

Impact of Global Recession and Possible Remedies for Bangladesh

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Abstract:

The Bangladesh economy has shown reasonable stability till now despite the threats from depressed external developments. However, the financial year 2009-10 (FY10) faces multiple downside risks. The major risk emanates from the fallout affects of the global financial crisis. The economy has started to show some signs of slowdown especially in terms of export earnings and remittance inflows (Bangladesh Institute of Development Studies 2009). An economic crisis also means a social crisis all over the world and particularly in Asia with an estimated 60 million people remaining mired in poverty due to falling growth rate. Being a global player in the world economy especially in the garments export and wage earners as foreign expatriate, Bangladesh is no exception with this chain reaction.

In the milieu of current global economic slowdown and unprecedented uncertainty, the challenge for the country is to explore domestic market and focuses on some key sectors to robust the growth of the economy. There is no single formula or remedy to alleviate the crisis. In this descriptive paper we want to emphasize what preventive measures Bangladesh can take to safeguard its economy and secure a better future for its citizens.

Keywords: Recession, Risks, Crisis, Remedies etc.

Introduction:

Nations worldwide are now not different but one unified global village. One problem may lead to a chain reaction and the consequences are thus commonly shared. Specially, when America sneezes the whole world gets flue. Global Recession which originated from sub prime mortgages in the U.S.A hit all the nations more or less but cumulatively. Some nations have been affected right away while some are only experiencing the negative impacts of it. The ongoing global economic downturn has made Bangladesh to feel a pinch as export sectors and overseas employment have been affected lately, though officials termed it ‘temporary.’ This is good news since we can’t afford to sustain recession in the long run. However, it’s a lesson for us! Being globalized and at the same time our home grown formulas to protect our emerging economy can only save us from being bombard of any recession in the future. Patronizing and investing in new areas are also discussed in the context of Bangladesh.

Objective of the Study:

- The main purpose of study is to identify the impacts of global economic fallout in key sectors, especially in RMG and Remittance. Governments, public and private sectors, foreign and local NGOs are in a dire need to look for solutions and how to reprimand the situation. Being academicians we also want to be the part of the stake and hopefully our little thought would benefit the society and the country as a whole.

- We are proposing a suggestive framework on how to overcome the negative impacts of recession by suggesting new areas to invest and by developing on human capital.
- Development of home grown formulas in the future for remedies that can be uniquely designed for country specific needs and to analyze its implications in our economy.
- Also we will evaluate the proposed steps and its applicability in the context of Bangladesh.

Methodology and Scope:

Since this paper is descriptive and qualitative in nature, we have relied on secondary data with our own insights. For that we have collected information from journals, newspaper articles, government periodicals, essays, Internet etc. Due to time constraints the data we have collected may not be the true representation of our complex country. However, we have tried our level best to make the paper with research insight and with up to date information.

Impact of Recession on Ready Made Garments (RMG) and Remittance:

RMG Sector: Bangladesh remained largely insulated from any direct impact of the financial crisis due to our limited exposure to the global economy, particularly in export. We do not have any real time data to assess the situation. However, the export trend as seen from 2008-2009 is quite indicative of a very good performance of Bangladesh. Bangladesh largely exports garments which are mainly considered essentials in the West (North America, EU) and the demand for which has been relatively recession resistant. Due to rising cost of manufacturing, many garments order are shifting from China to other countries and thus Bangladesh remains a major player in this sector exploiting its cheap labor.

International organizations such as the International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB) as well as Bangladesh Bureau of Statistics (BBS) projected different growth results for FY 2008-2009 but it seemed to be futile with real growth rate. Due to the continued growth of the RMG exports alongside the decline in exports of other sectors, the RMG sector's share of total exports has grown. Woven garments and knitwear exports currently make up over 80 percent of all exports, up from about 75 percent in 2007 (Raihan, Khan 2009). Now with over 13 billion dollars of export revenue coming from the RMG sector, the entire industry has risen incredibly with strong efforts invested from all directions (Harmachi 2009).

Bangladesh Bureau of Statistics (BBS) finally said that the GDP growth rate in FY 2008-09 should be 5.9% but again it is the lowest GDP growth over the last five years. However, if the ongoing global recession and uncertainties in domestic economy are considered this growth rate is rather reputable. It is expected that Bangladesh economy can grow by 5-6% this year if the country could manage to avoid second-phase shocks from the global economic recession (Reza 2009).

Remittances: Remittances play a critical part in the economy. In 2008, Bangladesh received over 9 billion dollars in remittances (Rahman 2009). As of 2009, Bangladesh is among the top remittance receiving countries in the world but behind India, Philippines, and Mexico.

Manpower of Bangladesh working in foreign countries peaked in 2007 with 8,32,609 workers. The number again rose to 8,75,055 in 2008 (Rahman 2009).

The majority of remittances originate from the Arabian Gulf countries, followed by the U.S.A, EU, and the Asia-Pacific region particularly Malaysia and Singapore. Inflows during July 2008 to March 2009 were about 24.5 percent higher than the same period of the last fiscal year, but this was partly due to more money being sent through formal channels as opposed to informal ones. The growth rates of inflows have been on a downward trend since July 2009.

The number of migrant workers going abroad each year has increased dramatically in recent years, but in early 2009 there was a marked drop in monthly outward migration due to global recession (Raihan, Khan 2009). According to The Bureau of Manpower Employment and Training (BMET), the first quarter overseas jobs have declined of over 34 percent over the same period last year. Most migrant workers are males from rural areas.

Remedies for Bangladesh:

Besides RMG sector and wage earners in foreign lands, Bangladesh can diversify its export basket with surplus cement production, pharmaceutical, leather, jute and tea. Bangladesh has already gained status as ship building nation. The robust growth in agriculture is a positive development, as agriculture makes up around 16 percent of GDP (BBS) and employs the most labor, particularly in rural regions. However, infrastructure and supply of power mainly hindering the overall economic growth. As a result, the economy, which had the potentiality of growing at 7% or beyond growing at less than 6% even sometimes, falling back from that level (Ahmed, 2009).

Infrastructure: Bangladesh should invest heavily on infrastructure development and there is no substitute of that. Clogged streets in the cities and delay deliveries of key shipments increase the uncertainty and cost of doing businesses. An immediate and ambitious strategy to build the country's infrastructure will achieve multiple outcomes. It will generate local employment and eventually income to reduce poverty. It will also reverse the impact of the ongoing global recession, support domestic economy and facilitate trade much more efficiently.

It is the right time for strategically planned investments in both physical and digital infrastructure. The mega projects should be undertaken with a firm commitment. The deep sea mega port, major bridges, roads and culverts, satellite townships, e-governance, dredging of rivers to prevent flooding, saving Dhaka and adjacent areas from land grabbers must be justified on national interests alone. Bangladesh's main airport should also be developed into an international hub to compete with other international airports such as Dubai, Bangkok or Singapore. Decentralization is another suggestion to limit city migration and reduce urban congestion.

Energy: Energy is vital for economic growth. With vibrant sectors such as ready-made garments, pharmaceuticals, shipbuilding, agro-industries, ceramic, raw hides and leather goods, jute, tea, and related products, as well as the service industries that earn huge foreign exchange basically rely on consistent supplies of energy. It is important for the government to articulate

how the nation's power needs will be met and how much of it is to be met from internal and external sources. What exact role will be played by the different resources (gas, hydroelectricity, coal, and renewable)? This must be determined from a policy perspective that establishes the allocation of energy to various constituencies (households, industries, and the service sectors) for immediate and long term needs (Quddus, et al. 2009). As capacity is gradually increased, how that capacity will be allocated also needs to be projected for a stable and sustainable growth model of the economy.

For the 70 percent of Bangladesh's 144 million people who have little or no access to electricity, alternative energy sources may be the option. Years of under-investment means state-owned power plants generate only 3, 500 megawatts of electricity a day, whereas demand is 6,000 megawatts and growing by 500 megawatts a year due to increasing industrialization (Bazar 2009). Given the resource constraints that the government is likely to face, it should negotiate private investors in the power sector to ramp up quickly. Commercializing solar system by encouraging public-private investments will also generate new employment opportunities. It can be a billion dollar industry with all accessories and devices to generate solar power for rural people. Subsequently, rural people of Bangladesh can be more productive after dark and on their spare time which will further boost our economy.

Agriculture: Agriculture sector has not been affected due to recession. This sector largely depends on rains, proper distribution of fertilizer, adequate supply of electricity, low price of diesel, supply of good seeds and modern method of cultivation. It is good news that the petroleum price in the global market is low. So the government subsidy is going to be lower in this sector. Because of higher domestic production and a drastic fall in food grain prices in international market, the import of food grains fell from 3.2 million tons during July- April FY 2008 to 2.6 million tons during July-April FY 2009, an 18.7% decline (ADB, 2009).

Agriculture sector should support technological dissemination for diversifying agricultural export. The present fertilizer distribution system needs to be reviewed to ensure adequate access and availability of fertilizer. With the help of local government and ICT, crops could be sold directly to the market eliminating intermediaries. Farm subsidy should be provided to all farmers with a need base assessment. Government should promote cutting edge research through different agricultural institution by substantially increasing their budget allocation.

Other Areas to be focused:

Development of Skilled and Semi Skilled Manpower: In this 21st century where the global manpower requires more professional, skilled, semi skilled labor but it's quite unfortunate that we only think of sending uneducated, unskilled labor to few middle-eastern countries, Singapore and Malaysia. To end this, the government must offer technical and vocational training opportunities to build its citizen globally competitive. Migration both in professional and skilled labor categories has long been declining. Migration in the professional category was nearly 5 percent in 2000, which dropped to almost zero to 0.19 % at the end of 2008, while the intake of skilled labor declined to 33 percent in 2008 from 45 percent in 2000. On the other hand, low-skilled manpower exports rose to 52 percent in 2008 from 38 percent in 2000, according to

Bangladesh Economic Review (Rahman 2009). Also there is no initiative to explore job opportunities for skilled workers and professionals.

Overseas employment, a key to economic development has always been instrumental in reducing local employment and boosting remittances. Semi skilled jobs, such as basic machining, operating, repair, computer operations, etc. have always been demanding in the world market. The government needs to promote and establish programs to train people for retail, ICT, transportation, education, and other service sectors jobs, since these are the primary areas of employment. Nursing and hospitality industries have huge demand for overseas employment, and Bangladesh can increase remittance income manifold through training and sending out its nationals in these categories. And also by expanding our literacy rate with opportunity for higher education, Bangladesh can succeed in alleviating poverty and other ambitious goals.

Development of Tourism Industry: For many developing countries in particular the LDCs tourism is considered to be the one of the fundamental pillars of economic development. The tourism sector can play an important role as a driving force of economic development by contributing in three high priority goals of developing countries. It can serve the purpose of income generation, creation of local employment, and earning foreign exchanges. Government can earn revenue by imposing tax on products and services used by tourist through Value Added Taxes (VAT). Tourism offers the opportunity of providing jobs for different classes of people and thereby contributing to the alleviation of poverty. It's a labor intensive industry provides a scope of direct and indirect opportunities for a large number of skilled and semi-skilled manpower. Tourism generates job directly through hotels, restaurants, transportation companies, recreation centers, resorts, and indirectly through supply of goods and services needed by tourism related business.

The longest sea beach in the world and the largest mangrove forest in the world tags are just not enough to bring global tourist to Cox's Bazar, or to 'Sundarban'. Without quality hotels, roads, water sports, night entertainment, and above all without safety it is merely just false illusion. So, the attention must be given on all these. In the age of media, image could always be crafted to suit a particular goal (attracting tourists, for example). There is often no sign of such effort in Bangladesh or its embassies around the world. Poor image, lack of fund allocation in national budget, little or no initiatives to preserve, conserve, and maintain the tourist spots, improper marketing by Bangladesh Porjoton Corporation, mismanagement of concerned ministries, department, and agencies further complicated this industry. Therefore, government, public and private enterprises should work hand in hand to promote this sector to the international community immediately.

Recommendations:

The important lesson to be learned from this crisis that Bangladesh need strong domestic industry that is not export dependent. Emphasizing and investing more on infrastructure development, energy, building quality human resources, tourism and development of businesses in which we have competitive advantage can only safeguard the economy from any future disaster. Currently the Bangladeshi economy is just two trick ponies: we either export RMG or our unskilled labor. We need to diversify our export basket with range of products and services and for that government subsidy and patronization are very important.

Government of Bangladesh needs to identify sectors that would cater to local demand first but also have big export potential as well. Cement and pharmaceutical should be an obvious target but others such as leather, agro-based and even tourism should also be given priority. We build roads and bridges that last only for few days and subsidize sectors that really have no potential growth. Last but not the least, building on human capital is a must. Exploiting cheap labor domestically and exporting unskilled labor would only create negative image, social trauma and would eventually back fire someday and we must be prepared for that.

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