population and so an abundance of cheap, flexible labour. Building on a small industry producing garments for the domestic market, Bangladesh began exporting garments in the late 1970s, when the Multifibre Arrangement (MFA) (a trade agreement) was still in operation. The MFA (1974-1994) imposed export quotas on garment producing countries when “surges in imports of particular products caused, or threatened to cause, serious damage to the industry of the importing country.”⁹ Entrepreneurs from countries unable to increase their exports because of MFA quotas were able to expand their businesses by establishing subcontracting relationships with Bangladeshi garment firms.¹⁰

Figure 1. Bangladesh’s export distribution



The garment sector in Bangladesh is made up primarily of domestic firms selling directly to international buyers, rather than subsidiaries of multinational firms.¹¹ The industry boomed in the early 1980s¹² and today Bangladesh is the world's second largest exporter of garments after China¹³. Figures collected by Human Rights Watch show that "the growth of the industry has been dramatic. In the 1983-4 fiscal year, Bangladesh exported garments worth just over US\$31.5 million, and employed 120,000 workers in 384 factories. By 2013-14 it exported garments worth more than US\$24 billion, and employed some 4 million workers in 4,536 factories."¹⁴

"The ready-made garments production in Bangladesh is incredibly dynamic. This country is in an excellent position to increase its share in the world market."

Hans-Joachim Fuchtel, Parliamentary State Secretary of the German Federal Ministry for Economic Cooperation and Development¹⁵

A Millennium Development Goals (MDG) success story

Bangladesh has been praised as being one of the developing world's biggest MDG success stories. It "has reversed some of the worst poverty indicators in the world in recent years, managing to reduce maternal mortality by 40% between 2001 and 2010. Girls outnumber boys in school and extreme poverty rates were cut in half between 1990 and 2015."¹⁶

Further, it has made remarkable progress in ensuring food security, primary school enrolment, lowering infant and under-five mortality rate, improving immunisation coverage and reducing communicable diseases.¹⁷ "We have made many achievements, so we can share our experience with others," Sheikh Hasina, the Bangladeshi prime minister told the press in September 2015.¹⁸

Increased garment exports have been a major factor in Bangladesh's growth story, contributing about 10% to GDP each year. As wages in China rise, more production may move to Bangladesh.¹⁹ Continued growth of this and other export sectors could help Bangladesh achieve its ambition of becoming a middle income country by 2021.²⁰ In July 2015 the country was upgraded from low to lower middle income status²¹, but further progress up the World Bank's rankings will require increasing the average annual GDP growth rate to 7.5-8%²²

(from 5.6 % registered in 2014). Gross National Income (GNI) per Capita for 2014, at US\$1,080 is still half the US\$2,012 average for lower middle income countries, and a quarter of the lowest GNI per capita (US\$4,126) of the next group.²³

Liberalisation is a double - edged sword

The development of some manufacturing in Bangladesh may look like the first step towards industrialisation and economic transformation. However, over-reliance on just one low value-added manufacturing sector has put a brake on economic development in Bangladesh.

Liberalisation enables LDCs to exploit their static comparative advantage (cheap labour for some, natural resources for others),²⁴ and to join production chains that are spread across countries, also known as Global Value Chains (GVCs). At each step of the production chain, labour and technology are used to transform material inputs;²⁵ value-added refers to the potential profit generated at each stage of the process, i.e. "the amount by which the value of an article is increased at each stage of its production, exclusive of initial costs".²⁶ Within GVCs, LDCs generally supply low value added products or services, undertaking tasks that lead to a very limited increase in the value of the transformed inputs. Practically, this means that the work done in LDCs generates relatively low levels of profit as compared to tasks in other stages of production.²⁷

Bangladesh, just like other LDCs, has entered the garments value chain at the lowest level, where very little value is added domestically and where fewer skilled, well-paid jobs are created. This is a vulnerable position to be in, because developing countries can get locked into low value-added activities, pressurised by global market forces and more powerful international players to keep labour costs down and unable to develop new and higher value-added industries. Several developing countries have realised that promoting manufacturing by participating in international production networks brings only "thin industrialisation", which means low-skill activities without the ability to upgrade. "In many cases, this has yielded lower than expected economic benefits, besides hampering both social upgrading and inclusive industrialisation."²⁸

Around 85% of Bangladesh's garment exports go to developed economies.²⁹ In the aftermath of the 2008 global financial crisis, falling US and EU demand has led to job losses and increased competition among suppliers in South Asia.³⁰ Around 40% of a

total of 12,000 units used as subcontractors from bigger factories in the garments industry shut down in 2008.³¹ “In April 2009, M&S, Tesco and H&M were reportedly among 50 other brands and retailers calling on Bangladesh exporters to reduce their prices if they wished to stay competitive.”³² The easiest way to reduce prices is to reduce wages and invest less in keeping factories safe or giving workers any benefits.

In the future, the growth of the garment industry, alongside others that are export-oriented, may contribute enough to Bangladesh’s GDP for the country to be classified as middle income. But unless the Bangladesh government intervenes more effectively to steer economic development, this will be at the expense of working conditions for people living in Bangladesh.

Trophies earned for job creation in garments are sandcastles in disguise

It is true that the growth of the garment industry has reduced extreme poverty and brought some benefits to Bangladeshi women. It has consistently attracted rural women aspiring to a formal income and better opportunities to support themselves and their families,³³ often providing them with greater freedom and autonomy than they would otherwise have had.³⁴ In an interview, a labour expert told ActionAid that female garment workers are seen within their communities of origin as successful, because they are able to send remittances to their families, while also having money to support themselves. It is also considered preferable to being a domestic worker. Life in the urban centre of Dhaka is seen by some as a step up from living in small villages, destined for marriage and child bearing at a young age.³⁵

However, these limited benefits do not compensate for the fact that the garment sector remains extremely exploitative of women and girls.³⁶ Recruitment and employment practices reproduce and reinforce gender inequalities in wider society. In a focus group discussion with garment workers in Dhaka we heard that jobs are scarce now and employers hire at their own discretion, often recruiting on the basis of age and physical appearance.³⁷ Employers in the garment sector prefer employing young women to carry out tasks that are detailed and repetitive, requiring manual dexterity and fineness of elaboration.³⁸ Low wages are justified by defining this work as a skill that comes ‘naturally’ to women rather than one requiring learning and training, in what scholars term “the comparative advantage of women’s disadvantage”.³⁹

Minimum monthly wages for garment workers in Bangladesh, who are predominantly women,

increased to US\$68 in 2013. This was the lowest figure in the whole industry worldwide – US\$10 lower than in Vietnam, one of Bangladesh’s biggest competitors.⁴⁰ For that same year, the cost of living in Dhaka, where many factories are located, was calculated at US\$67 per month for a family with one child.⁴¹ Evidently, garment workers struggle to make ends meet with a minimum wage, and this is if they actually earn the minimum wage at all without having to do overtime.

Garment workers we spoke to in Dhaka told us that, while they were getting paid the minimum wage, their employers were funding the increase by cutting the number of helpers on the factory floor. This means that workers now have more to do in the same amount of time, and they often end up working longer hours.⁴² This partly defeats the purpose and highlights that a minimum wage of US\$68 is far from a living wage. According to the Asia Floor Wage Alliance, “a minimum wage should be a living wage which allows a garment worker to earn enough in a standard working week (no more than 48 hours) to be able to feed herself and her family, pay the rent, pay for healthcare, clothing, transportation and education and have a small amount of savings for when something unexpected happens.”⁴³ With so many women employed in garments, it is clear that they play a crucial role in their families and communities as primary breadwinners, regardless of their age.

Young women are often preferred by employers because they are seen to have fewer care responsibilities and so are able to put in long hours of overtime. Many women living in poverty carry the dual responsibilities for both unpaid care work and earning an income.⁴⁴ Rather than provide benefits like paid maternity leave and childcare, garment factories tend to lay off women when they get married and have children, and hire a new cohort of younger women.⁴⁵ Far from offering job security and the opportunity for promotion, the garment factories provide young women with work for only 10 to 15 years of their lives, after which they must find other means to earn a living.

While a proportion of jobs in the garments industry are full or part-time within factories, there are also huge numbers of homeworkers who are informally subcontracted. When young women in Bangladesh leave their jobs in garment factories, “those who have some education or savings will take up self-employment of various kinds; others will take up waged employment outside the garment sector which pays less but allows greater flexibility in management of their time.”⁴⁶

Meet Shameema, garment workers' leader, Dhaka

Shameema (far left in the photo) is the founder of Shadhin Bangla Garments Labour-Workers Federation (SBGSKF), a labour rights organisation in Dhaka. For over 22 years Shameema has worked with garment workers, supporting them with knowledge and information to help them realise and claim their rights.

Before becoming a labour leader, Shameema worked in a garments factory and was responsible for quality inspection. Conditions were poor for workers, there were no sitting facilities except for machine operators, there was only space for workers to take lunch on the roof-top, salaries were delayed and did not include all the hours worked and female workers who had to work night shifts faced sexual harassment.

In response Shameema and other workers verbally protested against the poor working conditions, but management made no changes, except for increasing Shameema's daily workload. Despite this she continued to protest and mobilise workers, including those from other garment factories. "There were no trade union or labour rights then. We just demanded our regular salary payment" she says.

With growing solidarity and support from local inhabitants and student leaders, Shameema and other garment workers got the attention of the factory owner who negotiated with them and agreed to establish a canteen. Despite this success, the protests led to Shameema and many other workers being fired. The frequent firing of workers who complained made workers anxious about losing their jobs.

With continued pressure, Shameema and workers gained the attention of government ministers who provided them with information about their labour rights. "People came... to support us with funds and knowledge" and it is with this support Shameema and others were able to establish SBGSKF and continue the labour rights movement. Since establishing



Female garment workers who attend an AA supported Rights Café (Dhaka), march while chanting slogans which call for action and respect of Bangladesh's labour laws.

Photo: Nicola Bailey/ActionAid.

the organisation Shameema and other members have faced threats from factory owners and other stakeholders, as well as suffering serious injuries from labour protests. Nonetheless, there are some factory owners who welcome the presence of labour leaders like Shameema, because it makes dialogue processes easier.

Shameema continues to work with garment workers and says that, though some improvements have made thanks to international pressure, there are still many battles to be fought. "Unfortunately we get the lowest wage in South Asia. This is because most of the profit that the owners make is for their welfare, not for the workers who produce for them."

"We want secured employment in ready-made garments... we hope there will be [a] trade union, workers' welfare facilities such as child day-care centres, medical benefits. The factory owners have the ability to provide these facilities. What they have to do is just minimise the amount of profit a little bit." The "government can play a good role in keeping up the pressure to ensure factory owners provide better working conditions" and can also support in providing welfare facilities by ensuring factory owners "pay their tax regularly".

Homeworkers, the majority of whom are women, have “no access to the hard-won formal protection of labour laws, and social security provisions where they exist.”⁴⁷ “They commonly have to buy and maintain their own sewing machines, replace needles and thread and pay for the electricity to run their machines and light their workspace. Although not directly supervised by those who contract work to them, they are subject to delivery deadlines and to quality control of the products they deliver. If their work orders are suddenly cancelled, if the firm/intermediary does not accept their goods or if they are not paid for months at a time, homeworkers have little recourse.”⁴⁸

"My name is Nasim (16 years) and I live in the slum community of Mohammad Nagar, Dhaka in a joint family having 12 members. I am studying ARABI [Arabic] and also do home-based work of Kar Chuppi [ornamental needlework for clothes] (three hour daily). I am the only sibling helping my parents to increase the family income. I can make two pieces every day and can earn 1000-1500 BDT in a week (around 12 to 19 US Dollars).

My father is an auto driver, he earns about 50-100 BDT (around 0.6 to 1.2 US Dollars) daily. My elder sister got married four years back and has two children but her husband left her. So my family and I take care of them. I do not have any opportunity to develop my skill so that I can work to make better products and earn more. Who will help me to develop my skills?"⁴⁹

Pressure on Bangladesh's garments sector – but the problem is more fundamental

The 2011 Rana Plaza disaster focused global attention on problems in the garment sector in Bangladesh. Rana Plaza was not the first factory disaster to strike Bangladesh: just five months earlier, a factory fire in Tazreen Garments killed 112 workers and injured many more. However, the scale of the death toll from the collapse of the Rana Plaza building, which killed 1,135 people and left more than 2,438 injured, meant that concerns could no longer be ignored.⁵⁰

International media attention forced multinationals sourcing from Bangladesh to confront the need for labour regulation and auditing to ensure workers a basic level of health and safety at work.⁵¹ In response, global brands and trade unions signed the Accord on Fire and Building Safety in Bangladesh⁵² in June 2013, in order to provide compensation to the victims as well as implement safety checks and improvements in factories.

In addition to the Accord, other instruments have been adopted, including the Sustainability Compact launched by the International Labour Organisation (ILO), the EU and Bangladesh. It commits all the parties concerned to a number of time-bound actions, including reforming the Bangladesh Labour Law to strengthen workers' rights; improving building and fire safety by June 2014 and recruiting 200 additional inspectors by the end of 2013.⁵³

While these instruments are extremely welcome, it is only a limited response to the problem. As the 2015 UN Women flagship report points out “assessments of the long-term effects of voluntary private sector initiatives on working conditions point to some positive impacts in terms of worker health and safety, payment of minimum wages and reduction of unreasonable overtime but much weaker impacts on gender equality, wage discrimination and freedom of association. Furthermore, benefits tend to be limited to regular and permanent workers and fail to reach casualized workforces.”⁵⁴

Inspections required by the Accord or the Sustainability Compact have indeed been taking place and some foreign buyers have taken up additional measures to monitor workers' safety. International pressure to increase the minimum wage grew after the collapse of Rana Plaza too. But progress has been slow and there is still a lot to be done. Civil society and labour movements must

remain vigilant and continue to raise their voices so that structural and long-lasting change occurs.

Survivors of the Rana Plaza disaster continue to struggle two years later

In response to the tragic incident, ActionAid Bangladesh worked with the survivors and the family members of the deceased from the very beginning, supporting with rehabilitation of victims. Over two years on and ActionAid Bangladesh has observed that many of the survivors and family members of the deceased are struggling with economic hardship along with social and physical vulnerability, just as they were when interviewed six months after the disaster.⁵⁵

Nazneen Akter Nazma, who lost her husband in the collapse, was 21 years old and pregnant when pulled from the rubble in April 2013. Six months later she told ActionAid, “I heaved a sigh of relief when the doctor said my unborn baby was OK, but now I am worried that I can’t provide for my child. I haven’t had any compensation. My rent is five months overdue and soon shopkeepers will stop giving me credit for food.”⁵⁶

The clothing industry has long been the focus of high-profile campaigns and media exposés of poor conditions and low wages.⁵⁷ Pressure from lead firms to deliver clothes cheap, fast and flexibly makes it difficult for suppliers to improve conditions and increase wages. If they increase their prices, buyers are likely to change their sourcing arrangements, buying instead from “other capable, cheaper (and less compliant) suppliers elsewhere in the developing world.”⁵⁸

In 2011, ActionAid campaigned for Asda to ensure that living wages are paid and working conditions improved in their supply chains, with a particular focus on their suppliers in Bangladesh.⁵⁹ Many other NGOs have adopted similar strategies, with limited success. Despite codes of conduct and assurances that brands will work hard to improve conditions, there is little evidence that buyers will reward compliance with social and environmental standards with more orders.⁶⁰

Activists working in the garment sector in Bangladesh continue to fight for better conditions. However, unionising and collective bargaining is a restricted and even dangerous business. Those who raise their voices risk getting laid off, named and publicly shamed. Their pictures are posted outside factories and circulated on social media, preventing them from getting a job elsewhere. Female workers are blackmailed by managers to keep sexual harassment claims quiet, they are told if they report factories will be shut and women will lose their jobs.⁶¹

The pressure on garment workers not to complain about poor conditions is successful partly because they don’t have alternative employment options. The garment sector provides jobs for millions, but a significant proportion of the population remain unemployed or underemployed. It is easy to get rid of ‘troublemakers’, with millions more waiting for a job or for home-based piece-work. If a garment worker is blacklisted, there are no other sectors for her to turn to for formal employment; she is forced to take up precarious work in the informal sector.

2. WHY THE STAR PUPIL STILL SITS WITH THE LAGGARDS

Not much hope in sight

Official reports suggest that unemployment in Bangladesh has been consistently low, averaging at about 4.3% between 1999 and 2006. Even after the global financial crisis struck in 2008, unemployment went up by only 1%.⁶² However, these figures hide the fact that “employment characterized by differing degrees of informality accounts for an increasing share” in Bangladesh and other developing countries.⁶³

The working-age population has grown at a rate of more than 2 million people per year over the past two decades and is expected to grow at a rate of 2.2 million per year in the next ten years. Yet formal job creation has averaged only 200,000 per year in the past decade. As a result, the incidence of informal employment increased from 75% in 1999/00 to 87% in 2010 – the highest in the region. Bangladesh’s rate of underemployment (people working less than 35 hours per week) increased from 24.5 % in 2005-06 to 28.7 % in 2009.⁶⁴

Youth unemployment is one of the biggest social injustices of our time.⁶⁵ It has huge consequences for young women and men, their families, communities, and ultimately, for their countries. Bangladeshi youth (who make up 34% of the country’s population)

have been particularly affected by the lack of work. They are struggling to find decent and dignified jobs, regardless of their level of education. Jobs tend to be scarce, insecure and difficult to combine with social and family life, particularly for women. An ILO survey found that in Bangladesh fewer than two in ten young women are employed.⁶⁶ Many youth migrate in search of a better future, facing abuse and high risks.⁶⁷

This is often blamed on the lack of investment in education: according to the ILO, Bangladesh will need to further invest in leveraging “the existing skills base and increase the rate of tertiary education. Training young people to take up jobs in new, higher productivity growth sectors should be complemented by public efforts to facilitate the matching of labour supply to emerging labour demand. This is required in order to capitalize on higher educational outcomes and to improve employment opportunities. The government should favour the coordination of the labour market with the educational and training systems.”⁶⁸ However, while investment in education is crucial, it is not enough. At the moment, unemployment actually increases with educational attainment. In 2010 the unemployment rate was 14% among youth with secondary education, and 25% for youth with a postgraduate degree.⁶⁹

Lack of skills is not the only constraint on Bangladesh’s economic development. Other sectors are too weak to provide significant numbers of jobs even if a highly skilled workforce were available. The government has, for decades, overemphasised the ready-made garments industry, while giving little attention to other prospective sectors. The garments industry benefits from a range of tax incentives unavailable to other industries, including reduced corporate income tax, tax holidays, VAT exemptions, investment allowances, exemptions from excise and customs duties, and exemptions from withholding tax.⁷⁰ As Bangladesh’s leading export industry, ready-made garments enjoys substantial export facilitation support, including: back-to-back letters of credit, which allow garment exporters to import their required inputs on a deferred payment basis against a master letter of credit; bonded warehouse facilities, allowing garment exporters to import their required materials duty and tax free; export credits; and repatriation of profits of foreign investors.⁷¹

The government needs to focus on economic development beyond the garment sector in order to tackle unemployment in the short-term and provide young Bangladeshis with decent and dignified job options in the long-term.

A realistic plan also needs to address agriculture

66% of people living in poverty in Bangladesh live in rural areas and rely on agriculture for their livelihood.⁷² The lack of commitment to agrarian reform in Bangladesh (and other parts of South Asia)⁷³ has had a negative impact on the quality of economic development. “Agricultural productivity remains low and agricultural diversification severely constrained... It is imperative that agriculture is given high priority in the public budgetary allocation and appropriate land and agricultural reforms are introduced to give the small and marginal farmers, as well as agricultural workers an equitable and secure stake in agriculture and, therefore, in shaping their own destiny.”⁷⁴

Investment in new manufacturing sectors will take time to pay off and in the meantime agriculture provides livelihoods for a significant proportion of Bangladesh’s population. Investment is necessary to

ensure that agricultural livelihoods are decent and dignified, providing families with enough food to eat and money to live on.

Historical evidence shows that agriculture-led industrialisation has been the most successful and equitable way to transform an economy. The success of Asian countries (Japan, Taiwan, China and South Korea) in particular was supported by investment in smallholder agriculture, which became more productive, increasing rural incomes and freeing up labour to work in the manufacturing sector. To avoid trapping rural people in poverty, Bangladesh needs to support farmers to make a decent living out of agriculture and invest in infrastructure. The existence of a thriving rural economy alongside manufacturing and services will provide a range of decent and dignified jobs for low-skilled as well as highly educated workers.

3. TIME TO RETHINK: KEY PRIORITIES FOR A NEW NATIONAL DEVELOPMENT STRATEGY

Bangladesh's leaders need to re-think how best they can drive the country towards sustainable economic development that provides decent and dignified jobs for all. A new National Development Strategy (NDS) should aim at the structural transformation of the economy into higher value-added manufacturing using a range of industrial policies. "The idea that developing countries can and should create dynamic comparative advantage through coordinated activities has all but disappeared in the current development policy framework shaped by decades of neoliberal economic policies."⁷⁵ But it is a good idea. Developing countries must reclaim their policy space to industrialise and reduce the gap between them and developed countries.

A diversified, high value-added economy for the long run

Increasing value-added is important because it allows manufacturers to compete on something other than price and so they do not need to drive down wages to remain in the game.⁷⁶ Being competitive on factors other than cheap labour allows them to have better bargaining power vis à vis other international players in their sector. And GDP is nothing else than value added, so higher levels of the latter "either in terms of technological content or at least domestic content"⁷⁷ would increase GDP as well as improve prospects of long-term development. More profitable industries would yield higher tax revenues, creating a virtuous cycle whereby Bangladesh could invest more into social and economic development.

The draft 7th Five Year Plan (FYP), the key NDS document, aims at increasing the contribution of the manufacturing sector to 21.5% of GDP by the financial year (FY) 2019-20 from 17.8% in FY 2014-15. This ambition is not new: the expiring 6th FYP had also set the target for manufacturing's contribution at 21.5% of GDP by the FY 2014-15 – up from 17.9% in FY 2009-10.⁷⁸ Manufacturing value-added increased from 13.7% in 1985 (the decade when garments boomed in Bangladesh) to 15.3% in 1995, at which it remained for over a decade. In FY 2014-15 it increased to 17.2%. The GNI per capita has more than doubled from US\$220 in the 1980s to US\$1,080 in 2014. But the average figure for lower middle income countries is US\$2,012.⁷⁹

It is not enough to rely on the garment sector to substantially increase the manufacturing sector's contribution to GDP. It is also unlikely to be able to significantly boost manufacturing value-added beyond current levels and substantially increase GNI per capita. Bangladesh needs to create "higher value-added industries where upgraded skills and new technologies can be utilized, decent employment is generated, and public goods and social services are adequately provided."⁸⁰

A diversified economy is a crucial basis for wellbeing and human development. People living in Bangladesh should be able to have a dignified life and decent working conditions, should have reasonable working hours and time for family and leisure. A steady, well-paid job is a one-way ticket out of the misery that unemployment and the informal economy bring.⁸¹ A 2011 Gallup poll revealed that, worldwide, individuals employed full time for an employer tend to report the highest evaluative wellbeing. In terms of one's wellbeing, the worst job in the world is to be self-employed in a developing country.⁸² If anyone is to become self-employed it should be by choice and because it offers good opportunities, not for lack of options and as a last and desperate resort.

Investing in higher value-added sectors and technological innovation increases productivity without putting unacceptable pressure on wages and working conditions, allowing the jobs that are created to be well paid. Diversification often requires varied skillsets, knowledge and educational institutions, which in turn provides people in a society with a more varied set of educational choices and capabilities.⁸³ In turn, this creates more occupational and consumption choices for people, which can help create more jobs to meet growing demand. With more jobs available, workers negotiating with their employers for better conditions will have more confidence that they can find a job in another sector if the negotiations break down.

In planning for a new and diversified economy, it is also key that policy makers think about how they will invest in helping women cope with the unequal burden of unpaid work they shoulder and their right to education and decent and dignified paid work.⁸⁴ "Policies must be designed with awareness of connections between the nature of labor force participation and the unequal burden of unpaid work shouldered by women, and between macroeconomic policies and working conditions."⁸⁵

A push for high value-added manufacturing

Extensive research demonstrates that it is challenging to create a significant number of well-paid jobs without investing in manufacturing.⁸⁶ Manufacturing plays a very important role in transforming the structure of a developing country's economy. "Activities in this sector are more conducive to specialisation and the division of labour, and offer greater potential for innovation and increasing returns to scale than other sectors."⁸⁷ Most manufacturing activities are labour-intensive. Given the right wage and labour market policies, a national economy that becomes more productive has the potential to benefit a large proportion of the population because it offers plenty of well-paid jobs.⁸⁸

"One reason that latching on to more sophisticated manufactured products promotes growth is that such products have productivity frontiers that are further away and therefore present greater room for technological catch-up. By starting to produce goods that countries much richer than them are currently producing, poor countries enlarge the scope of productivity improvements. Convergence in productivity levels with rich countries becomes an important force for economic growth."⁸⁹ And, making the transition to manufacturing helps not just because it pulls resources into higher productivity activities, but also because it makes future structural change easier.

Today, the provisions of World Trade Organisation (WTO) law and trade and investment agreements prevent developing countries from using many of the policy tools that today's rich economies relied on to industrialise,⁹⁰ such as import quotas, subsidies and tariffs. LDC leaders' hands are tied and cannot easily target economic activities to transform the economy. For example, Bangladesh is highly constrained by having to reduce tariffs and custom duties, remove quantitative restrictions and relax local content requirements of products. Other WTO rules are medium constraining, and include government procurement, intellectual property and export subsidies in agriculture. A third set of rules, regulating devaluations, investment incentives, trade finance and export taxes are the least constraining of them all but are nonetheless there.⁹¹

An economy that is increasingly open to free trade and regulated by the rules listed above makes it difficult for domestic businesses to enter the market: they are put out of business before they have any chance to become competitive. For instance, a Bangladeshi businessman told

ActionAid that the engineering industry is set up to manufacture machinery for other sectors, but imports get so many tax breaks that it often turns out cheaper to import finished goods rather than produce them in Bangladesh.⁹²

It will take lots of determination, planning and sheer guts to succeed, but without this effort Bangladesh will not be able to secure a safe and prosperous future for its people.

"It is imperative to ensure that effective policy instruments are available to countries to enable them to achieve the agreed goals and advance the [post-2015 development] agenda... Recent experience, historical evidence and theoretical insights all point to the role that proactive trade and industrial policies must play in that agenda."

UNCTAD⁹³

Where to start?

Bangladesh's leaders need to think carefully about how best to use their resources to help already existing industries, as well as laying the groundwork for new industries that could emerge in the future. They will need to assess what the opportunities and challenges are for domestic businesses, both in the context of foreign markets and also domestic demand. This exercise needs to look at the short but also very long term, so that things really do work out for the future.

"I dream about doing something that can benefit me and society. In the future, I'd like to create a mobile phone social enterprise. In Bangladesh, mobile phones are an essential part of people's lives but unfortunately many electronic parts are unavailable in the local market. I want to produce mobile phone software and microelectronic hardware in Bangladesh so we don't have to import these from outside the country."

Pial Kanu Dey, a 17-year-old student from Sutrapur-Ghuntighor Urban Slum (Dhaka)⁹⁴

For instance, are there any so-called “sunrise” or emerging industries that could drive the economic transformation with government support? Or “sunset” ones that can be helped to exit current markets, with their resources re-channelled to new, more competitive activities?⁹⁵ These are questions that ActionAid Bangladesh has been discussing with government, business, research institutes, civil society partners and journalists, as part of its engagement with the government in developing the new industrial policy.

The much-needed transformation of the country, ActionAid has stressed, should prioritise expansion and innovation in higher value-added and more technology-intensive sectors. Higher profit margins will bring more income to businesses and the affordability of better wages for workers. The government should also actively promote backward and forward linkages with other domestic firms, so that there is a ripple effect of increasing productivity in the whole economy and so creating more decent and dignified jobs. History shows that South Asian countries like Taiwan and South Korea did exactly that to become as industrialised as they are today.

As part of its successful path towards industrialisation, Taiwan openly targeted medium and growing firms, rather than large ones. This was mainly due to the fact that the domestic private sector – just like in Bangladesh – was primarily composed of small and medium enterprises (SMEs), which are more likely to create jobs. Relying on

medium-sized firms could lead to a much more decentralised, wide-reaching industrialisation, making it less likely that new firms be ‘crowded out’ of the market. Though they also compete with one another, medium and growing firms can be capable of networking and collaborating with each other, often forming geographical or sectoral clusters that can in turn help with product innovation and upgrading.⁹⁶ This mainly takes place when local firms hire one another as suppliers. So supporting small and growing businesses to upgrade and develop new products will trigger backward and forward linkages in the local economy, which further contributes to the economic transformation of the country.

As suggested, within discussions around Bangladesh’s 7th Five Year Plan two industries have emerged as potential candidates to help the country step into higher value-added markets: engineering and electronics. Our interviews with businesses and sectoral associations identified some of their advantages and disadvantages, as well as key support they need.

The first industry, engineering, is referred to as ‘the mother of all industries’, because it produces and repairs capital machineries and spare parts that are used in every other sector in the country. Over 90% of the needs of the local people are met by domestic engineering industries.⁹⁷ Some of its 10,000 products include plastic moulds for fuel filters used in motorcycles, and machines used by pharmaceuticals or to increase agricultural

Taking a leaf from the Taiwanese book

When Taiwan’s Developmental State kicked off its industrialisation strategy in the 1950s, agricultural products represented 85% of the country’s total exports. By the late 1980s, more than 90% of exports came from manufacturing. Between 1962 and 1986, per capita GNP increased by a factor of 20.¹⁰⁵

Taiwan’s Industrial Development Bureau (IDB), made up of roughly 150 engineers, was instrumental in the development of the country’s domestic electronics sector. Sector teams spent several days a month working with firms to help them improve their production processes and range of products. They then used creative, almost “under-the-radar” approaches to support these firms to establish contracts with the Taiwanese subsidiaries of multinationals.

For example, the IDB put pressure on the Taiwanese subsidiary of electronics multinational Philips to source glass for televisions from local suppliers. If Taiwanese firms could be guaranteed long-term contracts, they would be able to amortise the costs of improving their production processes to ensure that the glass they produced met Philips’ specifications of quality and price. IDB worked with the foreign investment board to delay Philips’ applications to import glass. This was sufficiently inconvenient to prompt Philips to explore the potential of sourcing from local suppliers instead. After two Taiwanese glass-makers demonstrated that they were able to produce high quality glass at competitive prices, Philips stopped importing and sourced from those firms instead.¹⁰⁶

productivity. The industry requires low and medium technologies for most products, which means that Bangladesh could realistically start becoming more competitive without requiring huge leaps.

The industry is classified as a sub-sector of Small & Medium Enterprises (SMEs). Currently about 40,000 firms are generating employment for 0.6 million people. There are about 1200 engineering industries presently enlisted with Bangladesh Small & Cottage Industries Corporation (BSCIC).⁹⁸ Some firms are already quite successful; others still need significant support to improve their production processes. But together, they could be a true powerhouse for the future because they could create demand for each other's products.

The second sector that has been talked about is electronics. Though mainly an assembly industry in Bangladesh and at the moment struggling to compete with imported final goods, demand for electronics is not going to disappear anytime soon. If, as we hope, the Bangladeshi economy becomes complex and diversified enough to increase people's purchasing power, there can be more demand for televisions, refrigerators, air conditioning units, radios, etc.

The domestic industry is currently dominated by two big players, which are gradually pushing small and growing competitors out of the game. Despite facing severe competition and daily struggles, some of the smaller firms are still reluctant to give up because they see the industry as one that could really supply the domestic market if it were appropriately supported. They also hang on for the sake of their workers.

"I have been thinking of closing my TV assembly factory for a while, but I have not done so because my workers, some of whom have been with the business since it started in 1993, have no other employment options. Though I could revive an old family business in the Jute industry in Northern Bangladesh, my workers would be unable to come work with me up there. They all have families who would need to find new jobs too, and there are not many opportunities outside of the cities."

Electronics assembly business owner¹⁰⁰

These two industries have proved that they are sound investments for the future. The case of engineering is particularly important. Without any support from the government, it has managed to successfully substitute a good amount of imports. As discussed, engineering meets the demands of most if not all domestic industries, is capable of increasing export volumes, and is eager to do so. It could be much more productive with tailored support programmes from the government – just like South Korea's push for light manufacturing industries in the 1970s.¹⁰¹

South Korea implemented an aggressive industrial policy to "transfer resources away from 'unproductive' toward 'productive' uses."¹⁰² In practice, this meant "distorting" markets to create rents (above normal market returns) and "induce more-than-free-market investment in activities that the government agreed were important for the economy's transformation."¹⁰³ The sectoral focus was on export-oriented light manufacturing, which was benefitted from increasing US demand for those products. In the context of the Cold War, South Korea was an ideal supplier. Today's WTO rules are highly constraining for tariffs, and subsidies, so following South Korea's exact model would require challenging global rules.

The electronics industry in Bangladesh is struggling to compete with Chinese imports and is currently a labour intensive, assembly industry. It is challenging for firms to expand into other areas of production.

"Mine and a group of other small businesses in the electronics assembly industry tried coming together to set up a factory to produce in Bangladesh the components we normally import. We even bought a plot in Northern Bangladesh to build it on. But we soon realised that the initial investment would not yield the returns needed - the idea was parked."

Electronics assembly business owner¹⁰⁴

Nonetheless, the industry has succeeded in supplying the domestic market with affordable goods. The sector has been able to absorb both skilled and unskilled labour – a big contribution to the economy, which in the short and medium run will need jobs for both types of workers. In a technology

From repairing to patenting to branching out

A successful businessman in Dhaka we spoke to in August 2015 started his career in the early 1980s in the tea processing industry. Having learnt the basics from working in an uncle's factory while finishing school (Grade 11), he then started his own machine production business and bought English and Indian machines. He taught himself how to make them – even improving the original design. When the tea processing business slumped in the late 1980s, he reinvested all his money and pre-existing knowledge into the agricultural machinery industry.

His first step was to visit four rice-producing districts in the country, to see first-hand what the farmers' current system, needs and purchasing power was. He then travelled to Thailand, the Philippines and China to get product ideas, and when he returned to Bangladesh he produced his own machine, which drew from all three examples. From 1990 and until 2005 he steadily grew his agricultural machinery business, patenting every new design he produced. Over the years, he accumulated the capital, networks and knowledge to branch out to other industries, including the power industry, construction and education.⁹⁹

intensive world, global demand is likely to grow in the future. The key will be to protect and support Bangladeshi firms as they become competitive.

By intervening more actively to protect emerging firms while they improve their productive capacity, Bangladeshi firms in these industries – and perhaps others too – could really stand a chance to play their part in the overall economic transformation of Bangladesh.

However, this economic transformation cannot be at the expense of health and safety or workers' rights – factory disasters are not exclusive to garments. Taiwan's model was not perfect. Just as in other parts of East Asia, its export boom was driven by the low-wage employment of women, even as they continued to shoulder unpaid care work.¹⁰⁷ As the gender wage gap decreased, women were no longer as attractive to employers, resulting in a decline in the number of women employed in export-oriented manufacturing.¹⁰⁸

Bangladesh still lacks an enforceable labour law and genuine freedom of association for workers. Workers need to be paid a living wage. Benefits like childcare and paid maternity leave need to be provided to allow women to participate in the workforce throughout their lives, not just while they are young. These are key issues that must also be included in the NDS, with input from civil society and trade unions throughout the whole planning and implementation process.

What support do these industries say they need?

ActionAid's interviews with businessmen, thought leaders and industry specialists highlighted some of the main constraints for small and growing businesses in Bangladesh. All our interviewees who were from or linked to small and growing firms said they faced huge obstacles when looking for finance to start up or upgrade.

One of our interviewees, who has been advising SMEs for a decade, told us that less than 1% of small and growing engineering businesses have access to institutional finance. Their biggest challenges are cash flow and high interest rates on banks loans. There are three reasons behind these challenges:

- a) smaller businesses cannot offer collateral,
- b) interest rates are very high (around 18% in Bangladesh, compared to an average of 1.5% in the UK,
- c) the loan processing system is incredibly complicated and long (the waiting time is 20-30 days).¹⁰⁹

Academic studies confirm that small and growing businesses are regarded as high-risk borrowers because of their low capitalisation, insufficient assets and their inability to comply with collateral requirements of the banks.¹¹⁰

A focus on the missing middle

While entrepreneurs and micro-enterprises can access finance through microcredit schemes, small and growing businesses consistently hit a brick wall when seeking loans. Known as the missing middle, this cohort faces “a lack of capital appropriate for their risk profile and available in the amounts they need. The loans or investments sought... for start up or expansion, are generally too small to attract mainstream banks and private equity groups and too large to be met by microfinance institutions.”¹¹¹

In Bangladesh, even when loans are available, interest rates are very high. Average interest rates for commercial loans (including for the garment industry, which is supposed to enjoy high levels of financial support) have increased by up to seven percentage points between FYs 2010-11 and 2014-15. All the Nationalised Commercial Banks (NCBs) and top 11 Private Commercial Banks (PCBs) were charging 13% interest rate in FY 2010-11. However, all these banks increased their interest rates to between 15.50% and 20% during FY 2014-15.¹¹²

Liberalisation policies seem to have benefited larger enterprises.¹¹³ Big domestic players have managed to take a step forward, because they have the capital and the networks to access grants and preferential loans. They can seize opportunities to access new markets first at competitive costs.

One interviewee told us that one of the big players in electronics bought the stock of another company that was closing down very cheaply, thanks to their access to preferential loans from the government. If loans and benefits were more broadly and fairly distributed, reaching small and growing businesses, there could be a chance for a more level playing field that can ultimately benefit the consumers as well as the local firms.

Communication channels between the government and smaller and growing businesses are pretty much non-existent – as discussed earlier, this was a key factor in Taiwan’s success. The only points

of contact are when licences need to be sought or when tax inspections are due and this is not a pleasant experience. For instance, they frequently report harassment from the VAT office, even though they are exempt from VAT.¹¹⁴ And no one is interested in hearing about these problems. We were the first people outside the business itself to hear about some of our interviewees’ challenges.

Even if still at modest productivity levels and low volumes of exports, engineering is a well-established industry in Bangladesh.¹¹⁵ Some of the businesses we spoke to within the sector thought that their next step forward should be to aim for bigger export volumes. They knew exactly what products already on sale in American or Indian markets they could move into and they knew what upgrades they needed to make in order to offer good quality and competitive prices. Essentially, they need to be able to move beyond unit-based exports, but without long-term contracts from foreign companies the investment risk is too high and out of reach.

The government should also consider how to convince foreign businesses to work with Bangladeshi firms. One interviewee in particular spoke about having met with a large American retailer to explore the possibility of a long-term contract. “Sir,” the American retailer said: “we cannot give you the contract nor volumes you are asking for, not because we do not trust you. It is simply because Bangladesh is not a tool and machinery producer, it is a garments producer.”¹¹⁶

State-facilitated linkages between buyers and suppliers are key, particularly because these relationships lead to buy back arrangements under which foreign firms help provide their suppliers with the necessary technology to fulfil their orders. A strategy for diversification based on this premise does not have to be overly ambitious; it can start small, with only a few products and a few companies, and then gradually scale up.

But building a national reputation will not be enough to help domestic firms increase their volume of exports. There also needs to be a serious effort by the government, in collaboration with sectoral associations, civil society organisations, trade unions and chambers of commerce to make new technologies accessible to small and growing businesses, and also to workers in training. We heard that the majority of firms in the engineering industry operate with machinery that is second generation technology, while the rest of the world is already on fifth generation. Bangladeshi experts

on SMEs have argued for over a decade that lack of modern technology is a huge constraint.¹¹⁷

More practically, small and growing firms struggle to find sites. Land is scarce in Bangladesh and it is very difficult for engineering firms to find the space for industrial parks. Carefully thought through solutions will need to be found to this problem, so that the environment is not further affected – particularly in and around Dhaka but in other parts of the country too, land has been reclaimed from lakes and rivers, which unbalances local ecosystems. Allocations of plots for industrial parks will also need to conform to national and international rules and regulations (like Free, Prior and Informed Consent or FPIC), so that they do not lead to any land grabs.

CONCLUSION AND KEY CONSIDERATIONS FOR A BRIGHTER FUTURE

This report has shown how Bangladesh's current development strategy is not sustainable in the long term. Because it has relied on the ready-made garments industry, where it produces low value-added goods and is at the mercy of global markets and consumer demand in developed countries, it has been unable to upgrade and greatly increase the level of manufacturing value added as a proportion of GDP. There have been few opportunities for Bangladeshis to access decent and dignified jobs.

But there is an alternative and sunnier path that draws from successful experiences elsewhere, like Taiwan and South Korea. It will require a carefully designed, long term NDS to grow high value-added, technology-intensive manufacturing industries like electronics and engineering. These two sectors will need to be supported in different ways, including being granted access to the kind of trade and fiscal policy incentives that played an instrumental role in the growth of garments. And also a long term plan for better access to finance, including single digit interest rates.

The government will need to take a hands-on approach towards industrialisation and economic transformation, making sure that its citizens' wellbeing comes before foreign interests or short term profits. In other words, Bangladesh will have to regain its policy space vis à vis global rules and actors. This task will certainly not be easy. For example, it will involve negotiating exceptions to WTO rules on procurement, intellectual property, export subsidies, tariffs, quantitative restrictions and local content requirements.¹¹⁸

Plans will need to be made for the very long term. Therefore, Bangladesh's industrial transformation has to be sustainable both environmentally and socially. The government will have to ensure that there is green industrialisation leading to decent and dignified jobs. Macro and microeconomic policies need to ensure that all citizens are included in the economy going forward. They must be particularly careful not to widen or reproduce gender inequalities that have repeatedly left women in vulnerable positions and in breach of their human rights during industrialisation processes.

Finally, to make sure that promises are kept and results are maximised, a social contract must be agreed between government, labour, businesses and the wider civil society in support of the structural transformation. Labour movements, unions and civil society in general must be included throughout planning, implementation and monitoring phases – they are key to making sure that further industrialisation in Bangladesh does not lead to breaches of human rights obligations.

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