

Editor's Desk

With this issue, the journey of the **Thinking Aloud** begins. The **Thinking Aloud** is going to be SANEM's monthly publication. It will focus on the themes and issues related to SANEM's ongoing research and activities. It will try to present to its readers short articles, interviews, reviews of publications and events. The current issue focuses on some relevant topics related to the labor market in Bangladesh. The short article on the future of the manufacturing sector in Bangladesh highlights the significance of a diversified manufacturing sector for sustained economic growth and employment generation in Bangladesh, and suggests to deal with the related policy induced and supply side constraints. The second short article underscores the importance of social protection programs for the growing labor force in Bangladesh, both in the rural and urban areas. The short macroeconomic update of the Bangladesh economy presents the trends in the major macroeconomic variables. An interview with a domestic migrant worker shows the diversified life of the domestic migrant workers in Bangladesh. A short story on the Rana Plaza incident highlights the importance of an appropriate approach to consolidate and safeguard the readymade garment industry in the country.

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Editor:

Selim Raihan

Associate Editors:

Md. Naibur Rahman

Nabila Tasnuva

Raisa Tamanna Khan

The Future of the Manufacturing Sector in Bangladesh

Selim Raihan

Bangladesh economy has witnessed significant structural changes over the last four decades. The share of agriculture in GDP has declined while the relative significance of industry and services sectors has increased substantially. Over the past two decades or so, Bangladesh has experienced sustained overall economic expansion. However, the economy is yet to have a strong manufacturing base. The pace of reduction in agriculture's share in overall employment has however been much slower than the pace of reduction in agriculture's share in GDP. This suggests that growths in the overall manufacturing and services sectors have not been strong enough to reallocate surplus labour from agriculture. This indicates that as far as the overall manufacturing sector is concerned, there remains a challenge for employment creation at a larger scale.

The story of the growth of the manufacturing sector in Bangladesh over the past two decades has been the story of success of the RMG sector. RMG has been an important contributor to growth and employment generation in Bangladesh. However, question remains whether the current structure of the manufacturing sector will remain as a sustained driver of economic growth and employment creation in Bangladesh in the future because of two reasons. Firstly, given the existing heavy reliance on the RMG sector and weak performance of most of the non-RMG manufacturing sectors, the prospect for sustained and long term growth in the manufacturing sector in Bangladesh remains a challenge. Secondly, it can be argued that the growth in the RMG sector in Bangladesh has also been, to a large extent, driven by some sizeable 'rents' generated in this sector, and there are possibilities of shrinking the sizes of such 'rents' in the future due to both domestic and international factors. There have been five major sources of such 'rents': MFA quota (which no longer exists) and GSPs, different forms of subsidies, tax exemption, maintenance of labour regime, and weak compliance. However, there are threats with regard to the continuation of GSP facilities in the future on grounds of lack of compliance, weak labour standards and

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conflicting political situations in Bangladesh. There are also budgetary constraints on continuation or enlargement of subsidies or exemption of taxes. A recent study has estimated that the size of the tax forgone in the RMG sector due to the tax exemption facility in recent year could be as high as 6.3 percent of the total tax revenue. Also, recent labour unrest over the hike of the minimum wage in this sector and pressure from the international community have exerted serious challenge over the 'sustainability' of a labour regime which has been maintained with a kind of political settlement over the years. Similarly, 'rent', from lack of compliance, especially with regard to working environment and factory standards, in the context of weak regulatory institutions, has become highly unsustainable due to the serious international pressure for enforcing compliance in the wake of recent incidences of fire and building collapses which resulted in a large number of deaths of RMG workers. All these suggest that the RMG sector in Bangladesh will need to undergo some major structural changes, in the forms of labour practices, compliance and diversification, in the future for its sustainability which will have important implications for the growth of the manufacturing sector as well as for the overall economy.

It is important to highlight that the manufacturing sector, to be a sustained driver of economic growth and employment creation in Bangladesh, needs to put much weight on expanding and diversifying its base. Supporting macroeconomic, trade and industrial policies are needed. The policy-induced and supply-side constraints, that have constricted the growth of non-RMG sectors, need to be addressed. Some of these constraints include lack of investment fund and working capital, high interest rate, shortage of skilled workers, lack of entrepreneurial and managerial skills, poor physical infrastructure, inefficient ports along with high transport costs, weak institutions, poor law and order situation, invisible costs of doing business, etc. However, it should be kept in mind that the way the RMG sector has been able to generate 'rents' is not sustainable and can't be replicated in other sectors. For the promotion of the non-RMG sectors, a well designed and effective industrial policy is needed where trade, monetary and fiscal incentives should be transparent and time-bound.

The author is the Executive Director of SANEM.

Macroeconomic Update

Bangladesh economy is facing critical challenges in the wake of the political turmoil which started last year and continued up to the election held this year (2014). The GDP growth rate which was targeted to be more than 7% now seems like a far cry. Different estimates suspect that the growth rate will be around 6%. Growth rate has been on decline due to the sluggish investment rate. Available sources indicate that ADP (Annual Development Program) implementation this year so far has been lower than that was at the same time in the previous year. Domestic credit growth rate has been 11.18% (y-o-y) up to March this year, lower than 12.86% during the same time in the previous year. Point to point inflation in March 2014 has increased slightly to 7.48% from 7.44% in February 2014. Both point to point and 12 month average suggests that food inflation has increased in March 2014. There are however some good signs. The export performance has been steady despite the political crisis. Export earning has experienced a 12.88% growth during July and February 2013-14. Import payment has increased by 16.42% and settlement of LCs of industrial raw materials and capital machineries observed growth of 10.57% and 18.61% respectively during the same period; and this is a recovery from negative growths of these indicators during July-February, 2012-13. The steady performance of export earning has helped manage the current account surplus to USD 2020 million in the first eight months of this fiscal year. Remittance earning finally has showed bit spark with a growth of 4.82% (y-o-y) in March, 2014. Remittance earning experienced negative growth in the first five months of FY14 where the rate of decline reached up to 9.03% towards the end of 2013. Keeping in line with the overall export and recent remittance's performance Gross Foreign Exchange Reserve crossed USD 20 billion benchmark in April, 2014. It seems that the economy is still going through the recovery stage. However, the growth prospect of the country would depend much on increased investment rate (both public and private). There is no denying the fact that a better investment environment is needed for such a change.

Social Protection and Labor Market in Bangladesh

Bazlul Haque Khondker

Bangladesh spends about 2.2 percent of her GDP in more than 90 social protection programs per annum. Social protection (or social safety nets) programs were initiated in early 1980 mainly responding to the disaster needs and providing support to the rural poor. During the last three decades numbers of social safety net (SSN) programs have proliferated; broadened the coverage of households; recorded higher incidence of leakages; and experienced greater inefficiencies in beneficiary targeting. According to the available statistics (i.e. HIES 2005 and 2010), in 2010 the coverage of household with one social safety net program was 34.4 percent; in 2005 coverage was 21 percent. Leakages of SSN funds increased from 44 percent in 2005 to 60 percent in 2010. System's capacity to target beneficiaries efficiently has worsened with 64 percent of the poor not having access to any Social safety nets (for detailed analyses on these aspects please refer to the 'Bangladesh Poverty Assessment: Assessing a Decade of Progress in Reducing Poverty, 2000-2010' Bangladesh Development Series Paper No. 31, The World Bank Dhaka Office, June 2013).

A closer review suggests that the major SSN schemes in Bangladesh have evolved over time to address lifecycle risks. More specifically, some 65 percent of the SSNs are seeking to address life-cycle risks – a better approach to design SSN program to mitigate risks of citizens. Still there are significant gaps. The coverage of children aged between 0 and 4 years is very small. Only a small proportion of people with disabilities and elderly persons receive some form of tax-financed benefit.

There are 10 specific SSN schemes for people of working age. The major programs in this category could be divided into two main types: workfare schemes and programs for women. There are as many as 8 workfare schemes of which the two largest programs are the Food for Work Program (FWP) and the Employment

Generation Program for the Poor (EGPP). The aim of these programs is to help create employment in rural areas during agricultural slack period to create jobs for those who might need them, especially women. The work typically involves support for building rural infrastructure. These programs use up considerable resources - 14 percent of total spending on SSN. Several concerns have emerged about the effectiveness of the use of these resources. The other set of schemes for working age people are directed towards women. The largest is the Widows' Allowance, which reaches just over a million women; although around 23% among them is over 62 years of age.

What strikes is the lopsided outlook completely ignoring the risks of the urban working age and urban formal workers. An inadequate SSN system means that families with children also have to provide care and support to those elderly people and people with disabilities who are in need of assistance. In effect, this is an informal tax on working families that limits their ability to invest in productive activities while reducing the support they can give to their own children. It is particularly challenging for poor families. In other developing countries, old age pensions and disability benefits paid at reasonable levels are able to reduce demands on families with children, with significant benefits for working families.

Currently, the labor market is dominated by informal employment. Bangladesh is aspiring to become a middle-income country by 2021. The strategy to realize this aspiration is to promote modern manufacturing and organized services activities. As the economy grows along with the expanding share of modern manufacturing and organized services both in GDP and employment, the requirements from the SSN system will change dramatically. "The approach to delivering social benefits will therefore need to broaden from the concept of a safety net to a more inclusive concept of a Social Security strategy that is aligned to the life cycle and incorporates formal employment policies as well as social insurance schemes" (Draft NSSS paper, April 2015).

The author is the Chairman of SANEM.

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"It's All Worthwhile"

SANEM interviews Mizanur Rahman to talk about his cycle of domestic migration

Mizanur Rahman, a landless day laborer from Kurigram of Bangladesh, migrated to Gazipur, a suburb near Dhaka, in search of seasonal occupation with contracts of harvesting in paddy field. His work paradigm not only relates to the untold story of domestically migrated labor force in Bangladesh but also validates the changing pattern of Bangladesh economy. His work story, and life story as well, represent the same defining story of thousands of domestic migrant workers in Bangladesh. And this story is interesting.

SANEM: It seems to be a very scorching summer day. You are all the way from Kurigram. Does it seem worthwhile?

MR: Yes. As far as the wage is concerned, I am getting almost 350 BDT per day here having a wage difference of 150 BDT from Kurigram. The whole mechanism is contract based where we are working as a group to harvest the paddy from the particular contracted field. We came as a group of 12 members. I have been working in Gazipur for 15-20 days and already covered more than 5 decimal land area yielding me around 7000 BDT.

SANEM: Why are you here? Kurigram has a vast productive land. Couldn't you find job there?

MR: Yes. I could have been working there. I once had my own land which was taken by Tista River. In my village, there are only harvesting related opportunities. Also, I get much lower wage there.

SANEM: What sorts of other work do you do? Do you get the same sort of payoff?

MR: I often migrate to Dhaka for 15-20 days and do the Rickshaw pulling. In some cases the payoffs are even



better. I can earn at least 5000 BDT in 15 days. When I chose to pull the rickshaw in Dhaka, I work 15 days at a stretch and then go back to Kurigram. Once my reserve ends, I again go out in search of work.

SANEM: You seem to have a diverse choice of profession. Have you ever tried of doing business?

MR: Not really. Business requires capital which I don't have. And opportunities are also limited to fishing, grocery, dairy business. This makes me always dwindling

between these two professions – contractual farming and rickshaw pulling.

SANEM: Development organizations like BRAC, Grameen Bank, TMSS, and BURO hold good coverage in your locality. Have you ever tried getting micro-credit scheme?

MR: No. I am not comfortable with their terms and conditions and I also doubt my capability of paying back the loan from these organizations. I normally take loans from my neighbor though they take high interest, paying almost 200 BDT interest in one month for 1000 BDT loan.

SANEM: Do you think this struggle, in form of migration, is changing your life?

MR: Though it's a struggle and hardship, I can afford my livelihood. But I also have the ambition of transcending my family's fortune. It's not only affording my livelihood but also fueling my ambition of transcending my family's life. I am a proud father of two boys, studying in class VI and III respectively, and one girl, studying in class I. And I want to continue their education as far as I can because I don't want my sons to be migrant workers like me. This makes my struggle, this frequent migration, worthwhile.

SANEM: Thank you so much for your time.

MR: My pleasure.

The interview was extracted by Md. Naibur Rahman, Research Associate at SANEM, from a full video interview of Mizanur Rahman by SANEM.

SANEM Updates Ongoing Research Projects

SANEM's research team is currently working on the following issues:

- Preparing a roadmap for South Asian Economic Union: For SAARC Secretariat and Asian Development Bank
- Updating the Social Accounting Matrix (SAM) for Bangladesh, India, Nepal, Pakistan and Sri Lanka: For UNESACP-SRO SSWA
- Preparing technical papers on labor market, growth and poverty in Bangladesh: For IDRC-Canada
- Facilitating Entrepreneurs to Harness Export Potential through Policy Support in the Leather Sector: For Asia Foundation

REVIEW

Kar, S., L. Pritchett, S. Raihan, and K. Sen (2013), "Looking for a break: Identifying transitions in growth regimes", *Journal of Macroeconomics*, Volume 38, Part B, December 2013, Pages 151–166

Economic growth in developing countries is characterized by frequent shifts in growth regimes. Following Pritchett (2000), there is a large empirical literature that has tried to identify the timing of these shifts in economic growth. Two distinct approaches have been developed by this literature. The first is a 'filter-based' approach that identifies growth breaks on the basis of subjectively defined rules, while the second approach is based on statistical structural break tests. The first approach is 'ad hoc' and lacks consistency across studies while the Bai-Perron method that is the basis of the statistical approach has low power, not able to discern true breaks in growth. This paper proposes a unified approach that combines the filter and statistical approaches and avoids the limitations of each approach. Applying this approach to comparable GDP per capita data for 125 countries for the period 1950–2010, the paper identifies a much larger number of plausible breaks in GDP per capita than a pure statistical approach. More importantly, this paper is able to identify more breaks from countries with volatile growth paths, and hence has a larger proportion of breaks from developing countries, compared to other studies that use the pure statistical method of Bai-Perron.

The Rana Plaza Tragedy: A Wake-Up Call

Nabila Tasnuva

"I will never work again for any garment factory." The statement was from Rehana Akter one of the victims of the infamous Rana Plaza tragedy who is still tormented by the haunting memory of the horrific incident a year ago. After the building collapsed she found her left leg crushed by a part of a wall with blood spilling out of it. This ultimately led her to the amputation of her leg, leaving her physically challenged for the rest of her life. Rehana Akter is actually representing a thousand other victims who had been through this horrifying experience. Lying under the debris of Rana plaza those more than 1000 souls have actually jerked the entire nation awake from a sleep, revealing the bitter reality faced by the workers almost every day. This horrendous experience left all of us wondering about the quality of the employment in the labor market in our country. Poor compliance, sub-standard working environment, sub-contracting business style and lower prices offered by the international retailers can be blamed for such deadly incidents. Moreover, the factories build are mostly structurally unsafe as they are constructed for meeting the purpose of production only, disregarding the safety issues. This incident left a very negative imprint worldwide portraying the country's poor labor market scenario. The United States finally fragmented the Generalized System of Preference (GSP) following the Rana Plaza building collapse, citing Bangladesh's failure in ensuring internationally recognized worker rights. In a quick act of response by the International Labour Organization (ILO) to this incident, a tripartite statement was signed by the government, employers and workers specifying the need for structural assessments of all export-oriented garment factories, employment of additional 200 building inspectors and the rehabilitation of workers affected or disabled by industrial accidents. But the good news is that after one year of this phenomenon Bangladesh is still struggling hard to regain its previous position both in the international and domestic market. After a round of inspection of factories in the last month, EU representatives acknowledged that there have been some noticeable changes regarding the safety issues in the workplace. The garment sector in Bangladesh has flourished over a period of the last four decades through dedication and hard work of our indigenous entrepreneurs. The tragedy of the Rana Plaza has gathered the entire nation under a unified canopy acting as a wake-up call. It is now high time that we realized the importance of the sustainability of this sector and obtain an appropriate approach to consolidate and safeguard the industry.

The author is a Research Associate at SANEM



Inception Workshop of IDRC Project on “Changing Labor Markets in Bangladesh: Understanding Dynamics in Relation to Economic Growth and Poverty”



SANEM organized an inception workshop regarding its three years long IDRC research project on “Changing Labor Markets in Bangladesh: Understanding Dynamics in Relation to Economic Growth and Poverty”, on 8 March, 2014, Saturday at the BRAC Center Inn, Dhaka.

With the support from International Development Research Centre (IDRC) this workshop brought together academician, researchers, policy makers, donor agencies and diplomats. The workshop focused on closing the gaps in research on labor markets in Bangladesh which have important implications for sustainable economic growth, employment generation and related lessons for other developing countries as well. With a welcome speech, the event was initiated by Dr. Selim Raihan (Executive Director of SANEM). The other renowned personalities were Dr. Shamsul Alam (Member, GED, Planning Commission of Bangladesh), Dr. Edgard R. Rodriguez (Sr. Program Specialist of IDRC), Dr. Sultan Hafeez Rahman (Executive Director, Institute of Governance Studies, BRAC University), Dr. Zaidi Sattar (Chairman, Policy Research Institute), Dr. Binayak Sen (Research Director, Bangladesh Institute of Development Studies), Dr. Iffath Shariff (Senior Economist, World Bank) and Mr. Arshad Jamal (Director, BGMEA). The event was chaired by Professor Dr. Shamsul Alam. Dr. Selim Raihan briefly explained the research goals of this project which mainly focused on labor market issues in Bangladesh. His presentation covered the overview, methodology, objectives, sectors of interest and current status of the project. Dr. Edgard Rodriguez also elaborated on the issues presented by Dr. Selim Raihan.

During the panel discussion, Dr. Sultan Hafeez Rahman raised the issue of growing labor force of Bangladesh and optimistically expressed that non-rural firm sectors were capable of absorbing this growing potential

labor force. Dr. Binayak Sen, Research Director, BIDS, emphasized on how the creation of job with economic growth in Bangladesh helped maintain social cohesion. He highlighted on exploiting country's comparative advantages in promotion of growth and employment and asserted that good governance would follow such development process. Dr. Zaidi Sattar, Chairman, Policy Research Institute, underscored the need for the promotion of export orientated policies and also letting FDI in RMG and other sectors. He emphasized on the positive lessons learnt from the RMG sector in Bangladesh and extending such lessons in other sectors for export diversification. The need for an institution, for independent studies on labor issues, was pointed out by Mr. Arshad Jamal, the BGMEA Director. He also elaborated on the success stories of the RMG sector in Bangladesh. He pointed to the gradual rise in wage in the RMG sector in recent years, despite political unrest and problems faced by the sector. According to him a practice of effective social dialogue could resolve the critical issues related with RMG sector. Dr. Iffath Shariff, Senior Economist, World Bank, Dhaka, reasoned poverty, marriage, social restriction for slower growth in females' labor market participation.

The workshop was interactive as the participants shared their opinions and recommendations on relevant issues. There were interventions from many including Professor M. Ismail Hossain (Department of Economics, North South University), Professor A. K. M. Atiqur Rahman (Department of Economics, North South University), Ms. Simeen Mahmud (Lead Researcher, BRAC Institute of Governance and Development), Md. Ariful Haque (Deputy Director, Board of Investment) and Mr. Saqib Qureshi (Secretary of MCCI). The workshop concluded with summary, greetings and gratitude from Dr. Selim Raihan.

2nd Economics Quiz Competition 2014 held at Dhaka University

Economics Study Center, student chapter of Department of Economics, University of Dhaka, has successfully organized 2nd Economics Quiz Competition 2014 on May 5, 2014 at R.C. Mazumdar Auditorium, University of Dhaka. The grand finale of EQC 2014 was graced by the presence of Professor M.M. Akash (Department of Economics, University of Dhaka) and other faculty members. This intra-department quiz competition was designed in two phases. The first phase included a rigorous screening process, a comprehensive written test and 8 participants were selected for the final round. The grand finale composed of two different rounds such as Open Buzzer and Audio Visual Round. After a nail-biting and super exciting competition among the four teams, Shahidul Islam and Adib Ahmed were crowned as the Champions while the runners up were Imran Hasan and Muhtasin UI Aziz. The executive committee of Economics Study Center concluded the event expressing gratitude to all the participants, faculty members, organizers and SANEM for the support. SANEM was the sole sponsor of this competition. Syer Tazim Haque and Md. Naibur Rahman, Research Associates of SANEM, attended the program on behalf of SANEM.



SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality, country- and South Asian region-specific policy and thematic research. SANEM contributes in governments' policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.