

# **The Global Financial Crisis: Challenged and Opportunities for the Bangladesh Economy**

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# **The Global Financial Crisis: Challenged and Opportunities for the Bangladesh Economy**

## **Abstract**

Global cooperation is an important ingredient where domestic (real, monetary) and external sectors should work to complement each other for strengthening macroeconomic performance. Bangladesh economy has been facing some impact of global financial crisis as it is an integral part of the global community. Definitely the current massive global financial turmoil has created some major set backs not only for the developed nations but also for the developing countries like Bangladesh. However, if competitiveness, capacity building, business and economic policy formulation and implementation can be done properly, the adverse impact of the crisis can be minimized or mitigated and some potential opportunities explored. The study has been undertaken to examine whether and to what extent Bangladesh economy is integrated with the global economy, particularly the US economy (the country's largest trading partner) which is used as a proxy for the global economy. It will also explore the nature and extent of impact of the current crisis on the Bangladesh economy and to explore possible opportunities the country may take advantage of as the global economy comes out of the crisis. Authors suggest that to mitigate the problems of the crisis, the policy makers need to be more proactive rather than reactive. Some of these policy initiatives may involve infrastructural development, creation of employment opportunities, lowering price of the exportable commodities without sacrificing product quality, among others. It is also argued that the turmoil may bring opportunities that can be explored through using some non-conventional policy measures such as cost cutting, find access to new markets as well as retaining current markets for exporting products and labor, innovative marketing, among others.

**Key words:** Global, Financial, Crisis, Bangladesh

## **Introduction**

Bangladesh is interlinked with global financial system. As such global financial crisis which was originated from the year 2007 mainly in USA and spread in the latter part of the year 2008 among developed nations and subsequently shifted to developing nations has impact on the domestic economy of Bangladesh. The country is in a difficult situation as it faces imbalances, lack of transparency in the financial markets and non-applicability of domestic safety net. On 18 August 2009, IMF's chief economist Olivier Blanchard commented that the global economic recovery has begun but sustaining it will require refocusing the United States toward exports and Asia toward imports. He also argued that from the point of view of the United States, a decrease in China's current account surplus would help increase demand and sustain the U.S. recovery (Source: [www.france24.com/.../20090818-global-economic-recovery-chief-economist-imf-china-usa-blanchard-financial-crisis](http://www.france24.com/.../20090818-global-economic-recovery-chief-economist-imf-china-usa-blanchard-financial-crisis) ). However, Blanchard's comments may be feasible for the short run but it should be carefully observed what will happen in the mid run and long run. But it can not be denied that International monetary fund did not play due role when global financial crisis arises. Before the crisis they must have surveillance in the USA and other developed nations.

Though global financial crisis has started, the world leaders should take steps in the spirit of the Bretton Wood conference of 1944 to recover the global financial system. They confined their decision for their own country. G-20 meeting was not very effective. It did not have any direction about how IMF and World Bank will be strengthened. These sorts of financial instability were earlier felt during different time period. It may be noted that currency crisis earlier occurred in France, Italy, Spain, UK during early Nineties, Mexico during mid nineties. Moreover, South east Asian currency crisis occurred during 1996-1998. Russia and Brazil were also affected by the currency crisis. But this time magnitude and degree of the crisis is high as it originated from the global financial leader USA based on whom world class capitalistic structure working as a whole. .

After long two years, the country restored its democracy through general election in the early part of the year 2009. Economic progress of the country depends on political stability. The government has been facing the impact of global financial crisis on the domestic economy. Bangladesh is the part of the global economy; as such they have to

face the danger of the global financial crisis, which has both micro and macro impact all over the world. However, still now macro economic variables of the country are more or less is not in a very bad situation. The government in Bangladesh on 19<sup>th</sup> April,2009 first declared a 'stimulus package' of Tk 3,424 Core. Latter on Govt. allocated special financial package for Taka 5,000 crore in the budget of the fiscal year 2009-10.Govt. tried their level best to satisfy different segments of the business groups but they are still demanding for more packages.

In the national budget of Bangladesh for the fiscal year of 2009-10, it is expected that gross domestic products growth rate will be 5.5 percent but latter on Finance Minister expressed that it may be raised up to 6%. The Govt. earlier organized a task force to prepare for the global financial crisis though the activities of the task force should be more strengthen. In the budget it has been decided that dependence on domestic borrowing will be reduced to finance the fiscal deficit, reorient towards foreign aid and loans, to raise Tax/GDP ratio, decrease of debt/GDP ratio, and keep away from suppliers' credits. Tax/GDP ratio in Bangladesh is very low as it is only 9 %.They also put emphasis on public and private partnership.

Global financial crisis has been spreading out all over the globe, which leads to danger not only for USA and European countries, but also other parts of the world. Excessive liberalization, non-compliance of corporate governance, existence of asymmetric information, lack of surveillance, through financial engineering the market was manipulated, capital was flowed short term as well as long term were the causative factors behind the crisis. Withdrawal of Glass-Steagall act during Bill Clinton's administration as it allows commercial and investment banks to consolidate. As such it has an adverse impact on the financial sector of the USA. Moreover, Bush administration relaxed the procedure o disburse money through allowing to purchase or refinance home as well as the deficit budgets for several years. Though it mainly started from the housing sector, yet the problem arose when regulation in the financial sector couldn't work in the right direction. US regulators did not supervised and monitored properly the way the financial institutions were providing loans to all kinds of people during the housing- boom period.

A lot of financial instruments and derivatives are used in the markets, which were not understood by the market players, investors, clients and also regulators. Lack of information about the market did not give the scope to work under competition rather market information creates distortion. Speculation is largely superseded by the gambling. Those who are part of the gamble were affected by the corruption prone financial activities. Self-belief about the market dynamics were shrinks across the globe. Those who are worried for their financial future are likely to be searching for advice on getting their assets in order.

Risk speculators needs to unveil asset classes, a blend of bonds and loans, or security pools such as residential and commercial mortgage backed securities in USA, but they didn't in fact acquire the basic credits, had now a means by which to speculate on them. Credit default swaps are two-sided contracts, which indicate that they are private contracts connecting two parties. Credit default swaps are written on sub prime mortgage securities. It is shocking that these sub prime mortgage pools to facilitate banks, insurance companies, investment banks, hedge funds and others bought were over-rated and ended up declining sharply in value as foreclosures rise on the causal mortgages in the collection. The most important think is that perceptions of the customers were destroyed and mismanagement was created in the primary stage of the economy. Due to financial crisis all over the world recession has been spread out. To eradicate the problem of global financial crisis, starting form USA to different developed nations and developing countries are uses short, medium, and long term policies. Based on the economic situation of different countries, respective governments introduces some conventional and non-conventional measures including fiscal measures, monetary policies, nationalization of financial institutions, financial packages to bail out, providing subsidies, cash flows etc.

Through considering micro and macro perspectives, the government of Bangladesh is trying to cope with the policy formulation to mitigate the problem of the global financial turmoil. The prime objective is to create employment opportunity, infrastructural development and to safeguard the economy from the worst impact of the global financial crisis. But problem lies with the implementation process.

## Literature Review

G-20 summit at Washington on 15th November 2008 took place in USA. Helleiner and Pagliari (2008) argued that the global spread of the financial crisis already has had the repercussion of weakening the credibility of the Anglo-American financial model and, fuelling centrifugal pressures in the international financial system. Failure of the corporate governance in the western countries owing to excessive financial engineering has increased the gravity of the situation. Structured market may be followed where open economy cannot work .If perfect competition fails to work in the market or distortion prevails then there should be regulation. Germany recently announced a modest stimulus plan and Britain also supports plans for further economic stimulus.

Khalily(2008) argued that capital market of Bangladesh may not face any adverse impact of the crisis. He cautioned that as Bangladesh grows, it may be exposed to the types of financial risks that banks in the developed countries have faced. Regulators should be innovative as in the free market economy, moral hazard and adverse selection problems will always prevail.

Adamu (2009) observed that the risk of global recession has heightened significantly and volatility of commodity prices on the developing countries like Nigeria, has increased further. If this condition continues to deteriorate developing countries could be in great jeopardy. He found that this crisis will cause fall in commodity prices, decline in export, lower portfolio and FDI inflow, fall in equity market, decline in remittance from abroad etc.

Ahsan(2009) commented that the financial system in Bangladesh & many LDCs has been free of the direct contagion of toxic assets plaguing the advanced economies. Even then active monitoring of the capital structure of the banking system would be important to retain public confidence.

Anwar(2009) observed that widespread corporate fraud, greed, insider trading, and so on has been due to regulatory failure to generate oversight, accountability, transparency and monitoring – all that led to dampen the economy-wide crises in the U.

S. and tipped the world at large into recession as a chain reaction. He suggested that ensuring smart regulatory governance can help the regulators avert and curb the generation of such crises, – thereby shaping up responsiveness to and confidence in the general public both inside the nation and across the world.

Aversa(2009) reported that Bernanke urged to rewrite of U.S. financial regulations, something Congress is involved in. He called for stricter oversight of companies — such as AIG — whose failure would endanger the entire financial system and the broader economy. He also argued that the U.S. needs a process to wind down globally interconnected companies, as he Federal Deposit Insurance Corporation does for failing banks.

David365(2009) described that the turbulent financial tsunami has spread to the real economy. In the current international financial crisis, many foreign trade enterprises, especially export-oriented SMEs are facing difficulties. The financial crisis can be called as the most serious financial disaster since the Great Depression due to global effects characterized by the breakdown of key trade, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Various causes have been proposed for the crisis, with experts placing different weights upon particular issues.

Loser (2009) argued that the financial crisis that erupted in August 2007 after the collapse of the U.S. sub prime mortgage market entered a tumultuous new phase in September 2008. These developments badly shook confidence in global financial institutions and markets. Most dramatically, intensifying solvency concerns triggered a cascading series of bankruptcies, forced mergers, and public interventions in the United States and Western Europe, which eventually resulted in a drastic reshaping of the financial landscape.

Imam (2009) argued that the economy of Bangladesh may not be affected in short run. He commented that to withstand the shock emerging from global economic slow down and ultimately its impact on growth depends on : how long the recession lasts and the depth and severity of the recent global crisis.



According to Global Monitoring report of World Bank (2009)the deepening global recession, rising unemployment, and volatile commodity prices in 2008 and 2009 are seriously affecting progress toward poverty reduction. The recent food crisis has thrown millions into extreme poverty. Deteriorating growth prospects in developing countries will further slow the pace of poverty reduction.

### **Objectives of the study**

The study has been undertaken with following objectives:

- 1) to understand the meaning and nature of Global Financial crisis;
- 2) to assess the present situation of the domestic economy of Bangladesh;
- 3)to evaluate the impact of Global financial crisis on the domestic economy of Bangladesh;
- 4) to suggest some recommendations so that global financial crisis can create opportunities for the economy of Bangladesh.

### **Methodology of the study**

The study is exploratory in nature. Data used in the study are collected basically from the secondary sources. The study will see Change in real GDP: Bangladesh versus the U.S ; Change in Industrial Production Index: Bangladesh versus the U.S.; Trend in Taka per US Dollar: 1973 – 2009 to examine linkage between US economy and domestic economy. Correlation of coefficients will also be determined. The major sources of data will be included publications of various authors, research reports, journals, Internet etc. However, exact sources will be mentioned. SWOT Analysis of the Bangladesh economy due to Global financial crisis will also be done. Time period of the study is up to September 2009.

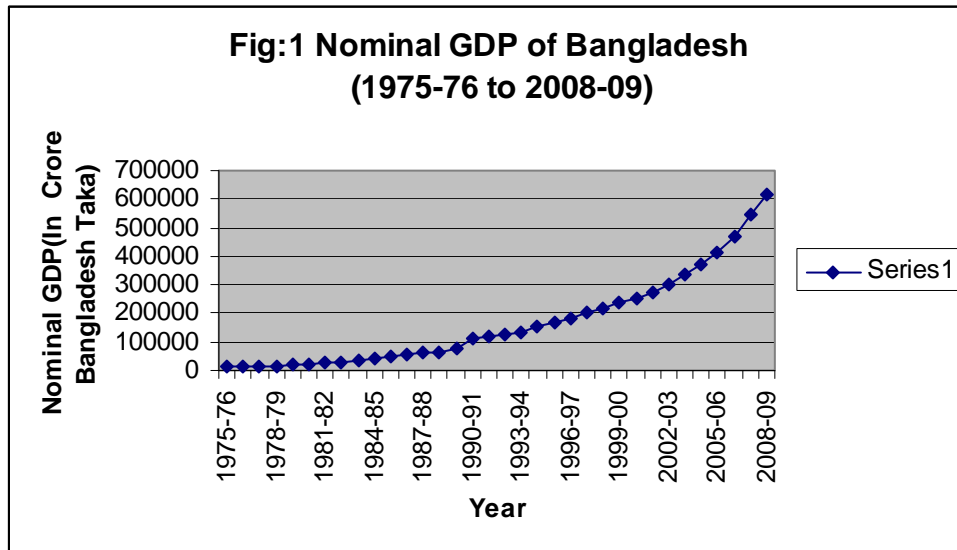
### **Limitations of the Study**

The study is based on secondary data. It doesn't deal with primary sources and prepare questionnaire for survey purpose to assess the impact from the grass root level.

### **Present Status**

Bangladesh economy is linked up with the global financial system. As such domestic economy is facing the problems created by the global economic disorder though the magnitude of negative impact is still not too much high. According to Asian

Development Bank (Bangladesh: Quarterly Economic Update, June 2009) report Bangladesh 's GDP growth rate was 5.9% in the fiscal year 2008-09 which is comparatively lower than the fiscal year of 2007-08 when GDP growth rate was 6.2%. Fig:1 illustrates nominal GDP of Bangladesh over the time period.



One of the reasons that global turmoil did not affect too much on the domestic economy is that the country still depends on agricultural sector. According to the aforesaid ADB report (2009) the growth rate of agriculture sector was 4.6% in the fiscal year 2008-09 which is higher than 3.2% in the fiscal year 2007-08. Moreover, though the country is moving towards free market economy since 1990 but still openness of the economy has not been properly established. The country is also facing problem as financial deepening on the economy as it doesn't occur. However, growth rate in the industrial sector reduced to 5.9 percent in 2008-09 from the 6.8 percent of 2007-08 as export production in the second half of the fiscal year slowed due to the global meltdown(source: ibid) . The report also observed that annual inflation declined to 6.7% in fiscal year 2008-09 from 9.9% in fiscal year 2007-08. Decline of inflation is mainly to fall of the price of rice, wheat, oil in the international market and bumper food production of rice occurred in the country. Food crisis was really headache during the care taker

Govt. and price was raised alarmingly due to the price hike at the international level as well as scarcity at the country.

According to news report published in Business Times (25 Septmeber,2009) Bangladesh Bank decideds tod follow accommodative monetary policy, aimed at boosting growth and shielding the economy from the global crisis. The monetary policy stance between July and December ,2009 is designed to support attainment of the highest sustainable output growth without triggering escalation of inflation.

Banking system of the country is not free from the danger. Difference between the crisis of developed nations and Bangladesh is that their crisis originated from the financial sector and worst impact felt in the real sector. On the other hand in case of Bangladesh crisis has been originated in the real sector due to the problem arise from financial sector. Due to financial crisis, not only exporters will face the problem, but the banking sector will also face problem due to non-recovery of advances against export financing. Moreover, liquidity surplus is prevailing in the commercial banks. According to ADB report (2009) it is Bangladesh Taka 347.6 Billion on 30<sup>th</sup> June,2009. Foreign Exchange reserve at Bangladesh Bank is very high. Irony is that at this stage they are taking loan from the International Monetary fund. For last three years investment has declined substantially and borrowing from the banking sector by the investors has reduced substantially. Rather default culture is crippling the economy.

Recently the Central Bank Governors and Heads of Supervision decided to strengthen the banking rules and regulations under the gudiance of the Bank for nternational settlements:Raise the quality, consistency and transparency of the Tier 1 capital base;Introduce a leverage ratio as a supplementary measure to the Basel II risk-based framework ; Introduce a minimum global standard for funding ; Introduce a framework for countercyclical capital buffers above the minimum requirement;Issue recommendations to reduce the systemic risk associated with the resolution of cross-border banks(Source:<http://www.abbl.lu/articles/comprehensive-response-global-banking-crisis>).

Unfortunately the present Govt. is doing same wrong as did by earlier political Govt. regarding reconstitution of Board of Directors of the public limited banks. The criteria for selecting directors of the banks in most cases become the relatives/leaders of the party even depriving lot of potential personalities/supporters of their own party. Independent directors are also being nominated on the basis of the same criteria. As a result the banks won't be able to contribute in the economic development process at the time of global crisis. It will also fail to comply with corporate governance. Most of the directors of the banks are also male dominated and gender inequality prevails. Lack of transparency, accountability and fairness creating problem for the banking sector. Though still currently banking sector is not weak, but if inefficient people are interfere in the banking business then they will collapse.

Especially fall of price of oil may worsen Middle-Eastern countries' economic scenario in a vulnerable situation. It has a chain effect. A good number of the Bangladeshi expatriates who are working in the Middle East might become unemployed or their salary might be reduced due to spread of global financial crisis in the Middle East, Malaysia and other countries. According to ADB report (Bangladesh: Quarterly Economic Update, June 2009) remittance inflows grew by 22.4% in the fiscal year 2008-09, down from 32.4% in the year 2007-08. Some countries such as Lebanon and Libya opened up their job markets for Bangladeshi labors. But demand from other countries such as Malaysia, Mauritius and Saudi Arabia is declining. During January–May 2009 about 12,000 Bangladeshi labors returned home from Malaysia. During the second half of fiscal year 2009, labor outflows from Bangladesh to Saudi Arabia decreased by 65.0% and around 6,000 Bangladeshi workers returned from Mauritius.

Actual decline of foreign remittance will start from the latter part of the year 2009. When job cuts are occurring abroad, there is every chance of reduction of job for the foreign nationals at abroad. Though salaries of the Bangladeshi laborers are relatively less in the Middle East and other countries but there demand is relatively low in comparison to neighboring countries labors working abroad. However, still now beneficiaries of foreign remittances use the major portion of their fund for consumption purpose and from the rest of the fund they want to earn interest as well as for investment

purposes.

President of USA, Barak Obama wants to create job in USA. His plan is very good. But he is not in favour of outsourcing businesses. Some Bangladeshi entrepreneurs are trying to get the business of call centers. However, Bangladesh may not be able to run this business successfully.

. The economy of Bangladesh faces another problem. When price rises in the international market, it is observed that in the domestic market price rises sharply. But when price falls in the international market, price falls very slowly in the domestic market. We know that at the time of opening of the Letter of Credit (L//C), the price, which is available in the international market, it will continue and as such all on a sudden it may not be possible to reduce. But the rate of decrease of the price occurs at a far lower speed than what is actually desired. On the other hand, in Bangladesh through oligopolistic nature of business, cartels are created in the market mechanism, which ultimately charge higher prices than the prevailing rate in the international market. Price of soybean oil is still higher in the domestic market. Similarly, price of flour is still two times higher in the domestic market compared to international market. . When in the international market price is declining, in Bangladesh prices of products are still businessmen are trying to keep high. Due to different stages of bringing the commodities from the remote villages to urban areas and lack of well developed supply chain management some times commodities are being sold at a too much higher price. Prices in the retail markets are much higher than what it would have been including all the costs including transportation and normal profit. Lack of alternative public business enterprises like Trading Corporation of Bangladesh (TCB) creates problem. Though Govt. is taking initiatives to activate TCB to avoid cartel situation created by the syndicate prevailing in the Bangladesh economy but still now they failed to do so still September 2009. Moreover, there are at least 18-24 stages to bring products from the remote villages to the retail marketing. Each stage not only transportation cost but also rent seeking by the rent seekers including police and also different criminals' raises the prices.

Regarding export, around 80 per cent of the total export earnings are coming from USA and European countries. Bangladesh's export items have low price elasticity and targeted towards relatively lower income groups. So there will not be a major problem. But due to recession in foreign countries, the foreign buyers placed already less amount of order for export of products. Export earnings are very low. According to ADB report rate of growth of export is 10.3 percent in the fiscal year 2008-09 which is lower than 15.9% of the fiscal year 2007-08. Already RMG sector became affected.

Around 50 per cent of the total garments firms, which are not competitive, are collapsing. At least 6 to 7 hundred thousand female workers in the RMG sector will be unemployed. In the meantime, it is observed that in the RMG sector order decreased by around 14-20 per cent. This is a real problem for the economy. Not only female workers but also huge number male workers of the export led growth industries are also losing their job.

However, there might be an opportunity if Garments sector can produce at a lower cost and able to increase their export volume if low income elastic product can be exported. Moreover, price of raw leather has decreased substantially in the international market. And we do not have enough capability to produce finished leathers with product differentiation. Though we have competitive advantage in blue leather, but we can not develop leather industry properly. Rather China, Hong Kong etc. countries are doing well in the leather sector. In case of tea production, we are still using older mode of production process for which our tea sector also needs appropriate attention and capacity building. In long term we may also lose the tea market as there are no measures to improve the production process of Tea. Handicrafts products are not getting due attention. Frozen foods are losing international market due to global turmoil. The country is gradually losing the market of Jute. Jute and jute related products need diverse development scheme starting from setting up new capital machinery as Life cycle of the most of the capital machineries were expired. Pharmaceutical industries need special attention for marketing their product in the international arena. Despite Govt.'s supporting to the Information and Communication Technology (ICT) sector, but still this sector is an infant stage and can not generate export earnings which are much below from the target level. The country is now exporting ships and bricks. But we should be

cautious about the worse impact on the environment and production must be free from pollution hazards.

Bangladesh's balance of trade position is always in deficit. As import prone country the country can get some opportunities. Importable commodities like food, oil, fertilizers etc. have been decreased. As a result Bangladesh may face some sorts of benefits According to ADB reports, imports in the fiscal year 2008-09 raises only 4.1 percent.

Bangladesh has dramatically reduced dependency syndrome on foreign aid and loans for last 25 years. In the proposed budget it has been expected that 4.5% of the Total receipts will come as a foreign aid and 7.6% as a foreign loan. Due to global financial crisis, rate of foreign aid and loans disbursement will be reduced in different countries. However, we are still dependent on foreign advisers counsel on different national, political and economical issues, which is not desirable. As an independent country this creates negative impact and lowers prestige of Bangladesh in the international arena. Ultimately, this will lead to create low-level equilibrium trap. The country should try to attain self-reliance and must not need certificate from foreign nations to judge whether we are doing right or wrong. Vision and mindset should be changed. As Bangladeshi we must feel proud that we have a rich cultural heritage and we get independence after successful liberation war. Rather we are now giving chance to the foreigners to say about any trifle matter. This is really ridiculous. And it indicates that though we are an independent nation but we lowers our own dignity and behaves like a slave. The country can not able to develop self-respect as the basic characteristics of development refers to freedom from dependence, freedom from hunger and freedom from ignorance.

Non-resident Bangladeshis can work as a linkage and bridge the gap to develop business-friendly environment between the domestic and international arena. Though different Govt.'s told that they will be engaged to participate in the development process but it was not practiced. Bangladesh embassies in different foreign countries are not playing their due role. They are not working to turn diplomacy for the prosperity of economy. Moreover, those who are appointed as ambassador at abroad their negotiation

skill is very weak.

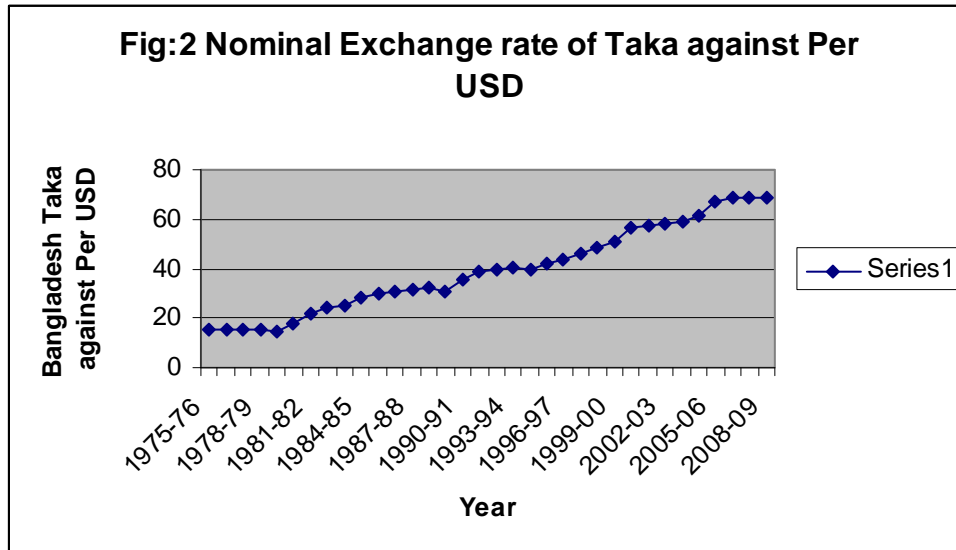
Capital market is relatively safe as only 2.83 per cent foreign investment took place in the capital market. According to ADB report (2009) market capitalization of the Dhaka Stock Exchange rose from Tk.970.4 billion in July 2008 to Tk.1312.8 billion by the end of June 2009 which is 21.3% of GDP and leads to rise of 35.3%. Chittagong Stock Exchange market capitalization rose 26.1% during fiscal year 2008-09. But there is a syndrome that market manipulation, insider trading will continue with the help of a group of vested interest persons. Numbers of financial instruments are not sufficient enough. Banking shares are dominating in the share prices. Some commercial and merchant banks are breaking the guidelines of the Bangladesh Bank as well as Securities and Exchange Commission rules and they are injecting to raise the price of the share of different companies. Though Bangladesh Bank requested all commercial banks to submit information regarding their portfolios in the share market but most of the banks are not compliance the rule properly. As such share price index is raising and volume of the trade in the share market is increasing and they are gaining in short run. But capital market is not benefiting for the economic development of the country. Capital market cannot play vital role for long term industrial financing as well as investment for construction of bridge, port etc.

The Federation of Bangladesh Chambers of Commerce and Industry on 6th December 2008 presented a paper entitled 'Maximising growth for Bangladesh: A private sector vision' at a seminar. Their vision is not free from the drawbacks as most of the initiatives were proposed to be taken by the government. But creation of the congenial environment of public -private ownership is essential. In the current era, to cope with global turmoil we must ignore heavy dependence on trading. Around 95 per cent of all business units are in the Small and Medium Enterprises (SME) category in Bangladesh. The SMEs provide a highly cost-effective and socially desirable route to industrialization in Bangladesh. Investment costs per person employed in large industrial units work out to be 78 to 100 times of those for SMEs. We should engage in developing entrepreneurship and this entrepreneurship should not be confined within SMEs sector only. We should be motivated to develop industrial sector medium and high tech industries, which can

substitute, export industries. GDP growth rate can be raised to 8 per cent but it needs at least 4-5 years. Otherwise, any good desire for developing the economy of Bangladesh may be turned to become ineffective.

This global financial crisis indicates how all sorts of changes can occur in the world. Excessive deregulation creates scope for earning super normal profit, which destroys perfect competitive situation. But where per capita GDP is only 621 US dollar(Source:Bangladesh Arthanaitic Samikhya 2009), and growth rate of GDP is around 6 per cent, there should be five years' planning. Govt. is going to prepare a twenty years broad based planning. Macro level development strategy should be prepared within a boarder perspective to develop the economy of Bangladesh for next five years. Still Govt. is delaying to prepare Five year plan. And in the meantime they are trying to get foreign aid and loans against Poverty reduction strategy –II.

Currently Bangladesh Bank is trying to maintain stabilization of USD against Bangladesh Taka. According to the ADB report(2009)the nominal exchange rate (taka/dollar) remained stable in the year 2008-09, with modest depreciation. The exchange rate ranged from Tk68.5:\$1 to Tk69.1:\$1 in the year 2008-09.However, exporters and remittances senders are pressing hard to deprecate Taka against USD. USD might have two rates one normal rates, which should be determined by demand and supply. For exporters and remittance holders, there may be introduction of special procedures for providing them special rebate.Fig:2 shows nominal exchange rate of Bangladesh taka against per US Dollar from 1975-76 to 2008-09.



Around 50% of the economy in Bangladesh is unrecorded economy. This is creating problem for the society. To add value in the society, procedures of unrecorded transactions should be turned to white in the transaction processes. This time Govt. launched special scope for whitening the black money for next three fiscal years. Actually it should be given for one year and should be allowed to use in the productive sector only. Parallel market should be more transparent and efficient.

Still the country doesn't take proper steps to improve infrastructures and services to reduce lead time. Without generating of electricity for 7000 MW and curtailment of system loss in electricity, the country cannot develop its economy. There is a need to reduce the anti-export bias in the trade regime, improve the investment climate, continue prudent financial policies, bringing political stability, removing growth of militants and terrorist activities, as well as cost-effective measures to assist the export sector and its workers.

Population growth rate is very high. This population growth rate is a hindrance for economic development of the country. To create employment opportunity stress should be given in between bottom up and top –down approach. From the grass root level all sorts of development strategies should be taken. Local level planning is not at all getting any importance and upzillas cannot work in the right direction.

Operational Management including inventory management of the business sector is not efficient. The country cannot arrange linkage with modern technology. It failed to apply e-marketing strategy in the business environment. Integrated Marketing

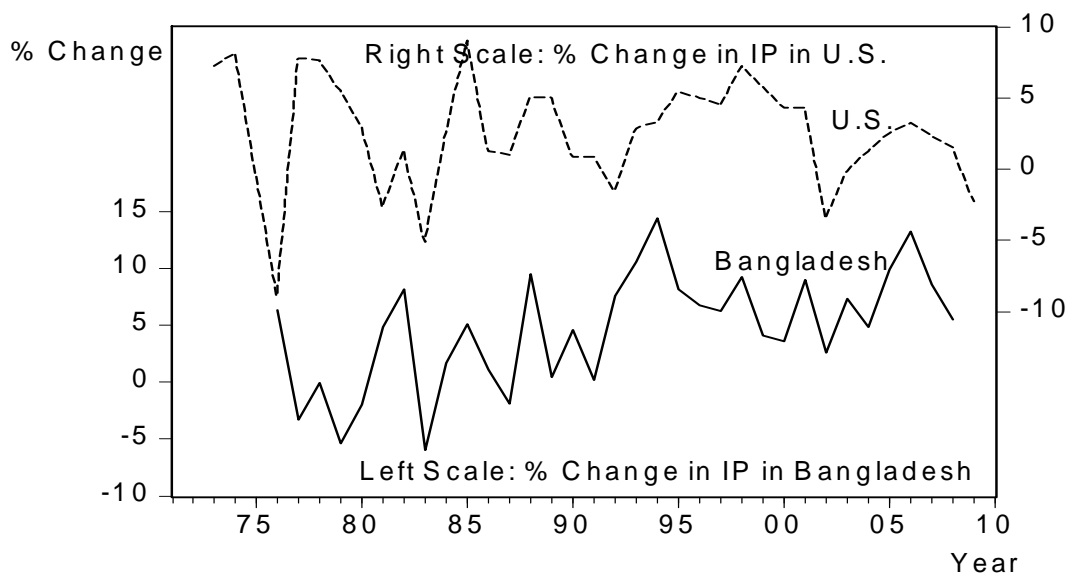
communications were not developed. Country lacks managerial inefficiency, strategic planning and implementation. Sustainability in the long run doesn't consider. Corruption, nepotism, criminalization, lack of check and balance system have been destroying the economic situation. Entrepreneurship development is not feasible. Young generation should come to develop entrepreneurship. The economy of the country is facing hostile environment accompanied by political instability.

Still now Chittagong port of the country is not properly reorganized so that shipment time period can be reduced. Further, Mongla port of the country is not utilized properly for which it becomes almost ineffective. Efficiency and effectiveness in the transportation sector has not been created. As such the economy has been lacking to ensure overall competitiveness.

Bangladesh does not use regional cooperation to mitigate the problems of Global Financial crisis. They did not utilize SAFTA or BIMSTEC to avoid the problems of the global crisis. Even to create opportunities they may effectively utilize regional cooperation.

The study shall examine change in real Gross domestic Product (in percentage) between Bangladesh and US from 1973 to 2008 in Fig:3.

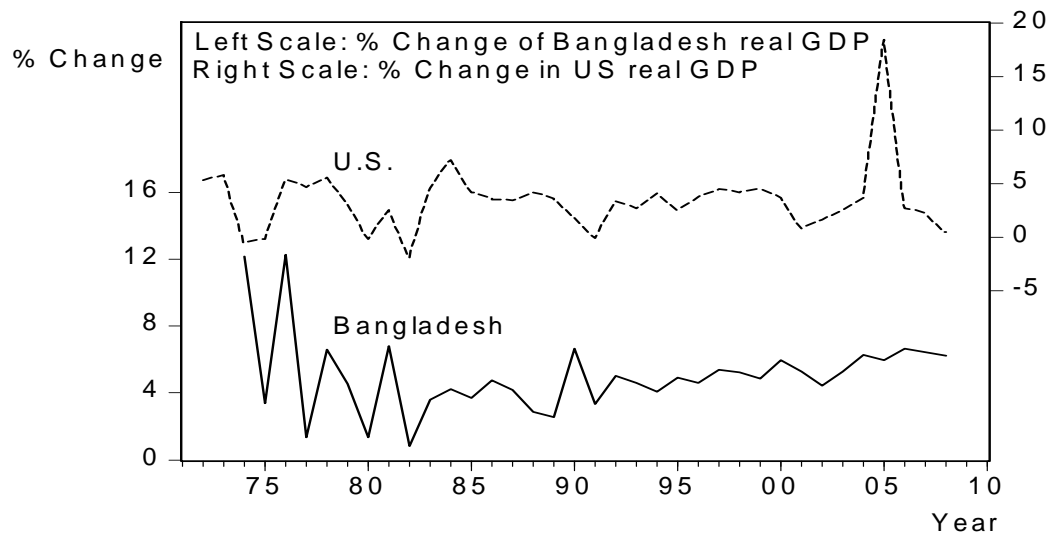
**Figure 3: % Change in real GDP: Bangladesh versus the U.S.: 1973 - 2008**



Percentage change in real GDP for Bangladesh and the U.S. is presented in Figure 3. It shows any comovement between Bangladesh and U.S. economy from 1973 to 2008. There seems to be some comovement of the two series, but the comovement is very weak. The overall correlation coefficient is  $r = 0.1118$  which is quite low. Further, when the U.S. economy and the world economy went into a major recession since the end of 2007, Bangladesh economy seems to have slowed down a bit, but it is still having healthy growth in 2008. It seems that although Bangladesh economy has some comovement with the U.S. economy, the comovement is very weak. This perhaps explains that Bangladesh economy is mostly escaping any serious repercussions from the U.S. and global meltdown. However, there could be a delayed effect, but this is not evident yet and one cannot ascertain that until 2009 data becomes available.

Now percentage change in industrial production index is shown in Fig:4.

**Figure 4: % Change in Industrial Production Index: Bangladesh versus the U.S.: 1973 - 2009**

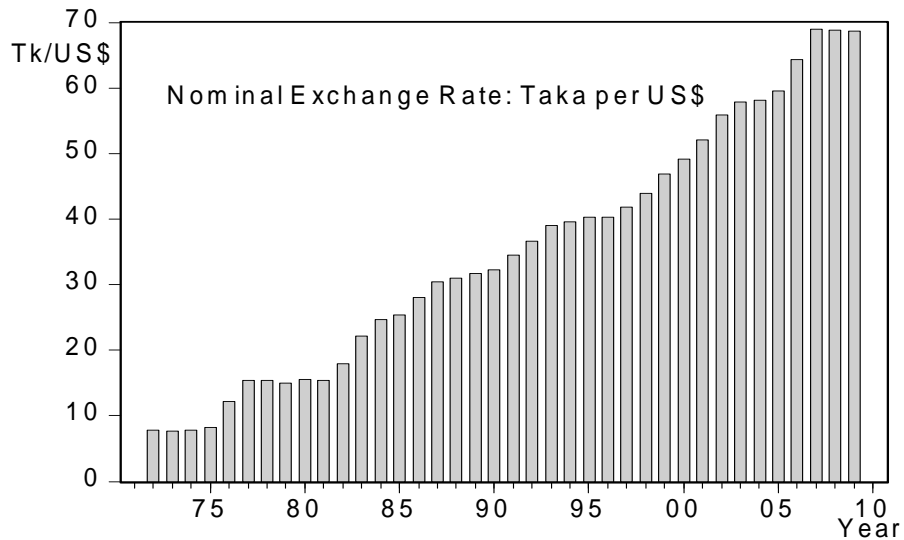


As an alternative measurement, % change in industrial production index for Bangladesh and the U.S. is presented in Figure 4. It also shows any comovement between Bangladesh and U.S. economy from 1973 to 2009. Similar to the real GDP series, there again appear to have some comovement of the two series, but the comovement is even weaker. The overall correlation coefficient is  $r = 0.0549$ , which is very low and lower than the correlation between the real GDP series. Further, when the U.S. economy and the world economy went into a major recession since the end of 2007, Bangladesh economy seems to have slowed down a bit, but it is still having healthy and positive growth in 2008. It seems that although Bangladesh economy has some comovement with the U.S. economy, the comovement is very weak. This perhaps explains that Bangladesh economy is mostly escaping any serious repercussions from the U.S. and global

meltdown. However, there could be a delayed effect, but this is not evident yet and this cannot be ascertained until 2009 data becomes available.

Exchange rate in Taka per US Dollar for the period of 1973 to 2009 is shown in Fig: 5.

**Figure 5: Trend in Taka per US Dollar: 1973 – 2009**



Another indicator of the state of Bangladesh economy in relation to the U.S. economy is the exchange value of the Bangladesh currency against the U.S. dollar. The trend in this exchange value is presented in Figure 5. It is common knowledge that the U.S. dollar has depreciated quite a bit against the Eur and the Japanese yen over some time now and more so since the global crisis began. If the global crisis would have affected Bangladesh severely, the Bangladesh currency would have depreciated significantly. However, as Figure 5 shows, the value of Taka against the US dollar has remained stable since 2006 and continued to maintain its value against the U.S. dollar up until now (2009) and perhaps appreciated a bit against the dollar. It thus appears that Bangladesh currency and the economy showed quite resilience in the face of the evolving economic and financial crisis that began in 2007.

**Chart:2 SWOT Analysis of the Bangladesh Economy due to Global financial crisis.**

Strengths	Weaknesses	Opportunities	Threats
1. Bangladesh economy is not fully open;	1. Bangladesh doesn't possess efficient and effective economy.	1. Bangladesh economy can have positive impact if production cost	1. Political instability may occur at any time; 2. Balance of

<p>2. Though expatriates from abroad are returning but foreign remittance did not decline.</p>	<p>2. Regularly expatriates from abroad are returning which may causes to decline foreign remittance.</p>	<p>may be lowered accompanied with decrease of transportation cost.</p>	<p>payment position may be worsening off. Still depends on foreign aid and loans.</p>
<p>3. Among the financial institutions banks are playing vital role. Still banking sector of Bangladesh is not weak.</p>	<p>3. Overall domestic investment declines and Govt. projected GDP growth rate at 5.5-6% in the year 2009-10.</p>	<p>2. Volume of diversified exportable commodities can be raised as low price elasticity of products of Bangladesh.</p>	<p>3. Foreign direct investment may be declined;</p>
<p>4. Price of importable commodities are declining. As such production cost is declining.</p>	<p>4. Infrastructure is weak; Gas-power and energy sectors are not business environment friendly.</p>	<p>3. New labor market can be found and manpower can be migrated provided they have been trained as per the requirement of the foreign market;</p>	<p>4. Currently foreign exchange reserve is very high which may causes negative impact on the domestic economy.</p>
<p>5. Still</p>	<p>5. Population growth rate is high.</p>	<p>4. Bangladesh Taka may be stronger so that less amount may be paid against US\$ to import foreign products.</p>	<p>5. Lack of Corporate governance and corporate social responsibility may further aggravate the situation of the domestic economy and business environment may be weakened.</p>
	<p>6. Information asymmetry is prevailing in the market.</p>	<p>5. Inflation due to external sector may</p>	<p>6. Development strategy does not include bottom up</p>
	<p>7. Leadership crisis in the</p>		

<p>exchange rate of Taka against USD is not affected.</p> <p>6. Young entrepreneurs may be asset to create opportunities for prosperity of the economy.</p> <p>7. Unexplored labor market and export market may give the scope for raising the foreign remittances.</p>	<p>organization at three phases starting from junior, mid and top level management.</p>	<p>be declined.</p> <p>6. Capital market of the country may be restructured so that supply side deficiency can be driven out and foreign direct investment in the share market can be raised.</p> <p>7. Coordination between import substitute industrialization process and export lead growth strategy may help to over come the problem of chronic deficit in Balance of trade position.</p>	<p>approach .As a result coordination in between top down approach and bottom up approach does not occur. Upzilla's are still neglected to become development center and grass root level is depriving from getting benefits.</p> <p>7. Lack of diversified exportable commodities.</p>
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(Source: Prepared by the authors)

### **Conclusion and Recommendations**

Why Bangladesh seems to have avoided the adverse impacts of this massive 2007-08 global economic and financial crisis? The answer perhaps lies in several factors: Firstly, Bangladesh economy has become gradually more integrated with the rest of the world, especially in the trade sector, but it is still not highly integrated with the U.S. and the rest of the world. Secondly, in the trade sector, Bangladesh exports are dominated by ready made garments exports. But Bangladeshi garment exports are concentrated in the lower price range in the global market. As such, when the economy in advanced countries were

in recession, the demand for the higher price range garments declined sharply, but not the lower price range garments products. As a result, Bangladeshi garments exports did not suffer much due to the current crisis, at least not yet. Thirdly, Bangladesh has not integrated much with the rest of the world in terms of Banking and financial services integration. It has a long way to go in terms of deepening financial integration with the rest of the world. This may have worked as a blessing in disguise for the country and thus provides a valuable lesson that policy makers need to pursue financial integration with prudence and caution. Fourthly, partly because of the third factor mentioned above, Bangladesh banking and financial sector has not been exposed to the toxic and subprime assets emanating from the U.S. banking and financial sector (identified as the major cause of this global crisis), thus shielding the country from major meltdown.

To mitigate the problem of the global turmoil it is necessary to create employment opportunity, production of low cost product maintaining the quality, improvement of supply chain management and export diversification. Those who will be unemployed from the domestic industries as well as returned from abroad after losing their job, it is the duty for the Government to create employment opportunity for both the group. Solar electricity system side by side nuclear power system should be introduced. Govt. is trying to solve the problem of electricity, Coal, Gas problems. But implementation process is not easy. Actually the country needs proper and quality leadership as well as efficient and effective three tiers of management in every sphere i.e. Top level, mid level and lower level management at all level of functional organizations. Strategic leadership should be accompanied with strategic formulation and strategic implementation. Starting from the junior level of management to the top level management, boosting up of development strategies should take the center stage. Any sort of development project should be well coordinated by the parliament members and Upzilla Chairmen. Mutual inclusive system of delegation of power should be designed.

Imam(2009) comments that the domestic economy of Bangladesh will not be affected in the short run is correct. However, in the mid and long run the situation may be different. Adamu (2009) observations should be cautiously taken by the policy makers of the country. His argument that this crisis will cause fall in commodity prices, decline in

export, lower portfolio and FDI inflow, fall in equity market, decline in remittance from abroad etc. may occur in the economy of Bangladesh. Ahsan(2009) cautions that active monitoring of the capital structure of the banking system would be important to retain public confidence should be followed by the Bangladesh Bank. Bangladesh Bank should implement strengthening the commercial banks. Khalily's (2008) comments should be carefully taken by the policy makers so that Bangladesh economy may be free from danger due to gradual openness of the economy.

Government of Bangladesh must be more cautious about the global financial crisis. Govt. should take appropriate decision beyond the interest of a very thin group of vested quarter .Depending on the appropriate decision, it may be possible to avail the opportunities of the global financial crisis. Though the country is following free market economy, whenever any sort of imperfection creates market distortion, regulatory measures should be taken.

Global cooperation is an important ingredient where real, monetary and also external sector should work to complement each other for strengthening macroeconomic variables. Bangladesh should be cautious to overcome the global financial crisis. Without the cooperation among the world leaders, it will not be possible to address the global financial repression syndrome. Developed and developing nations should work for their common interest and the danger of financial engineering should be overcome by structured market system where up to certain level market can play without any sort of hindrance but when market turmoil starts then there must be regulatory measures.

Synergy should be created through total quality management in every sphere for which employment generation and redistribution of income effect is the prime concern for to minimize the risk of the crisis and take all hearted effort to transform the crisis to opportunities for the Bangladesh.

### **Recommendations**

Some recommendations are given below:

- Political wisdom and farsightedness is required. The task force may be more active for strengthening the economic progress of the society. Under political leadership, it should integrate economist, social workers, and members of all the

political parties, civil society, media personalities and bankers to ensure safety in the face of economic turmoil. Minimizing the corruption and eradication of rent seeking is urgently needed.

- Planning should be made in three phases: short run, mid-term and long run. For short run and mid-term, those who are unemployed must get financial help through creation of social security or employment for 100 days or less for food program. However, for long-run strategy should be built up for creation of permanent income opportunity. Transitory income may give temporary consumption pattern. For long-term development, people need permanent income, which will lead to create permanent consumption habit.
- Empowerment of women is very much needed so that they can effectively play vital role in the decision making process. Female workers who will lose their job especially from the garments sector due to global financial crisis may be able to get job. As such creation of alternative job facilities are very important. Proper training facilities and creation of alternative job facilities are required.
- Import substitution industries and export oriented industries should be set up. There should be a vertical and horizontal coordination between these two strategies. The proposed budget has tried to provide special facility in this regard.
- Competitiveness, efficiency and effectiveness should be encouraged in the business environment of Bangladesh. It should create a benchmarking of international standard through production of high quality of product at low cost. Moreover, transportation cost should be decreased. Opportunities, which have been created through global financial crisis, can be earned after using competitiveness in the production process as well as creation of new exportable market.
- Main attention of the budget has been giving to create employment opportunities so that redistribution of income effect can be done with the broader aspect of poverty elimination.

- Monetary policy should be more effective so that investment rises but inflation can be reduced. Inflation should be reduced to 4 per cent so that real rate of return becomes positive. Readjustment of exchange rate should be made without any sort of favor towards USD. Calculation of the real effective exchange rate should be done properly.
- viii) Fiscal policy should be redesigned to reduce indirect tax and to raise direct tax. Tax management system should be improved so that Tax-GDP ratio can be raised. Motivation for giving taxes should be increased. Debt/GDP ratio should be declined. Implementation of the fiscal policy should be done properly.
- Labor management for sending labor to abroad should be properly developed as per the need of foreign nations. New labor market for Bangladeshi nationals in abroad should be created. However, before sending laborers abroad, it should be investigated whether they have any previous criminal records and places where they are going to do their jobs are okay.
  - Negotiation skills of the Bangladeshi diplomats should be increased so that they can use economic diplomacy and create market access in the global arena. More career diplomats should be appointed in the top posts of the embassy. Economic diplomacy to expand trading system should be arranged. Non-resident Bangladeshis may act as a goodwill ambassadors. They can work as an intermediary to bridge between foreign buyers and domestic sellers. Incentive may be provided to them. Integrated Marketing Communications skill should be utilized for arranging export of the products. Simultaneously, high quality products are required to be produced. This may ultimately lead to rise in export.
  - Regional cooperation among SAFTA, BIMSTEC etc. may be strengthened. True sense of regional cooperation may provide the stimulus for the economic development of the country. They should take initiatives like ASEAN to eradicate the problem of global financial crisis.

- Capital market should be properly utilized for long-term industrial financing. Moreover, transparency, accountability should be established so that global fund managers get interested in investing in the security market of Bangladesh. Investment for construction of bridge, port and electricity production and also long term industrial financing should be arranged from the capital market. More companies should be enlisted in the Stock market. As such proper initiatives should be implemented.
- Main idea of free market economy that market will determine by demand and supply without any interference in a transparent manner should be replaced with the structured market where if perfect competition fails to a certain degree or market distortion takes place then regulation may be imposed on the market.
- More concern should be given to food security. As such agrarian reform is required. Equal development strategic formulation and policy implementation for industrialization as well as agricultural sector should be taken. Development of agricultural sector should be boosted up. BADC should be revived and private-public organization should work together to develop competitiveness for distribution of fertilizers, pesticides, seeds, agricultural machineries, etc. Moreover, the present Govt. should take initiatives to protect the danger of Global warming scenario.
- Corporate governance in true sense should be implemented in different organizations. Transparency, accountability and dissemination of information should be established. Corruption should be minimized so that it doesn't retard economic development process.
- Special attention should be given to existing jute, leather, pharmaceuticals, handicrafts, frozen foods and tea industries. There must be effective policies, which can be properly utilized for economic development. Govt. must take imitative so that the country can export finished products rather than primary

products.

- Younger generation needs special attention. Employment bank, which was earlier established for job creation for the youth, failed to do work. Restructuring of the employment bank is required.
- Though development is a continuous process, the vision and mission of the present government should be confined within the range of next five years only. If they can fulfill the dream of the masses, then they will be appreciated. Under this planning PRSP-II may be replaced with five-year economic plan and we must be very careful that whatever plan is taken is properly implemented and redistribution of the wealth is done for arranging social justice and removing income inequality.
- Population growth rate is much higher in Bangladesh than the data published by the Bangladesh Bureau of Statistics. As such Govt. should take special measures to motivate people for family planning.

**Notes:**

- 1.Crore=10 Million
- 2.Central Bank of Bangladesh=Bangladesh Bank
- 3.Currency Code of Bangladesh=Bangladesh Taka

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