International Journal of Social Economics

Bangladesh's economy: surrounded by deadly threats

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Abstract

Purpose – This paper aims to examine Bangladesh's overall economy with special focus on strengths, weaknesses, opportunities, threats (SWOT) analysis, choosing right foreign direct investment (FDI) strategy, remittance inflow, lessons from South East Asian nations, risk factors and aftermath.

Design/methodology/approach – Phenomenological research has raised awareness and increased insight into Bangladesh's overall strength, weakness, opportunity and threat in terms of her current position in world economy. The approach is based on observation of the business environment, online research, a close watch on Bangladesh's economy, analysis of newspapers, books, brainstorming with co-researchers for five years and 30 years of living and working experience in developing countries.

Findings – The research has found that Bangladesh is going to encounter series of economic hurdles in near future. A SWOT analysis of Bangladesh has uncovered her overall strength, weakness, opportunity and threat in terms of her current position in world economy. Despite some strengths and opportunities, Bangladesh has lots of weaknesses and threats that could seriously undermine nation's development process at any time. A holistic and concerted effort is much sought after to address those problems while capitalising on strengths and opportunities. Side by side, Bangladesh should try her level best to attract quality FDI. However, remittance inflow plays very crucial role in Bangladesh's economy. But deplorably, since it is almost impossible to follow the successful model of South East Asian nations, Bangladesh does not have any sure success formula of any country in hand to follow. In fact, many less successful countries will have to struggle for long uncertain period. And sadly, Bangladesh falls into that category indeed. In fact, Bangladesh's economy has been on an inherently unstable path that can only end in tears. But remittance inflow will act as lifeblood for Bangladesh's economy and it will slow down the total apocalyptic process indeed. However, considering the totality, Bangladesh must have to face several critical challenges at once even before embarking on the track of vision 2020! Truly, nightmare is just on!

Originality/value – This paper offers a holistic view that would guide a reader to identify key challenges of a typical least developed country.

Keywords Bangladesh, Developing countries, SWOT analysis, International investments

Paper type General review

Introduction

Is Bangladesh's economy immune from crisis? Being a typical developing nation, Bangladesh faces many problems like low levels of living, low levels of productivity, high rates of population growth and dependency burdens, substantial dependence on agricultural production and primary product exports, etc. (Todaro and Smith, 2003). But what other series of economic hurdles is Bangladesh going to encounter in the near future? What are the root causes behind these oncoming economic disorders? This paper aspires to unveil the dire reality of Bangladesh's economy by taking a holistic view.

A strength, weakness, opportunity and threat (SWOT) analysis (Table I) of Bangladesh will uncover her overall SWOT in terms of her current position in the world economy. Moreover, it will present a crystal clear picture of where the country is heading.

International Journal of Social Economics
Vol. 36 Nos 1/2, 2009
pp. 138-181

0306-8293
DOI 10.1108/03068290910921244

Strength	*Weakness*
Social, linguistic and racial oneness	Corruption/poor governance
Steady pace of economic growth	Rising inflation
Commitment to democracy	Weak currency and rising imports
Government's undertaking of principles of market economics	Severe electricity shortage crises
	Virtually bankrupt financial sector
Low labour cost	Limited product diversification capacity
Higher return on investment	Governments' inability to pursue long-term policies
Natural resources	Political instability
	Incomplete policy reform
	Vast unskilled population
	Low savings
	Low productivity
	Small economy
	Weak infrastructure
	Hartals and traffic congestion
	Bribes and other start-up costs are huge
Opportunity	*Threat*
Foreign direct investment (FDI)	High oil price
As a least developed country (LDC), Bangladesh has market access to EU, Canada, Japan, New Zealand and Australia	Well-coordinated terror attacks
	End of quota system for RMG (Ready Made Garments)
Suitable geographical location for exporting to Northeastern states of India, Nepal and Bhutan	Natural disasters
	Globalisation
Billion-dollar potential of nursing in OECD countries	Environmental hazard
	HIV/AIDS
	Regional conflict
	World output against demand
	Failing to embrace e-commerce

Table I.
SWOT analysis of Bangladesh

Strength

Bangladesh has some strong points to go for growth and development. Bangladesh enjoys social, linguistic and racial cohesion that is conducive to make concerted efforts towards development (World Bank, 1998). In addition, during the three decades of the nation's independence, though the average growth rate has been around 4 per cent per annum, the gross domestic product (GDP) growth rate has been 5.5 per cent or more per annum in the last few years (Hossain *et al.*, 2003). Moreover, although political instability looms large, people have rock solid commitment towards democracy. Furthermore, the government's undertaking of principles of market economics indicates that prices provide incentives to increase profitable and decrease unprofitable activities in the market. Nonetheless, varying mixtures of markets and government planning should be in place to ensure economic stability. Additionally, the catchword is Bangladesh has low labour cost advantages that can attract foreign direct investment (FDI). But only cost competitiveness cannot benefit Bangladesh over a long period. Price wars are detrimental if the quality of products is compromised. Another serious challenge is that Bangladesh struggles to keep any lucrative sector that cannot be replicated by either India or China in terms of cost competitiveness or product quality.

However, according to business analysts, Bangladesh remains as one of Asia's most attractive business places where return-to-investment is in many cases three to four times higher than many other South Asian or South East Asian countries in specific sectors (*The Bangladesh Journal*, 2005). That advantageous point should attract lots of FDI.

Besides, Bangladesh has small reserves of oil and coal, but potentially very large natural gas resources. However, Bangladesh has lots of weak points too.

Weakness

Bangladesh suffers serious setback for growth and development due to series of impediments.

Corruption

According to "Transparency International" (TI), Bangladesh has been the most corrupt nation in the world five consecutive times. That tells the whole story. There are substantial credentials to claim "Bangladesh suffers more from drainage of resources than from lack of resources." Even the World Bank (2000) acknowledges this when it says "by reducing corruption, it is possible to add between 2.1 and 2.9 per cent to annual per capita GDP growth, it could also lower poverty by 25 percentage points." It also says that, "per capita income in a corruption free Bangladesh could have nearly doubled to US$810 instead of US$410 (2004F) reflecting the harmful impact of bribery, kickbacks and similar under the table payments on investment levels and misallocated resources" (Muhammad, 2004). Besides, due to corruption and wastage, Bangladesh faces loss of around US$5.7 billion (TK. 40,000 crores)[1] a year (*The Daily Ittefaq*, 2005). Table II presents the picture clearly.

Furthermore, due to strike and political instability, the nation loses thousands of crores in the fields of production and export.

It can be said that "corruption is a widespread phenomenon, which undermines good governance, erodes the rule of law, hampers economic growth and efforts for poverty reduction and distorts competitive conditions in business transactions" (OECD Anti-Corruption Division, 2005). Moreover, corruption is socially accepted in Bangladesh nowadays. It is a delicious example of moral degradation of the entire nation. On top of that, the Bangladesh government pats on the back black money

Sector	Main reason(s)	Amount
Electricity	Pilferage, system loss and lack of proper supply	TK. 6,900 crores (around $1 billion)
Gas	System loss	TK. 500 crores (around $70 million)
Petroleum	Smuggling	TK.400 crores (around $57million)
Governmental procurement	Corruption	TK. 300 crores (around $43 million)
Bribery	Corruption	TK. 8,000 crores (around $1.14 billion)
Chittagong sea port	Mismanagement	TK. 6,000 crores (around $857 million)
Aviation	Incompetence, government's policy and indifference	TK. 5,000 crores (around $714 million)
State owned enterprises	Corruption, mismanagement	TK. 4,000 crores (around $571 million)
Banking	Incompetence, corruption	TK. 8,000 crores (around $1.14 billion)[1]

Source: *The Daily Ittefaq* (2005)

Table II.
Financial loss due to corruption and wastage in different sectors of Bangladesh

holders by offering provision for whitening black money for another year by paying only 7.5 per cent income tax (*The Daily Star*, 2005). But if one has legal income source, that person needs to pay at least 10 per cent income tax. Thus, corruption is being encouraged in Bangladesh. It seems that the whole nation is seriously engrossed in keeping the first position of the most corrupt nation in the entire world for a long time to come! In fact, the nation is in danger of becoming rotten to the core.

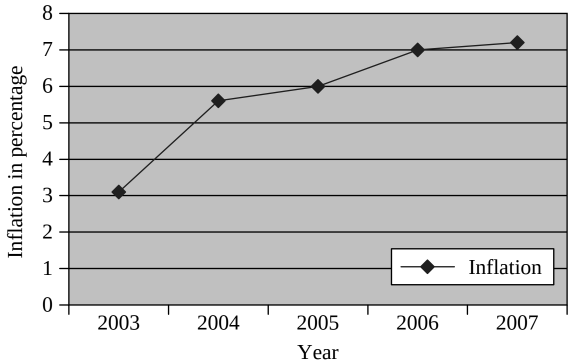
With corruption, black money and black business, a dishonest businessman can subsidise his showy fair business, thereby destroying the competitive business environment for honest business owners. For instance, being a secret international drugs dealer, a dishonest businessman can subsidise his fresh vegetables export business, thereby leaving no room for honest business owners to make significant profits. Once a shipment gets delayed for any reason, vegetables will get rotten. As a result, honest businessman will face huge loss. But a corrupt businessman can afford such a loss because he can make lots of money through his hidden international drug dealing under the garb of a vegetable export business. Furthermore, in Bangladesh, setting up so-called fair businesses is a way to convert black money into white one. An honest businessman cannot compete with such types of subsidised businesses. Therefore, corruption, black money and black businesses have multiple negative effects on the socio-economic condition of Bangladesh.

However, changing a nation's mindset is a precondition for doing anything good for the country. Additionally, a cut in corruption and the establishment of good governance are key to achieving the aims of the Millennium Development Goal (MDG) and poverty reduction strategy paper (PRSP) (*The Daily Star*, 2005).

Rising inflation

Inflation is crippling the lives of the poor as well as those of middle class families. The point-to-point inflation rate hit a new eight-year high of 7.95 per cent in November 2005 due to a sudden rise in food prices (*The Daily Star*, 2006). An unmerciful price hike of essentials has pushed inflation to such a peak that dwarfs the slight rise in the real income of people, especially the poor (*The Daily Star*, 2005). Besides, prices of essentials have sharply increased even in international markets due to higher production costs, devaluation of the US dollar for exchange rate and the mismatch between global supply and demand. Therefore, prices of essentials have not come down significantly to ease the pressure on the poor and middle class families. In fact, prices of edible oil and rice are rising to levels which are out of reach for consumers in lower and middle-income brackets. That is why government has reduced tariff rates to make the prices of essentials cheaper and at the same time to reduce the production costs of industries, check inflation, and make exports competitive (*The Daily Star*, 2005). But the situation has hardly improved (Figure 1).

Though Figure 1 indicates that inflation in 2007 was 7.2 per cent in terms of consumer prices, the actual price hike of essentials was much more especially that of rice and edible oil. Besides, the prices of green chilli and onion fluctuate sharply without any notice. In fact, according to the Economist Intelligence Unit (2008), food related inflation was 13.8 per cent in 2007, and 15.5 per cent in urban areas. In addition, overall inflation was 11.2 per cent in 2007. That means two-digit inflation was a common scenario in Bangladesh last year. Two-digit inflation is seriously bad



Source: Indexmundi (2007)

Figure 1.
Inflation in Bangladesh

for any economy hence this will surely cause major problems for common people in Bangladesh.

Actually, despite the recent slight fall of oil price after the hike, "the price level has evidently established its new floor. Price hike of diesel, kerosene and gas will contribute to inflation, resulting into perhaps weaker currency and higher import costs to the nation" (*The Daily Star*, 2005). Additionally, a decrease in foreign aid and net sales of savings instruments have compelled the government to borrow around US$627 million (Tk. 4,368 crores) from the banking system in the first five and a half months of the fiscal year 2005. Experts fear the government's loan that includes US$500 million (Tk 3,500 crores) from the Bangladesh Bank (BB) may fuel a further inflationary trend (*The Daily Star*, 2005). In fact, "huge public sector borrowing requirement, large trade deficits and skyrocketing oil prices are primarily responsible for the erosion of Bangaldesh's Taka's purchasing power" (*The Daily Star*, 2005). That is why controlling money supply – a popular prescription of the World Bank and International Monetary Fund (IMF) to reduce inflation would not work any longer.

According to the suffering index, if a nation's combined inflation and unemployment rate is 10 per cent or over, people of that nation are suffering miserably. While the unemployment rate is around 35 per cent and inflation is 7.2 per cent in Bangladesh, the suffering index is over 42 per cent. This would suggest the life of common people in Bangladesh is extremely distressing.

Meanwhile, the foreign exchange reserve as of 6 October 2005 came down to US$2.5 billion due to higher import growth and marginal export growth (*The Daily Star*, 2005). At present country imports goods are worth more than US$1 billion per month. Hence, the amount is not enough to meet the requirements and demands. During the previous BNP (Bangladesh Nationalist Party) regime, in 1994-1995, the forex reserve was around US$3.5 billion, which was quite good for that time; but to get that adequacy now, at least US$7 billion to US$8 billion is needed (*The Daily Star*, 2005). Here in lies the dilemma. Since FDI hardly increases the foreign reserve of Bangladesh, the government has no other source except remittance to increase the foreign reserve slightly (World Bank, 1999).

Electricity shortage crises

Electricity is the basic infrastructure of today's development. Bangladesh has started suffering from huge electricity shortage crises during summer periods of each year. This shortage will continue for years unless something is done under the crash program. The adverse impact of electricity shortage is huge under any criterion. Every sector is affected and the nation's economy is being crippled. At present experts have opined that there will be no improvements of electricity supply for the next three years or more (Haider, 2006).

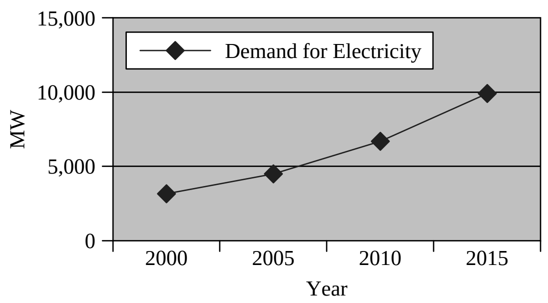
In 2006, the country's power generation hovered around 3,300 MW at the maximum, and sometimes dipped to 2,700 MW. But the demand soared up to 5,200 MW (Bangladeshnews, 2006a) (Figure 2).

In addition, the demand for electricity in 2010 would be 6,700 MW and in the terminal year of projection (i.e. in 2015), the demand would be 9,900 MW. In terms of energy generation, this would mean that demand would rise from a level of 16,500 kWh in the year 2000 to 52,000 kWh in the year 2015 (CPD, 2000). But where is the plan to address the ongoing electricity shortage crisis?

On top of that, technical faults are increasingly disturbing different power plants and regional grids, adding to the already acute power crisis across the country (Bangladeshnews, 2006c). Since maintenance is a continuous event, it is important to be regular. Over the past several years, there was an absence of proper maintenance. This was primarily for two reasons:

- Paucity of funds.
- Organisational and institutional problems, which constrained completion of maintenance works on schedule (CPD, 2000).

To add fuel to the fire, the white paper on power sector corruption published by the recently formed Liberal Democratic Party (LDP) said TK. 6,000 crores (around US$857 million) was looted during the five-year tenure of the immediate past BNP-led four-party alliance government (Bangladeshnews, 2006c). Moreover, that former government did not do anything tangible to generate more electricity whereas it kept on covering new areas for electricity supply. As a result, demand has soared up but supply of electricity has remained the same. It is one of the reasons why the nation is now suffering from electricity shortage crises so terribly.



Source: CPD (2000)

Figure 2.
Demand for electricity in Bangladesh

There are two types of electricity shortage depending on timing:

(1) Peak-hour-shortage-, which mainly affects residential and other users. Well, present peak hour shortage is around 40 per cent of total electricity generation.

(2) Off-Peak-hour-shortage-, which affects industries, offices and other users. Present off-peak hour shortage is around 20-25 per cent of total electricity generation.

The nation should immediately go for short-term measures to solve the electricity shortage issue. Shah Haider (2006), the only registered professional engineer in Rural Electrification Board (REB)/Polli Bidyut Samity (PBS), has developed a short term plan to address electricity shortage crises in Bangladesh and opined that if it is implemented properly, there would only be nominal power shortages in four to six years time. That sounds absurd in the present situation but it is possible from his viewpoint.

Short-term plan.

(1) Motivation to use less electricity. (To this end, intensive public appealing ads in TV/Press, public appealing programs everywhere can be started immediately).

(2) Use of energy saving lights. Energy saving lights can save around 70 per cent of electricity for the same illumination. The only problem is that it's too costly. It costs around 15 times more than an ordinary bulb. These bulbs have 12-15 months guarantee, but still common people cannot afford them. These bulbs are very popular abroad. Taxes on this product may be made nil, thereby enabling people to use it extensively.

(3) Efficient load management.

(4) Stoppage of excess lightening in markets and on different occasions. Government has taken a decision on this recently.

(5) Metre checking by crash program. All electric meters are to be regularly checked (Industries twice or more, others once every month) in the following priority:

- Large industries.
- Other industries.
- Markets, shopping malls, etc.
- Residential quarters in upper class areas.
- Others.

This will lead to revenue increase, automatic decrease in the misuse of electricity and automatic load management:

(1) Penalty and punishment for pilferage, corruption, etc.

(2) System loss reduction and incentives. Incentives should be given to the employees of all electricity distribution departments, viz. PDB (Power Development Board), PGCB (Power Grid Company of Bangladesh), DESA (Dhaka Electric Supply Authority), DESCO (Dhaka Electric Supply Company) REB (Rural Electrification Board)/PBS (Polli Bidyut Samity), etc. This Incentive will lead to the reduction in corruption in this sector, revenue increase and load shedding decrease.

(3) No favouritism in case of electricity theft cases.
(4) Industrial/irrigation, etc. connections to remain off during peak hours.
(5) Reduction of technical losses. This includes:
    - Improvement of power factor by installation of Capacitor Banks in feeders.
    - Improvement of voltage by installing Voltage Regulators as done in REB sub-stations and lines, phase balancing, installation of proper size conductors, etc. This task is to be started immediately and finished by four months in the first phase.
    - Ensuring power factor improvement (PFI) devices in Consumer end or Heavy penalty be imposed. Consumers are to be made to understand the benefits of Power factor improvements.
    - Other technical improvements as deemed fit by Engineers. This task to be completed by three or four months positively.
(6) Improvement of grid system. Minor/short term improvements in Grid system, Grid sub stations, transmission system, which will lead to better voltage, efficient and reliable supply of electricity is to be implemented as per advice of PGCB and PDB.
(7) Improvement of electricity generation.
(8) Special incentives for improvement of generation and grid supply system. Financial incentives to be given to staffs of PGCB, Generation units, Power cell, etc. for their extra ordinary achievements. In addition, offer institutional training to staffs of power sector.
(9) Tariff increase. The 5 per cent tariff has been increased in urban areas recently. In addition, if further tariff increase is deemed necessary, it can be ascribed on commercial usage of electricity.
(10) Monitoring of day-to-day situation by power cell. Some organisations preferably in the name of "Power Cell" could be entrusted with the task of coordinating the short-term planning to address the electricity shortage crises with authority. There is a saying, "a penny saved is a penny earned." In the same way, a kilowatt of electricity saved is like an extra kilowatt of electricity generated (Haider, 2006).
(11) If feasible, restart "closed power plants" through renovation with efficiency and effectiveness in mind.
(12) Electricity Conservation Act, Electricity Act, Gas Act, etc. should be enacted in no time (Islam, 2007).

However, according to Kamal (2006), there is an issue of energy security, which has not yet received sufficient importance in Bangladesh. India has planned for a 50-year energy security. So has Pakistan for a 30-year period. Bangladesh's government has left this crucial subject to the unknown future. In fact, the concept of energy security has a direct and undeniable linkage to the national economy and the environmental consequences. According to Kamal (2006), since current gas-based electricity (around 72 per cent of total electricity production) cannot be generated for an indefinite period without knowing the exact figure of reserves of gas, the nation should think of alternative sources of energy to avoid more intense crisis in future. Alternative sources of energy such as solar, hydro-electricity, biomass, biogas fuel, wind power, etc. are in use in Bangladesh on a limited scale. Use of solar power is very popular in Europe – particularly in Germany where it meets a 45 per cent demand of entire needs. Nearly 85 per cent of the primary energy in the USA comes from bio-energy. Experts believe 20 per cent of the world's electrical energy may come from renewable sources by 2020 (Khan, 2006).

Nonetheless, according to Nuruddin Mahmud Kamal (2007), the former chairman of the Bangladesh Power Development Board (BPDB), around 85 per cent electricity generating plants were set up in the eastern part of Bangladesh while only around 15 per cent electricity generating plants were set up in western part of the nation. That is why electricity transmission cost and loss is high while catering to the needs of half of the population of the nation living in western part of the country. From now on electricity generating plants should be set up in the western part of the country to bring a balance. Besides, there are 70 centres of Polli Bidyut Samity (PBS) in Bangladesh and if each one starts generating 20 MW and proper steps are taken to generate electricity from all of them simultaneously, they can generate around 1,400 MW electricity within a year. And if around ten electricity generating plants are set up in western part of Bangladesh and each one of them generates 100 MW, the nation can have around 2,500 MW more electricity in the next five years.

Additionally, can there be co-operation with neighbouring countries to address the problem? Experts advise Bangladesh to go for buying electricity from India on a short-term basis if all terms and conditions are friendly and transparent. But it should be remembered that there are also electricity shortage crises in various parts of India and the price of electricity would be higher. On the other hand, regional exchange of electricity (buying electricity from Nepal and Bhutan through India) would be very tough to materialise. To sustain economic growth, India herself needs around one hundred thousand megawatts more electricity in the next five years (Islam, 2007). In addition, as India wants to go for bilateral trade agreements mainly, it would be very tough for Bangladesh to have a share in regional power exchange. Nonetheless, since Bangladesh's relation with India is improving, Bangladesh should try her level best to push her case with India to have a share in the hydropower based electricity of Nepal and Bhutan (Islam, 2007). Moreover, as a part of the long-term plan, negotiation with India should be initiated to generate hydropower in common rivers of both countries. Besides, due to geographical location, good relations, understanding and co-operation with India is a must not only for generation of hydropower, but also for the overall economic development of Bangladesh.

However, due to perceptional differences, a legacy of mistrust and a lack of genuine goodwill among some of the member countries in the SAARC (South Asian Association for Regional Co-operation) region, there has never been a sincere and a shared effort for the development and use of the natural resources for mutual benefit of the people of the region (Kamal, 2006). That is why South Asian countries should enter into agreements on good faith for a win-win situation where presented proposals are economically feasible, environmentally viable and politically acceptable (Kamal, 2006). Only then cooperation in regional energy sector development would prove fruitful. To this end, Bangladesh's foreign diplomacy must be at its best.

Nonetheless, there should be brainstorming among national and international experts as how to solve electricity shortage crises of Bangladesh. Considering the totality, a holistic approach should be taken to solve the electricity shortage crisis of Bangladesh with the right intention and involvement of government, development partners as well as of the common people.

Poor performance of financial sector

The poor performance of the financial sector is an obstruction for higher economic growth and increased employment. Non-performing loans in the nationalised commercial banks surpass 40 per cent, a large portion of which will never be recovered and has to be covered by the state (SIDA, 2001). In addition, by the end of the 1990s, the total of "bad debt" had grown to US$ 4.3 billion (Van der Geest, 2002). "With around half of the loan portfolio in arrears, and fewer than 500 borrowers accounting for 70 per cent of the bad loans, it appears as if borrowers believe that the loans need not be repaid" (World Bank, 2000). For instance, Agrani Bank made a net profit of TK. 25 lakh (around US$35,714) in 2003, but the bank incurred an astonishing loss of TK. 2,172 crores (around US$300 million) in 2004 while it attempted to attain international standard in its financial statement to make it more transparent (*The Daily Star*, 2005). On the top of that, the Bangladesh government is facing problems in recovering default loans amounting to about TK. 30,000 crores (around US$4.28 billion) mainly due to stay orders of court (*The Daily Star*, 2005). In fact, "deficient legislation, a weak central bank, poor management, loose auditing and accounting standards and politicised bank unions have combined to produce a financial system that is virtually bankrupt" (SIDA, 2001). Moreover, corruption in the financial sector is a common phenomenon and according to the Transparency International's study, "about 54 per cent of those who borrowed money reported that they had to make payoffs or use influence to obtain a loan." Definitely, it necessitates making "the sector more efficient by reforming the financial legal framework and strengthening the central bank by increasing its independence and supervisory capacity" (SIDA, 2001).

Limited product diversification capacity

Bangladesh obtained permission for duty and quota free access of her goods to a number of developed and developing countries. Moreover, industrialised countries at a recent World Trade Organisation (WTO) ministerial conference in Hong Kong promised to give "at least 97 per cent of goods from the world's least developed countries", including Bangladesh, "access to their market from 2008" (*The Daily Star*, 2005). But will the country be able to capitalise on the facilities with limited export items in her basket?

The formidable task before Bangladesh is "to diversify export items to cater to the needs of the time, or else all the trade concession may prove" fruitless.

The country is also facing the challenge to reduce growing trade imbalances with almost every country to a decent level (*The Daily Star*, 2003).

The main thrust should be given on sectors like electrical and electronics, computer software, light engineering, leather goods, toys, sports items, footwear, spare parts, machinery, construction materials, fashionable goods and agro-based products. Thrust can also be given on adding value to garment items and environment friendly jute goods.

Other than textile, agricultural and agro-based items, only few other items like ceramics, melamine, handicrafts, pharmaceuticals, software and some electronic items under the light engineering sector have contributed significantly to export figures. The total annual export earning from all these sectors is less than one billion dollars (*The Daily Star*, 2003).

However, thoughtfully designed policies are necessary to help the transformation of agricultural products (e.g. potato, fish, vegetables, flowers, pin-apples, mango and tomato) into processed products for home and export markets. For this, not only promotional but also mild protective measures would be vital (Hossain *et al.*, 2003).

Innovative designs for products are also an important factor for getting market access. Currently, "many of the Bangladeshi goods are failing to enter developed markets due to poor quality products and unattractive packaging."

The government has to ensure regular checking and monitoring to stop export of low quality items that disgrace the image of the country (*The Daily Star*, 2003).

Other problems

There are a series of problems Bangladesh faces on her way to economic progress. The governments' inability to pursue long-term policies is worth mentioning. When a government changes, so do all its long-term policies. A new government ignores everything and sets new policies afresh. But these new policies are subject to change altogether by the next new government. Thus, time, effort, money, resources are subject to continuous wastage. In addition, political instability is partly responsible for the continuous change of long-term policies and incomplete policy reforms. More extensively executed trade and industrial policy reforms could have permitted Bangladesh to reap more benefits from trade policy changes (Stern, 2002). Moreover, opposition parties often turn to agitation politics. Consequently, strikes (hartals) in the name of anything impede the nation's economic progress. Greater political cohesion, which has been held back by conflicting parties and personality politics, "could have been formed around a national vision for growth and poverty reduction (Stern, 2002)."

Furthermore, a vast unskilled population, low savings, low productivity, traffic congestion, bribes and other high start up costs and weak infrastructure (ports, roads, electricity, telecommunication, etc.) are creating an unhealthy business environment in Bangladesh. On the top of that, the smaller the economy, the more severely it is likely to get hurt due to external risks and threats. All these critical factors are impeding the growth and advancement of Bangladesh. But, Bangladesh does have some promising opportunities.

Opportunity

Despite lots of weakness, Bangladesh has some tremendous opportunities on which to capitalise. Bangladesh can attract quality FDI for development and growth. Since FDI holds lots of promise for Bangladesh, it will be discussed in detail later. Moreover, as a less developed country (LDC), Bangladesh has market access to the EU, Canada, Japan, New Zealand, Australia, etc. But, product diversification is badly needed to harness those benefits that trade concessions have on offer. Besides, Bangladesh has suitable geographical location for exporting to the Northeastern states of India, Nepal and Bhutan. In fact, the Asian Development Bank (ADB) sees that Bangladesh has the potential to become a transport and energy hub for the sub-region. Bangladesh borders

India and Myanmar and is in close proximity to the land-locked Bhutan and Nepal. With the opening of the Jamuna Bridge and the development of the Padma Bridge, the Dhaka-Chittagong transport corridor and other strategic transport corridors can be used to connect the Northeastern states of India to Bhutan, Nepal and West Bengal. In this direction, improving regional initiative under South Asian Association for Regional Co-operation (SAARC) and particularly the bilateral agreements with India to promote trade in energy, to increase cross-border transit trade and to effectively promote environmental co-operation, among other things, will be fruitful indeed (*The Daily Star*, 2005). Additionally, "OECD (Organization for Economic Co-operation and Development) countries by 2020 could generate anything up to 60 million jobs in looking after the disabled alone". This enormous figure means that nursing (for both male and female) will become a far greater "employer than all the car factories, maybe all industries put together in the OECD." That is the exceptional scope of nursing (Aiyar, 1998). That is a low-tech industry of huge potential that Bangladesh is yet to cash in on. Bangladesh needs to set up right training centres for nursing. Side by side, the best way to push Bangladesh's "case is not to talk to foreign diplomats but to medical insurance companies in OECD countries." These companies want to decrease their liabilities. Cheap nursing from Bangladesh and other developing countries will surely do that (Aiyar, 1998). Thus, inflows of remittances can be increased sharply in the coming decades on which Bangladesh depends heavily.

Threat

Bangladesh runs the risk of facing a series of threats on her way to growth and development. The adverse impact of high oil price is foremost.

Adverse impact of high oil price

The high oil price around the world will have a damaging impact on core parts of the economy of many countries. The most exposed are the oil importing Asian countries including Bangladesh. The economy of these countries is passing through a risky phase and the macroeconomic stability is suddenly faced with serious challenges (*The Daily Star*, 2005). In fact, high-energy prices are a double-edged sword and they can weaken economic growth and can also spread inflation throughout the economy if they cause a rise in the price of other goods and services.

Global demand for oil grew 2.6 million barrels per day (bpd) to 82.5 million bpd in 2004 and by the fourth quarter of 2005 demand was expected to rise to 85 million bpd. The market is no longer only controlled by supply and demand, as several other factors have started to play a role. Factors like the environment, geo-politics, (higher) economic growth and stockpiles are now playing a major role indeed (*The Daily Star*, 2005). But high oil price will have different impacts on different economies. For the growing and developed economies, the price is factored in because it is totally demand driven with China (6.5 million bpd in 2004) and America (20.4 million bpd in 2004) leading the group (*The Daily Star*, 2005). In addition, for growing economies, high oil prices have so far not dampened productivity as cheap money has supported spending sprees and housing bubbles. But for Bangladesh, there is no such expectation right now (*The Daily Star*, 2005). Another fact is that the energy intensity of most products is lower today than it was in previous oil shocks (*The Daily Star*, 2005).

The fuel price hike across the globe poses a serious challenge to Bangladesh's economy. The oil price hike hits the four tiers of the consumption chain-producers, importers, exporters and consumers. Additionally, the fuel price rise coming on the back of a few other disturbing factors such as high inflation, increased interest rate, and an expensive dollar will have a depressing impact on the country's growth prospect for the year 2005 and beyond (*The Daily Star*, 2005). Moreover, the oil price rise causes a domino effect in transportation, power generation, house rent and employee allowances. And all these will result in high production cost. Thus, high oil price in the local market will increase the production cost of the major export items and basic industrial goods by 10-12 per cent (*The Daily Star*, 2005). Consequently, it will decrease the competitive edge of Bangladeshi products in the international markets. Even high diesel price will raise the agricultural output costs, putting the marginal and small-hold farmers and poor urban consumers in economic disaster (*The Daily Star*, 2005). As a result, the rising import bills for petroleum and shrinking demand for exports threaten not only the balance of payment, but also the dislocation of overall economic development programs (*The Daily Star*, 2005).

However, the situation is worsening when many nations are going for bio-fuel and agro-fuel as a substitute for pricey oil. The increase has already been experienced as prices are going up for grains, oils, eggs, corn, and other commodities that are used to make ethanol and other fuels that are made from farm-grown items. Moreover, meat prices are on the rise as well since farmers must pay more for grains to feed their stock... grains that are also used to produce fuel (*The Liberty Sphere*, 2007). This is dire scenario of globalisation indeed. Therefore, considering the totality, high-energy prices have become a multi-edged sword.

To tackle the situation, companies are thinking of a three-way strategy. Some are thinking of raising their product prices; some fear that markets will react negatively to higher prices and so think of lowering profit margins; while others are attempting to analyse internal process and increase efficiency (*The Daily Star*, 2005). However, effective austerity measures must be in place to tackle the acute situation of steady high oil price to some extent.

Well-coordinated terror attacks

The anarchy being perpetrated by Islamist extremists in Bangladesh is so extensive, with the threat of worse to come, that there is now a sense of crisis in people's mind. And time is also out of joint indeed (Rahman, 2005). Religious absolutism is an elementary cause of terrorism engulfing civilisation today. "Religious absolutism results from a belief that a particular faith represents the absolute truth and therefore must be accepted by everyone else without question." To establish religious absolutism, religious extremists often impose their ideology on others through violent and destructive way.

Nazism, Communism, Japanese imperialism, etc. all declared to have possessed the "absolute truth" and attempted to impose it on others, bringing about a great amount of human suffering in the process. Fortunately, none of these philosophies had the support of any church and therefore "lacked religious legitimacy, making it relatively easy for the civilised world to eventually defeat them" (Sayyed, 2005).

"Radical Islam, also known as political Islam or theocracy, driven by extremist and an obscurantist interpretation of Islam, is the current face of this evil." Because it has very deftly arranged to hijack Islam, a faith of more than 1.2 billion people, its influence is absolute. Certain Muslim societies have fallen under its control and, as a result, "have become the breeding ground of terrorism. Events of the recent past have reconfirmed, beyond any doubt, its destructive potential" (Sayyed, 2005). But the Qur'an says "O people of the Book! Commit no excesses in your religion" (4:171) and "Let there be no compulsion in religion" (2:256).

Moreover, in the Qur'an, God teaches Muslims to be tolerant and helpful to all other people. Mercy, love, justice are the basic principles of Islam. According to the Qur'an, violence and brutality are against the will of God. War is acceptable only as defensive and should be humane and just. Furthermore, the source of terrorism is atheism, not theism. Religion commands love, compassion, forgiveness, peace and living according to high moral standards. Terrorism, on the other hand, is on the side of cruelty and violence, bringing about pain, bloodshed and committing murder (Yahya, 2002). Darwinist and materialist philosophies approve violence by defining men as "warring animals." Terrorists aim to create a world of violence, conflict, chaos, and fear. But all forms of terrorist attack are roundly condemned in Islam. In Islam, it is a great sin to kill an innocent person and anyone who does so will suffer great torment in the hereafter. In Sura Ma'ida, verse 32, God says that if anyone kills someone unjustly, it is as if he had murdered all mankind. To murder even one person is totally opposed to the moral teaching of the Qur'an. And creating anarchy is worse than killing. "Those who make mischief in the earth; on them is the curse" (13:25). Thus, bombing, killing and creating anarchy in the name of Islam is not compatible with the Qur'an and Sunnah. "There are apparently many reasons for the acts of terror, which have now claimed perhaps hundreds of thousands of lives across the globe. Those who perpetrate such acts have no fear of God." To them, the morality commanded by religion is completely unknown (Yahya, 2002).

However, there are other social and economic reasons that present society has fallen victim to. The common people have been helplessly experiencing the ever-increasing corruption and injustices in the society. "Honesty and patriotism have long since given away to dishonesty and shameless greed for wealth and power" (Ali, 2005). Additionally, the present system of justice is almost unreachable to the poor. Moreover, national leaders have so far failed to devise a universal education policy, which could generate worthy citizens capable of facing current challenges (Ali, 2005).

Nevertheless, it is vital to understand that the seed of Islamist extremism was sown over all these years when political Islam was being raised in the country. It is a titanic effort to uproot that long nurtured destructive force. In fighting Islamist militancy, society not only combats those who are using to advance their ultimate goal of instituting political Islam, but also facing equally all others who share the same goals. It needs openly to refuse political Islam, while continuing to ensure not only full freedom of conscience to all individuals but also open discussion of Islam so that the true spirit of Islam can flourish (Rahman, 2005).

Moreover, while addressing the International Summit on Democracy, Terrorism, and Security on March 10, 2005, the UN Secretary General Kofi Annan identified "five D's" of terrorism combating strategy. They are:

- Dissuade disaffected groups from choosing terrorism as a tactic to achieve their goals.
- Deny terrorists the means to carry out their attacks.

- Deter states from supporting terrorists.
- Develop state capacity to prevent terrorism.
- Defend human rights in the struggle against terrorism (Annan, 2005).

Bangladesh is currently following all these five D's to combat terrorism with praiseworthy success. Furthermore, all kinds of media will play a crucial role to uphold the true values of Islam. Side by side, better social security is key to fighting terrorism (Attali, 2005).

Challenging future of ready made garments (RMG)

The effect of quota elimination is not going to be like a thunderbolt that has an immediate impact; but most likely it is going to be like climate change that will gradually unsettle inefficient players (*The Daily Star*, 2005). Bangladesh will possibly encounter cutthroat pressure from lower prices in the international market in the post-MFA (multi-fibre agreement) world with an adverse shock on the balance of payments, output and employment (*The Daily Star*, 2006). But so far local exporters have managed to increase exports due to the quota on Chinese textiles products enforced by the US government. After the expiry of this quota on Chinese textiles, the local exporters will face stiff competition in the US market. But India would be Bangladesh's major competitor in the US market until the end of the quota system for Chinese textiles in 2008 (*The Daily Star*, 2006). Moreover, according to industry insiders, although Bangladesh is well ahead of many south Asian RMG exporting countries like Sri Lanka, Pakistan, Indonesia, Vietnam, Cambodia and Nepal, a sharp rise is expected in exports from those countries and it is imminent that they would come out as strong competitors (Bangladeshtalk, 2007). Furthermore, a late but more potential threat might come from countries in Latin America, Africa and the Middle East, which are nearest to the market and somehow beneficiaries to special treatment. In addition, duty-free access for products from 33 African and Caribbean countries under the African Growth and Opportunity Act (AGOA), New Partnership for Africa's Development (NEPAD) or Caribbean Basin Economic Recovery Act (CBERA) might pose deadly threats for Bangladeshi exporters (*The Daily Star*, 2005).

Therefore, to withstand the possible future shocks, measures are being taken by both public and private sectors to reduce costs and improve external competitiveness. The measures include improving the utilities, infrastructure and ports, reducing the lead time, developing backward linkage, improving working environments, increasing productivity, reducing production costs, moving into new product lines and markets, keeping pace with information and communication technology (ICT) of buyers, complying with various standards set by buyers, staying away from meaningless strikes, seeking duty-free access to foreign markets like the US, making efforts to increase regional trade within frameworks of Safta (South Asian Free Trade Agreement) and Bimstec (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation).

However, since SAARC countries (Bangladesh, India, Sri Lanka, Pakistan) have same RMG as their major export item, there would always be severe competition among these countries. The stepbrother attitude and attempt of Pakistan and Sri Lanka towards Bangladesh for not letting her enjoy duty and quota free market access to the US at the sixth World Trade Organization (WTO) Ministerial conference in Hong Kong proves that there is no permanent friend or foe in the world trade.

Nonetheless, according to CPD (Centre for Policy Dialogue), lack of political and negotiation skills let Bangladesh down at the conference (*The Daily Star*, 2005). "What is more important is that nation cannot afford to bear the burden of further mistakes" (*The Daily Star*, 2005). In addition, the alarming news is that Bangladesh's key export items may not get any duty and quota free market access to the developed countries unless a government-private sector joint effort is immediately launched to harness the maximum viable benefits from the rest of Doha round negotiations in Geneva and Washington, where the products of negative lists will be identified. Thus, to achieve maximum possible benefits, Bangladesh needs to do following things:

- The national WTO team needs to secure the highest possible advantages from the trade packages like Aid for Trade, Non-Agriculture Market Access (Nama) and Trade Related Investment Measures (Trims).
- An extensive, all-out preparation for negotiation in the upcoming meetings to secure gains in the areas like agriculture and non-agriculture market access, service sector and free movement of natural persons (*The Daily Star*, 2005).
- Bangladesh needs to improve national capacity. So, apart from technical preparation, political steadfastness, familiarity with WTO process, effective political outreach and the nerve to withstand pressure are other crucial issues that Bangladesh should focus on.
- A political mandate needs to be taken by involving parliament in the WTO process and a national committee should be in place to read and interpret the WTO Declaration from Bangladesh's point of view to the cabinet.
- More resources and support need to be provided to the WTO cell, a separate commerce secretary needs to be appointed to deal with the WTO issues and Geneva mission should be strengthened and the finance ministry needs to be involved in the WTO process to protect local industries (*The Daily Star*, 2005). Moreover, private sector representatives should be included in upcoming meetings in Geneva.
- Strengthening of the Ministry of Commerce (MoC) consultative process on WTO should be taken into account.
- The government of Bangladesh (GoB) and the Ministry of Commerce should take all necessary initiatives to make the Bangladesh Foreign Trade Institute (BFTI) an effective body to provide support both the GoB and the private sectors in trade related matters including negotiations (*The Daily Star*, 2006).
- A separate think-tank should be introduced in the government and coaching and training of the personnel concerned should be offered to improve their negotiation skills.
- All political parties should get involved and work cohesively to avoid political numbness during the crucial WTO negotiations in forthcoming years (*The Daily Star*, 2005).
- Export diversification. Much light has already been thrown upon this issue.
- Bangladesh needs to revisit her export strategies. Bangladesh has often tried to promote her exports through tariff concessions. But now the nation needs to put emphasis on attaining competitive advantage through efficiency gains in the

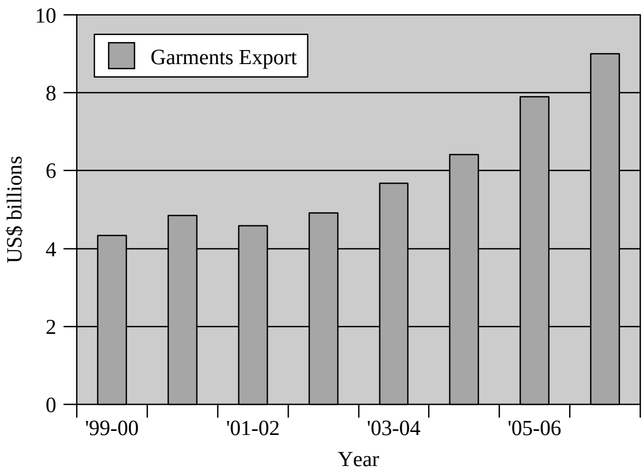
area of trade supportive infrastructure (port, electricity and telecommunications) as well as overall economic governance (*The Daily Star*, 2006).

- Work on Modalities for market access in the US. The modalities for designing the 3 per cent exclusion list were to start in Geneva in 2006 through negotiations on a framework. Bangladesh should work diligently to gain some degree of flexibility on behalf of the US in negotiations pertaining to modalities on "Exclusion List" (*The Daily Star*, 2006).

But despite widespread apprehension of a turbulent future of Bangladesh's garments industry especially after the post MFA (multi-fibre agreement) era, it manages to increase its export steadily (Figure 3).

What is the secret of this ongoing success? Well, the secret is that Bangladesh's garment exports thrive on slave wages and conditions. Table III testifies to this dreadful truth.

In fact, this minimum is not enforced and unskilled workers, such as sewing helpers, sometimes get as little as 3 pence per hour! Foreign buyers are exploiting Bangladeshi cheap labours to an extreme level. On the top of this, workers complained that joining



Source: BGMEA (2007)

Figure 3. Garments export of Bangladesh

Table III. Wage rates of different countries in ready-made garments sector

Country	Minimum wage (pence per hour)
Bangladesh	5.2
China	6.6
India	13.8
USA	263.2
UK	492.1
France	544.0

Source: IBRP (2007)

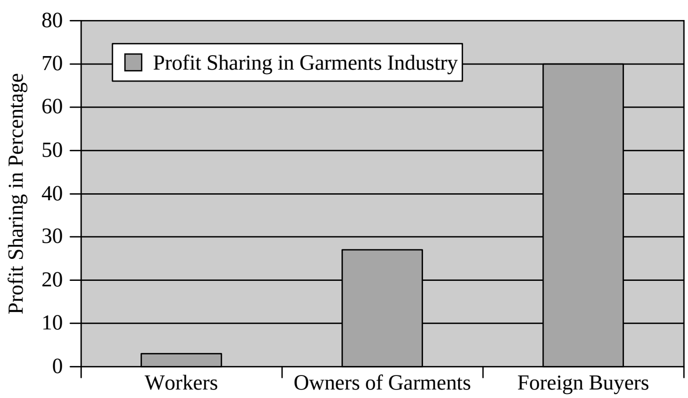
a trade union is banned and bosses cheat them of overtime pay. Beatings and sexual harassment are common experiences for women workers (Hickman, 2006). Therefore, super-exploitation, horrific conditions, poverty, low wages and sexual harassment at globalised sweatshops have made women workers say, "If you are lucky, you will be a prostitute, but if you are unlucky, you will be a textile worker" (*Socialist World*, 2007). Retailers will often pick out the audits they use to check working conditions. But these kinds of bulk auditing systems provide only a superficial assessment. According to Dr Liu Kaiman, "the retailers and their suppliers are playing an elaborate game. They only want to reassure customers, not to improve conditions" (Hickman, 2006).

These conditions and low wages have forced the workers on to the streets for the last two years. They were involved in strikes, deadly protests and vandalised many garment factories. To tackle the situation, the government formed a wage commission, which in turn recommended the wage to be at Tk1,662.50, up from the current level of Tk950, but far below initial worker demands for Tk3,000 (Wikipedia, 2008). Figure 4 shows profit sharing in the Bangladesh garments industry.

Surveys in the country's main industrial zones found that only 20 per cent of the country's some 4,000 factories have implemented the minimum wage. The unions say that the situation is very tense and is worsening every day. The recent increases in food and commodity prices have even made the minimum wage worthless (*Socialist World*, 2007).

Therefore, it has become increasingly difficult for union leaders to keep workers calm. The factory owners are inviting trouble, which will hurt them badly. On the other hand, the government is not taking the situation seriously. In fact, the anger is like a volcano, which can erupt any time. Therefore, in the ready-made garments (RMG) sector, workers' welfare society, proper remuneration package, right congenial work environment and compliance audits must be put in place to control workers' dissatisfaction (Isa, 2006).

But many garment factories have no room for manoeuvre, as their profit margin is just 3 per cent of their annual turnover after the phasing out of the MFA era (Tahmina, 2006). They cannot increase service charges of cutting and making clothes for their international buyers but they are experiencing huge pressure from workers to increase salary. If they yield to workers' demands, many of them would not survive.



Source: IBRP (2007)

Figure 4.
Profit sharing in garments industry of Bangladesh

That means many garment owners and workers alike are cornered. In fact, garment owners run the risk of making huge losses if anything goes wrong. They will get stuck any time. That is the vulnerability of low cost business models.

Bangladesh's garments sector must offer more value added service to increase their service charge for cutting and making clothes. A low cost model is not enough. On top of that, the garments sector must have to diversify its market with Australia, Japan and Argentina. But none can deny the importance of US and EU markets, which are scaling up at 12 per cent per year. If political stability, efficient sea ports and agreements on minimum wages and working conditions are ensured, Bangladesh can aim to raise RMG (ready-made garments) exports from US$9 billion per annum to US$18 billion per annum in the next three years (Fibre2fashion, 2007).

Natural disasters

Bangladesh often suffers from natural disasters. Bangladesh has a high risk of earthquake and tsunami, but it has done little preparation in case of these natural calamities. There are numerous seismic faults in the plains around Dhaka and Chittagong Hill Tracts that can cause earthquakes. Experts say that "no earthquakes occurred in these faults for many years, which means huge strength has gathered underground that could cause serious earthquakes in Bangladesh and its neighbouring areas any time" (*The Daily Star*, 2005). Experts show that "only 35 per cent of Dhaka soil is resistant to earthquakes while the remaining 65 per cent, which have been developed through earth filling, remains at risk". Further study reveals that "9-14 – storey buildings in the city are most vulnerable to earthquakes as most were constructed in deep marshy land, without any geological survey" (*The Daily Star*, 2005). Devastating flood is also a common phenomenon in Bangladesh and it often causes huge socio-economic loss to the nation. Additionally, the intensity and frequency of violent cyclones like Sidr would cause enormous loss for Bangladesh.

Preparation of city maps indicating the soil structure and quality to avoid tremor risks should be implemented. Furthermore, adequate land-use regulation for urban earthquake risk management should be in place and the 1993 National Building Code and its implementation must be upgraded (*The Daily Star*, 2005). In addition, proactive measures like tsunami, flood and cyclone warning systems and shelters must be in place to minimise loss. Alongside this, a sound system must be in place to tackle any kind of natural disaster. Additionally, Bangladesh can ask for international help in this regard, be it financial or technological.

Threat of globalisation

"The Era of Globalisation" is fast becoming the chosen term for describing the current times. "Just as the Depression, the Cold War Era, the Space Age, and the Roaring 20s are used to describe particular periods of history; globalisation describes the political, economic, and cultural atmosphere of today" (Porter, 2002).

The advocates of capitalism and free trade see globalisation as a positive advancing force creating employment and eventually raising living standards throughout the world. Critics see it as a means of seizing the resources of poor countries by drawing them into debt, inviting the use of sweated labour, and hastening job losses and environmental degradation (Rashid, 2003). Critics further opine that globalisation increases inequality within and between nations. It further threatens living standards and thwarts social progress. It even makes people unsafe to adverse conditions far from their homes. Moreover, benefits of globalisation have gone to few people rather than to the masses. Worse still, even international organisations and institutions cannot sufficiently deal with dislocations that occur as economies open internationally. Thus, they heighten crises rather than resolve them (Daniels *et al.*, 2004).

It is crucial to ask why so many countries are willing to do "a free trade agreement with Bangladesh whose export base is narrow and 90 per cent of its exports consists of garments, frozen sea food, leather, tea and jute products." The whole nation should get engaged in healthy debate on this critical question. Trade experts doubt whether a free trade deal with other countries will, in reality, increase Bangladeshi exports or it would merely redirect these exports from other markets (Rashid, 2003).

In fact, many African countries are "highly integrated into international trade, their export earnings account for a higher percentage of GDP" than that of many developed countries. However, GDP per head in sub-Saharan Africa is lower now than it was twenty years ago. By contrast, South Korea has managed the process of integration favourably and has integrated into the global economy on their own terms, harnessing benefits in terms of both growth and poverty reduction (Rahman, 2004). Bangladesh should get integrated into the global economy on their own terms as well.

However, globalisation is inevitable and irreversible as well. Therefore, Bangladesh needs to minimise the negative impact of globalisation as well as maximise the benefits by macro-economic management, financial sector supervision, adoption of technologies, domestic governance and global negotiations. Bangladesh also needs to set up a "social fund" to deal with emergency situations. In other words, Bangladesh needs to embrace a whole package of policies, financial and technical assistance, and debt relief if necessary. Components of such a package might include:

- Macroeconomic stability to create the right conditions for investment and saving.
- Outward oriented policies to promote efficiency through increased trade and investment.
- Structural reform to encourage domestic competition.
- Strong institutions and an effective government to foster good governance.
- Education, training, and research and development to promote productivity.
- External debt management to ensure adequate resources for sustainable development (IMF, 2002).

Moreover, Hilary Benn, the Secretary of State for International Development, UK has suggested a few important points for Bangladesh to make globalisation work for her:

- Trade and investment – comprehensive trade strategy needs to be developed in consultation with all major stake holders – government, business and civil society.
- Export diversification.
- Reengineering of public service for trade and investment.
- Good and responsible working conditions.

- Key economic challenge for Bangladesh is to become and remain, internationally, competitive. This requires a host of things: building up educational and skill levels, becoming technologically innovative, improving productivity, open market wisely.
- Get investment climate right-to give business the confidence to invest, be it FDI or domestic investment.
- Right infrastructure.
- Create better partnership between employers and unions, and critically between the private and public sectors.
- More smooth inflow of remittance.
- Combat terrorism and defeat poverty (Benn, 2005).

Hazardous environment

Bangladesh is suffering from environmental hazard. Dhaka is one of the most polluted cities in the world. Diseases due to air pollution kill 25,000 a year in Dhaka city alone. Production of specific products necessitates technology or chemicals that instigate downgrading of the environment. Tannery industry is a delicious example in this regard. In addition, wastage of industrial activities is polluting water alarmingly. For instance, at least 37.5 per cent of the nation's industrial units do not have waste management system and 62.1 per cent lack waste recycling facilities resulting in endless environmental pollution (*The Daily Star*, 2006). And the arsenic catastrophe in Bangladesh is a terrifying crisis that any country can ill afford. Grabbing of wetlands, rivers and lakes is a common phenomenon in Bangladesh. Moreover, different lakes are being turned into sewers. Therefore, when international organisations and government plead for sustainable development, they have to face the challenge of integrating environment issues into the main system of economic and social policy (Salman, 2004).

Deadly threat of HIV/AIDS

HIV/AIDS is a latent threat that is lurking for Bangladesh. Experts say that the greater Sylhet region including Moulvibazar runs the risk of large-scale HIV/AIDS prevalence. The risk is high indeed since the region has the largest number of expatriates in the country and is encircled by unsafe areas in India, which account for about one fourth of the world's AIDS patients. Tea garden labourers and indigenous Monipuri and Khasia tribesmen in Sylhet have good links with their relatives in India (*The Daily Star*, 2006). They may get infected and the disease may spread in Bangladesh alarmingly. Besides, 7.1 per cent of injecting drug users are reportedly HIV positive (*The Daily Star*, 2006). But in Bangladesh, no system is in place to tackle this deadly threat. Mass awareness and women empowerment are vital to check the spread of HIV/AIDS. However, there are other threats that must be taken into account.

Other threats

There are other threats that Bangladesh must face on her way to economic progress. Regional conflict quite often puts the entire India subcontinent in great turmoil. Sometimes it seems that Bangladesh might be a victim to great rivalry between India and Pakistan if any serious war breaks out, especially when both countries have nuclear weapons. The world market has also become saturated due to the entry of China into global market. Thus, China's entry is driving deflation globally.

Being a major industrial powerhouse with seemingly continuous supply of cheap labour and huge inflows of foreign capital, Chinese industrial production and exports are soaring. The coming years could be equally prosperous for China even though many other nations would be stumbling for globalisation. In fact, China has thrown a decisive challenge of price war to not only US businesses but also to all businesses around the globe. Moreover, failing to embrace e-commerce and ICT might be a fatal blow to Bangladeshi exporters in future especially in the business-to-business arena. With e-commerce in the twenty first century being the business model for the whole world, if a nation wants to do well in international business, e-commerce is a must, not an option.

Despite some strengths and opportunities, Bangladesh has lots of weaknesses and threats that could seriously undermine the nation's development process at any time. A holistic and concerted effort is much sought after to address those problems while capitalising on strengths and opportunities. However, much light is being thrown upon FDI and it is worth examining the pros and cons of FDI from the perspective of Bangladesh to choose the right FDI strategy.

Choosing right FDI strategy for Bangladesh

FDI has come to be appreciated as major contributor to growth and development, offering capital, technology, management expertise, jobs, import substitution, market access and wealth. Developing and industrial countries are deregulating their markets, privatising national enterprises, liberalising private ownership and encouraging regional integration in an attempt to create more congenial settings for foreign investments (Daniels *et al.*, 2004). Thus, total worldwide FDI flows have swelled in this environment, rising from US$202 billion in 1990 to a record US$1.3 trillion in 2000 (UNCTAD, 2007). Bangladesh is also trying to woo FDI for growth and development. Bangladesh with its widely available English educated but cheap manpower, operational and close to land sea ports and liberal economic policies will help to "attract more Foreign Investment, specially from Middle Eastern nations, in the post 9/11 world scenario" (*The Bangladesh Journal*, 2005). But foreign direct investors do not invest without the hope of being repaid, with profit. FDI is not an absolute gift to a developing country but is an investment against the expectation of profit earnings and eventual repatriation or relocation of the investment (Raja, 1997). In fact, even FDI is not without controversy (Daniels *et al.*, 2004).

Potential disadvantages of FDI include a worsening of the balance of payments as profits are repatriated (albeit often offset by incoming FDI), a lack of positive linkages with local communities, the potentially damaging environmental impact of FDI, especially in the extractive and heavy industries, social disturbances of fast commercialisation in less developed countries, and the consequences of competition in national markets. Moreover, some host country authorities comprehend a rising dependence on internationally operating enterprises as representing a loss of political autonomy. Even some expected benefits may prove elusive if, for example, the host economy, in its current state of economic development, is not able to take advantage of the technologies or know-how transferred through FDI (OECD, 2002). Worse still, foreign investors are seeking unfairly high profits (economic rents) from the exploitation of finite natural resources. Truly, the nation's natural resources are an asset that needs to be managed carefully. Furthermore, firms receive grants and then relocate to countries offering greater incentives. Some firms are becoming well experienced at this process, particularly in industries like clothing manufacture and call centres, where the facility and/or related supply networks are relatively mobile. In addition, neighbouring economic areas entering a "race to the bottom", with a potential foreign investor playing one area off against the other. Additionally, merger and acquisition activity is leading to disinvestments. In some countries, growth in foreign investment is making it more difficult for local companies to find skilled workers and supplies (Rosenberg, 2002).

Hence, although FDI is increasing in Bangladesh, it will hardly contribute to development or poverty reduction under the current policy regime, which, according to a section of economists, is unduly liberal and does not warrant that such investments will spell out long-term benefits for the economy. The real benefits of about US$8 billion of potential investment over the next three fiscal years will largely rely upon the conditions under which the investments are made and also the quality of the investments, say the economists (Ahmed, 2005). In reality, the current investment policy allows investors to repatriate their profits, dividends and capital. Moreover, foreign investors are enjoying up to seven years of tax holiday and income tax exemption. However, there are no regulations that oblige the investors to obtain raw materials locally, guarantee technology transfer or follow certain performance parameters (Ahmed, 2005).

Consequently, foreign investment has so far been damaging the economy by and large. Take oil and gas exploration, the lone sector with a technology transfer requirement, for example. The foreign companies have neither created any employment nor benefited the local institutions with their technology (Ahmed, 2005). Furthermore, after analysing all the disclosing facts, it can be easily claimed that the whole foreign investment scenario in gas sector does not stand the investigation. The FDI which took place in the gas sector was not warranted considering the local capability and demand-supply scenario. This FDI, which became functional through Production Sharing Contracts (PSCs):

- caused disturbing impacts on the foreign exchange reserve instead of making foreign exchange resources more available;
- instead of developing capabilities, it influenced local expertise and institutional capability negatively;
- affected resource balance and caused the rise of gas price which through multiplier effect caused a rise of production cost in different sectors and an erosion of its competitiveness, and finally it; and
- obstructed optimum utilisation of gas resources for the people and the economy (Muhammad, 2004).

On the top of that, the World Bank, evidently as a coordinator of "development" activities of international agencies in Bangladesh, has categorically stated that the nature of FDI in Bangladesh has involved little increase of foreign exchange reserves. Because the greater part of FDI in the power sector so far is made up of imports (e.g. pre-fabricated barge mounted power plants); so are capital costs (about 85 per cent of PSCs) of International Oil Companies (IOCs) engaged in the gas sector, and much of the foreign investment and lending in the telecom sector pay for imports of telecommunications equipment (World Bank, 1999). It also states that Petrobangla buys gas from IOCs at a price linked to the international price of fuel oil. Thus, Petrobangla is incurring increasing deficits, leading to a negative cash flow of more than US$120 million in both 2001 and 2002. The situation is simply worse now due to the effect of ongoing rising oil price in the international market. To rectify this, an ongoing tariff increase is inevitable. Thus, inflation has come to stay and common people are being squeezed in every direction. The World Bank also has prescribed gas exports as a rescue action to lessen this problem (Muhammad, 2004). But in this way, the nation will get depleted of her valuable natural resources soon. That means Bangladesh is faced with something of a dilemma.

Consequently, it remains a formidable task for the international community as how to maximise the benefits and cut down the associated risks with FDI. Export-oriented FDI in the developing world remains highly concentrated, and benefits from such investment flows cannot be assured. Therefore, it is a prevailing challenge for the international community as a whole to find ways to offer benefits more evenly (UNCTAD, 2004).

However, it is worth remembering that host countries may gain through:

- More optimal use of production factors.
- The use of unemployed resources.
- The upgrading of resource quality.

On the other hand, host countries may lose if investment by Multinational Enterprises:

- Replace local companies.
- Take the best resources.
- Destroy local entrepreneurship.
- Decrease local R&D undertakings.

But in reality, FDI is more likely to generate growth:

- When the market is prepared to support business growth.
- When the product or process is highly differentiated.
- When the foreign investors have access to scarce resources.
- In the more advanced developing countries (Daniels *et al.*, 2004).

The experience of successful countries in leveraging FDI for export competitiveness indicates that a befitting policy and institutional setting is necessary to complement market forces. Particular reference can be made to the need for sound, predictable and dependable investment frameworks, efficient infrastructure (e.g. Information and Communication Technology and transportation) and efforts to develop the right skills. Proactive investment promotion has often also been conducive. Many experts warn of the risk of too much competition for export-oriented FDI. While views on the effectiveness of incentives differ, some experts warn against treating foreign investors more favourably than domestic ones. Others advocate policies that would allow a "high road to development" rather than a race to the bottom (UNCTAD, 2004).

While the lowering of restrictions draws FDI from developed countries, fiscal incentives and lower tariffs attract FDI from developing countries. Interestingly, BITs (Bilateral Investment Treaties), which underscore non-discriminatory treatment of

FDI, are found to have a significant impact on aggregate FDI. But it is BITs with developed countries rather than developing ones that are found to have a remarkable impact on FDI inflows to developing countries (Banga, 2003).

However, the president of the Bangladesh Economic Association, Qazi Kholiquzzaman Ahmad, believes that it is crucial to decide "first and foremost whether foreign investment, like foreign aid, is necessary for the economy and then impose or accept certain conditions." But the former executive chairman of the Board of Investment, Mahmudur Rahman asserts that "without foreign investment, it will be impossible for Bangladesh to meet the Millennium Development Goals, which require the economy to grow at a rate of seven per cent" (Ahmed, 2005).

Nonetheless, if FDI is necessary for the nation's growth and development, Bangladesh should try to attract quality FDI. Now the question remains as how best to attract appropriate FDI. Keeping in mind the drawbacks of FDI, "the types of investments that should be targeted are those which directly increase activity, exports and skilled employment" (Rosenberg, 2002). Thus, Bangladesh should understand the importance of developing an FDI strategy that targets the right type of foreign investments and establishes the long-term capabilities to uphold growth in those segments of the economy that FDI supports (Rosenberg, 2002). "Greenfield" investment, or investment which generates new businesses or develops current businesses further through reinvestment, is highly desired for this reason. Such foreign investment will not replace low-wage jobs in the domestic market with other low paying opportunities; instead, "it will shift certain areas and whole sectors into a higher gear, with more competition, more innovation and more transfers of skills and knowledge" (Rosenberg, 2002). In fact, greenfield FDI (investment in new economic activity) most often creates more value than FDI that goes to privatising state-owned assets or to acquiring or merging with domestic companies that are concentrated only on Bangladesh's small national economy (Rosenberg, 2002).

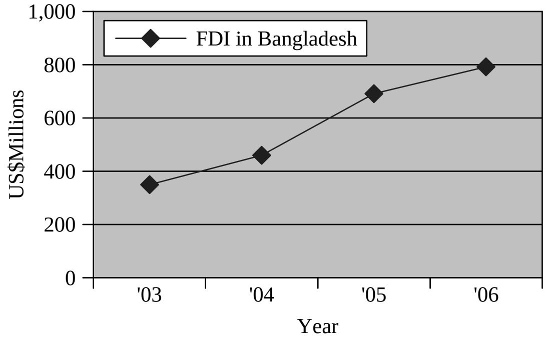
Greater targeting, other promotion measures, additional incentives and further liberalisation are four important factors that are attracting FDI globally. According to Transnational Companies (TNCs), China (87 per cent) and India (51 per cent) were most attractive global business locations in 2005-2006 (UNCTAD, 2005). This also testifies that FDI levels are generally high in countries with fast growing economies (Rosenberg, 2002). Bangladesh should learn from China and India as how best to attract quality FDI. Economic diplomacy with these countries is vital. International economic diplomacy is crucial to gain lucrative market access for Bangladeshi products and woo FDI in Bangladesh. On average, FDI represents only around 12 per cent of total investment in developing countries. Therefore, while attracting more FDI is crucial, it is evident that the key to progress is domestic investment (Benn, 2005).

To attract FDI, Bangladesh needs to create a powerful investment promotion agency (IPA) if the present "Board of Investment" (BOI) is not enough. It would enter a fiercely competitive environment: there are around 2,500 IPAs around the world, promoting for investment in countries, regions or cities (Rosenberg, 2002). The IPA can do the following things to pursue the sensible FDI attracting strategy of New Zealand:

- The IPA should have a clear mandate to formulate FDI strategy and lead foreign investment promotion and facilitation. Government processes should be centralised for the convenience of investing companies. It will be powerful, high profile and expensive: Bangladesh's IPA must be high profile, hiring talented people to increase the community's awareness about the benefits of foreign investment and help investors to realise what Bangladesh can offer.

- The IPA would have its own Minister of Investment, with several overseas offices, a research branch and "a small but high-powered strategy and external relations team, to ensure that the FDI strategy is updated and developed, and that relationships within Government are working effectively" (Rosenberg, 2002).
- International business leaders with some association with Bangladesh, together with the Minister for Investment and the chief executive officer of the IPA would comprise the memberships of an "Investment Advisory Council" and ensure that the IPA has intimate connections with the global investment community and will assist in ensuring that the IPA keeps up an outward focus rather than being restrained by domestic issues. The Council will also ensure that the advice of the global investment community is taken within Government.
- The IPA should have the power to give solutions straight to investors, without the engagement of other agencies. It includes "streamlining procedures" along with a one-stop service and is "consistent with" the general proposition that the Government should remove obstacles that might discourage investors. "Within predetermined limits", the IPA should be able to offer customised packages as solutions to individual investor's needs and the IPA will be flexible enough to design befitting solutions. Even the IPA should be able to assist investors in getting regulatory relief where necessary.
- Eight policy areas can be identified where the Government must go after: (in descending order of priority) intergovernmental agreements, infrastructure, research and development policy, networks, labour skills and availability, and FDI incentives and administration (Rosenberg, 2002).
- "Intergovernmental agreements" invariably means even more strongly "pursuing further multilateral and bilateral trade, investment and research and development agreements", evidently including SAARC, ASEAN, EU and NAFTA. Government funding is needed on industry-specific infrastructure that would help to build certain clusters, or "would attract investment by a specific company." "The reference to networks comes down to a recommendation for funding industry associations in target sectors". The labour policy area would introduce more intimate integration of the education sector with industry, which may cause disagreements "over curricula, the function of education, and academic freedom", if not prudently managed (Rosenberg, 2002).

Several other issues need to be addressed to attract FDI in Bangladesh. Stable currency is a core component in attracting FDI. Apart from that, some indicators of future problems such as country's negative trade balance, declining foreign reserve, high stagflation and government budget deficits should be dealt with by proper economic measures. Rising interest rates will certainly discourage domestic investment in the long run. Until domestic private investments reinvigorate and become active, FDI remains an elusive factor for Bangladesh because "the very reasons that are responsible for slow growth in domestic private investment, also discourage FDI" (Islam, 2004) (Figure 5).



Source: UNCTAD (2007) and e-mela (2007)

Figure 5.
FDI in Bangladesh

Although FDI is increasing slowly in Bangladesh, the country has experienced a 33 per cent fall in FDI flow amounting to US$285 million during July-January period of fiscal year 2006-2007 compared with the previous fiscals US$425 million investment at the same time (New Nation, 2007). The main reason is a lack of consistent policy towards foreign investment by ruling governments of different political parties.

In fact, experience says that the overall business environment including inconsistent policies towards investments on behalf of ruling governments of different political parties, deterioration of law and order, irksome bureaucratic hassles and inefficiencies, corruption, poor quality of transport and communication infrastructure, erratic power supply, lack of skilled people at various levels, strikes and congestion at sea ports, absence of intellectual property rights, lack of information flow and cumbersome dispute settlement procedure are the most influential objects of inhibiting FDI in Bangladesh (Islam, 2004). That is why Bangladesh is falling behind compared to other developing countries in terms of attracting FDI. Around half a dozen multi-billion-dollar proposals of FDI in infrastructure, power, oil, gas and manufacturing sectors have been hanging for years on account of complicated policies, government indecisions and bureaucratic tangles. The decisions on pending proposals are essential for attracting further proposals (Bangladeshnews, 2007). In other words, business, whether foreign or domestic, wants a business environment that is stable and predictable, supported by consistent encouraging policies towards investments on behalf of ruling governments of different political parties, transparent laws, swift decision making process, fair competition, reliable legal systems, predictable and honest public institutions and reliable transport and communication infrastructure (Benn, 2005). Additionally, diversifying the FDI basket is also emerging as a major challenge (Bangladeshnews, 2007). The Bangladesh immigration department is always blamed for harassing foreigners. Issuing work permits for foreigners and introducing visas on arrival will encourage foreign investment. Political instability is another issue that prevents foreign investment. Furthermore, attracting Indian investment would be a good strategy to explore the markets of Indian seven sister provinces. Indian FDI will definitely knock down the entry barriers of Bangladeshi products to those markets. Additionally, another option is to integrate with ASEAN (Association of South East Asian Nations). “Joining ASEAN will open the window for attracting more FDI for cheap labour-intensive products” (Hossain, 2004). Last but not the least, positive country image will induce more foreign investments in Bangladesh. Likewise, good governance is one of the foremost steps toward this end. Thus, suitable policy and effective mechanism along with firm resolution should be in place to nurture Bangladesh's competitiveness in attracting FDI.

Vital remittance inflow

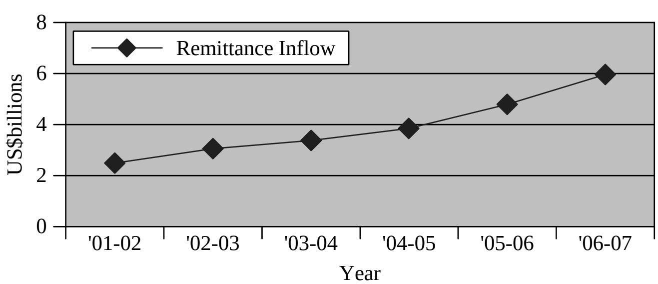
Remittance inflow plays very crucial role in Bangladesh's economy (Figure 6). Despite a sharp decrease in manpower export, the country's remittance earning grew by 27 per cent in 2005 with total remittance crossing US$4 billion mark for the first time. State Minister for Expatriates Welfare Mohammad Quamrul Islam attributed the growth in remittance earning to new system for sending money quickly through official channels and increased number of skilled workers going abroad (*The Daily Star*, 2005).

In fact, remittance inflow has helped Bangladesh cut her poverty by 6 per cent, according to the World Bank's annual "Global Economic Prospects" (GEP) report for 2006. The report further says that remittances have relationship with remarkable declines in poverty in several low-income countries including 6 per cent in Bangladesh, 11 per cent in Uganda and 5 per cent in Ghana (*The Daily Star*, 2005).

Moreover, according to Shameem (2006), as a developing country, Bangladesh has three alternatives namely increase export, increase foreign remittance and check unofficial remittance for earning more foreign exchange so that nation can support her development activities with least foreign assistance as well as bring down the balance of payment deficit. In fact, without remittance of expatriates, balance of payment of the country would be in big trouble.

Additionally, remittances seem to help households maintain their consumption levels in the time of economic shocks and adversity. Remittances are also related with increased household consumption, investment in education and health, as well as reinforced entrepreneurship.

But remittance service providers charge as high as 10-15 per cent of the remitted amount for small transfers typically made by poor migrants Table IV. Therefore, more competition in the remittance transfer market would result in lower fees, thereby increasing the disposable income of poor migrants, as well as their incentives to send more money home (*The Daily Star*, 2005). Furthermore, reducing remittance costs would do more to encourage the use of formal remittance channels than the so-called informal services. Moreover, while regulation is key to check money laundering and terrorist financing, it must be implemented in a way that does not interfere with the



Source: Shameem (2006)

Figure 6. Remittance inflow in Bangladesh

objective of reducing remittance costs. Furthermore, it is vital to expand "access to remittance facilities, particularly for the poorest and most disadvantaged migrants and recipients" (Benn, 2005).

Officially recorded remittances worldwide are estimated to exceed US$232 billion in 2005. Of this, developing countries are expected to receive US$167 billion, more than twice the volume of development aid from all sources.

The GEP authors further suggest that remittances sent through informal channels could add at least 50 per cent to the official estimate, making remittances the largest source of external capital in many developing countries. In the same direction, according to sources, non-resident Bangladeshis (NRBs) send roughly US$7 billion every year. A notable portion of "the total amount is still coming through hundi, an illegal way of money transfer, and there are further scopes to increase remittance through banking channels" (*The Daily Star*, 2005).

Well, if half of the amount of total money, sent through illegal channels, comes in Bangladesh through official channels, nation's remittance inflow would touch US$10 billion in coming years (*Prothom Alo*, 2008).

The GEP report further cites the experiences of reducing remittance transfer fees in India, the Philippines, and the US-Mexico corridor, as examples for others to follow.

In addition, the steady stream of foreign exchange flowed from the remittances can uplift a country's creditworthiness for external loan.

Therefore, international migration can generate substantial welfare gains for migrants and their families, as well as their origin and destination countries, if right policies are pursued to manage the flow of migrants effectively and facilitate the transfer of remittances (*The Daily Star*, 2005).

To this end, Bangladesh government must take several key steps:

- Remittance promotional drives need to be taken into account thoughtfully. Awareness programme to clarify benefits of sending money through official channels and troubles and disadvantages of sending money through unofficial channels (Shameem, 2006).
- Signing of new protocols, identifying new destinations for job seekers, developing right skills and taking befitting measures for encouraging remittance through official channels are vital for the purpose.
- The step-brotherly attitude by the customs officials towards the NRBs (Non-Resident Bangladeshis) at airports must also change radically (Malik, 2005). Even no harassment at immigration counter while leaving the country with proper documents.

Table IV.
Different modes of remittance inflow in Bangladesh

Transfer of total remittance through different methods	Percentage (per cent)
Official sources	46
Hundi/money laundering	40
Friends and relatives	4.16
Hand carried by migrant workers	8
Others (including selling work visas)	1.39

Source: Shameem (2006)

- Bangladesh government should take all necessary steps to ensure right salary, other benefits and proper working conditions for Bangladeshi workers in overseas jobs. For example, many Bangladeshi workers are denied their rights in Saudi Arabia. Many Saudi employers exploit foreign workers in terms of controlling their work permit, denying their agreed salaries and forcing them to work without proper food and accommodation for years (*The Daily Star*, 2004).
- Further special attention must be taken into account for Bangladeshi female workers who are going abroad to make a positive change in life.
- Officials of Bangladesh Embassy and High Commission abroad should be more cordial and willing to extend hand to help solve the problems of the expatriates. They can take initiative to convince the recruiting states to take more workers from Bangladesh. They need to visit labour camps occasionally and listen to expatriates' problems.
- Government of Bangladesh and private sector need to create more skilled workers by offering timely training through human resource development institutes.
- Proper guidance should be in place for remittance inflow to be invested in productive and safe sectors without hassle.
- The central bank of Bangladesh should take measures to relax the conditions for establishing relationship with foreign exchange houses and banks by well performing local banks.
- As an incentive campaign, non-resident Bangladeshis can be allowed to open foreign currency accounts.
- Central bank of Bangladesh may establish separate clearinghouse for quicker clearance of the drafts/cheques of remitters.
- All branches of local banks should embrace online banking system so that local banks can pay out remitted money instantly.
- Government needs to ensure that expatriates can enjoy tax exemption precisely on their remitted money and assets without any hassle.
- Like cash incentives given to the exporters, government can announce an incentive programme for expatriates for their remitted money.
- Different banks' as well as other government officials should visit the countries where concentration of expatriate workers are higher and meet the workers occasionally to convince them to use official channels for remitting hard earned money. It would be an excellent way for building rapport by sharing ideas and views with them to solve their problems (Shameem, 2006).
- Collaboration and agreement between "Western Union Money Transfer" and post offices across the country are praiseworthy indeed.
- Major sources of remittance are Saudi Arabia, United Kingdom, United States of America, United Arab Emirates, Kuwait, etc. Hence, economic diplomacy must be at its best for those countries.

Another crucial issue is how Bangladesh can learn lessons from South East Asian nations.

Lessons from South East Asian Nations

However, it is customary to follow the successful model of South East Asian countries for development on the part of a less successful nation like Bangladesh. That is why it is worth examining the root causes behind the success of South East Asian nations:

- High savings rate.
- Export oriented economy.
- Investment in human capital.
- Sound macroeconomic fundamentals.
- Close relations between government and private sector.

Besides, there are other critical factors that paved the way for success of those South East Asian countries:

- Endowments-helpful colonial past.
- Long-term development strategy formulated by stable government.
- Political stability.
- Investment in infrastructure.
- Other financial markets' success factors include low-cost credit for promoting investment and targeted credit to develop specific sector (Mirza, 1998).

Nevertheless, those aforesaid countries had latent capacity in place to capitalise the opportunities that high competitive world offered to them in last 35 years or so. And eventually they have become manufacturing zones for the world market. But unfortunately, that time to avail dormant opportunities is over for other developing countries to replicate that successful model. Hence, Bangladesh does not have any sure success formula in hand to follow. In fact, many less successful countries will have to struggle for long uncertain period. And sadly, Bangladesh falls into that category indeed.

Nonetheless, Bangladesh can learn a lot from the lessons of failure of South East Asian countries:

- Relied on excessive unhedged external borrowing to maintain growth.
- Investments in non-productive sectors like overvalued property market.
- Rapid growth had prompted complacency and had concealed structural weakness in form of inadequate banking regulation.
- A lack of transparency resulting in favouritism, cronyism following business transactions on political motives and corruption.
- Reliance of public and private enterprises on the myth that government can bail them out of any situation.
- Inability of the government to sense alarm and take timely corrective action (Mirza, 1998).

It is worth noticing that apart from the first point of excessive unhedged external borrowing, Bangladesh is suffering acutely from other five lethal factors. That means Bangladesh is heading slowly towards her economic catastrophe. And imagine the social disorder that is on the horizon as well!

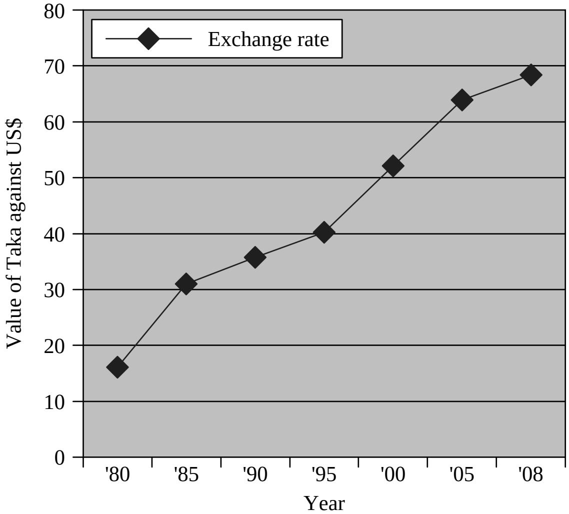
Risk factors and aftermath

A weakening macroeconomic state, rising strain on balance of payment, high petroleum, food and other commodity prices and a discouraging global economic and trade scenario – "the economy today faces all these plus a number of critical political issues that make the future worrisome" (*The Daily Star*, 2005).

However, though it is true that inflation was largely due to global price rise of food, petroleum, fertiliser and the steel, the nature of public finance is also responsible here (*The Daily Star*, 2005). On the top of that, "price hike of diesel, kerosene and gas will contribute to inflation, resulting into perhaps weaker currency and higher import costs to the nation" (*The Daily Star*, 2005).

Figure 7 clearly depicts that Bangladesh's currency is becoming weaker gradually against US dollar as time goes on and it will definitely increase the import cost to the nation. That means inflation has come to stay in Bangladesh. Actually, the US dollar is also losing its ground internationally and that is why the overall picture appears less horrible. But the situation is more worrisome if one compares Bangladesh's currency against a robust hard currency like British pound sterling.

Additionally, insignificant progress in private sector investment and revenue generation, inflation, a growing demand for foreign exchange to make external payments and widening inequality in income distribution are the other causes of frailty (*The Daily Star*, 2005). Besides, other major risk factors include lack of fiscal and financial reform, hike in public sector wage, high interest rate, extensive depreciation of real exchange rate and a poor economic growth. Moreover, heightened political confrontation (though mitigated for the time being) in the run-up to the next elections, high international oil price, unfolding post-MFA shocks and slow in implementing structural reforms are also risk factors for Bangladesh (*The Daily Star*, 2006).



Source: Wikipedia (2008)

Figure 7. Exchange rate of Taka against US dollar

Well, no single policy instrument can completely clean the gathering clouds on the horizons of macroeconomic situation. There is a pressing need for "a coherent, integrated and informed consideration to address such inter-related macro economic issues-exchange rate, interest rate, inflation rate, taxes, tariffs and public expenditures" (*The Daily Star*, 2005).

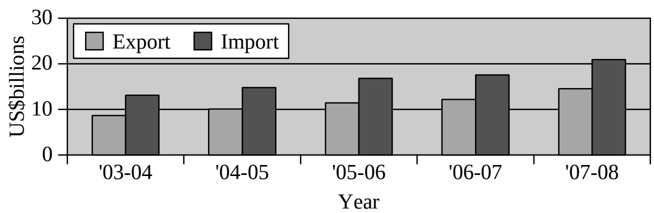
Considering the aforementioned circumstances, one should be able to foresee that Bangladesh will have to deal with tough time ahead. Rising unemployment, underemployment and rampant inflation will increase alarmingly. However, export will face stiff competition especially after 2008 (the end of the quota system for Chinese textiles products imposed by the US government) even though import will keep rising along with population growth, thereby widening trade deficit (Figure 8).

Consequently, country needs to borrow to finance trade and current account deficit that will result in weaker currency. Although Bangladesh will keep attracting FDI, one can doubt whether it will be quality FDI.

However, free trade will not bring benefit; rather it might intensify national problems, as nation's economy is not prepared for that. As a result of free trade, Bangladesh will lose revenue such as import tax, export tax, tariff, etc. In addition, many local companies may disappear after failing to fight with multinational companies, thereby increasing unemployment further. Besides, free trade will multiply nation's dependence upon neighbouring countries for goods. Bangladesh will, therefore, constantly encounter current account deficit. On the top of that, free trade will negate the prospect of diversifying export basket. Admittedly, the more Bangladesh opens up her local market, the more worsening condition she will experience (*New Age*, 2004).

On the other hand, banking sector has been in chaos for quite a long-time. For instance, banks are being persistently nagged with bad debts and unproductive investments. Like many other countries, sooner or later, Bangladesh will have to pay the price of overvalued property market. And banks will shoulder the burden indeed. Inevitably, banks will see 'net present value' of their investment in real estate sector squeezing mercilessly. In addition, soaring oil price will add fuel to the fire.

And more danger is lurking ahead for Bangladesh. Workers' agitation in RMG sector is sending red signals everywhere. With the long-term effect of quota free regime, many inefficient garments companies will crumble into dust. Therefore, it is apparent that skyrocketing stagflation will worsen the situation further, whereas impending social disorders, such as deterioration of law and order situation, deplorable upsurge of prostitution, persistent tottering eyes and what not, will be a common phenomenon. Hence, "what is the meaning of growth if it is not translated into the lives of people" (Todaro and Smith, 2003)? Furthermore, dishonest business men are selling adulterated foods everywhere in Bangladesh. Consequently, nation wide health hazard



Source: MCCI (2007). 2006-2007 = Provisional, 2007-2008 = Estimated

Figure 8.
Export import of Bangladesh

is on the offing. Moreover, the gap between the rich and the poor is widening indeed. In fact, Bangladesh's economy has been on an inherently unstable path that can only end in tears (*New Age*, 2004). But remittance inflow will act as lifeblood for Bangladesh's economy and it will slow down the total apocalyptic process indeed. However, considering the totality, Bangladesh must have to face several critical challenges at once even before embarking on the track of vision 2020!

Further recommendations

(1) Curb bureaucratic and political corruption.

(2) Arrange reconciliation among major political parties and bring sanity to the political process (Dewan, 2006). Greater political cohesion should be formed around a national vision for growth and poverty reduction (Stern, 2002).

(3) Confiscate black money and use them for poverty reduction and rural infrastructure development.

(4) Bring loan defaulters to justice and take all possible measure to recover all unpaid balances.

(5) Apply non discriminatory rule of law, transparency in all governmental activities.

(6) Uphold human rights in their original form (Dewan, 2006).

(7) Uphold Islamic Zakaat system for poverty reduction.

(8) Change education system fundamentally to address issues such as developing leadership qualities, moral values, self-confidence, and creativity (Satyal, 2000).

(9) To witness a big surge in food processing exports, government needs to set up modern cold storage under private-public partnership in properly identified locations across the country (Choudhury, 2005).

(10) Integrate agriculture and literacy. Address farmers' needs in the areas of irrigation, technology and market and land aquarian reforms. Policy makers need to create basic infrastructure and present a policy environment that will draw private investment, both domestic and foreign, into agriculture and related sectors (Choudhury, 2005).

(11) Balance growth between rural and urban areas.

(12) Adopt the Korean style in getting back the drained brains by offering international remuneration package.

(13) To control expenditure and budget deficits, one important strategy to pursue is the privatisation.

(14) Right size government, set spending priorities as well as improve and broaden tax system.

(15) Streamline the burden of regulations on business through introduction of e-governance, regulatory impact assessment, reform and capacity building of government (*The Daily Star*, 2005).

(16) Establish an institutional and legal framework to secure property rights, the rule of law, and transparent market-entry regulations.

(17) Provide incentives to innovation and enterprise to diversify export basket. Implementation of the export-led growth strategy through institution of export-increasing and export-promoting incentives.

(18) Removal of the remaining anti-export bias in the economy by harmonising the tariff structure; further rationalisation of tariff structure and promotion of export-oriented investment (both from domestic and foreign sources).

(19) Remove supply-side limitations to accelerate growth and employment generation.

(20) Achieve competitiveness of domestic production (WTO, 2001).

(21) Develop the elements of a modern market based financial system including autonomous, competent supervision, updated accounting standards, high levels of financial disclosure and a much cleaner, more transparent relationship between government and business (*The Daily Star*, 2005).

(22) Follow a strategic game plan, invest in infrastructure, technology and skills, streamline policies, and improve quality and safety standards to make the most of Bangladesh's export opportunities on a changing international playing field.

(23) Reform customs as well as the Duty Exemption and Drawback Office (DEDO) (World Bank, 2005).

(24) Improve the investment climate and continue to increase the inclusiveness of development and growth. Better governance is crucial to both the investment climate and inclusion. In addition, increase inclusion will necessitate sustained improvements in health and education by further increasing access, continuing to close the gender gap, and capitalising on the country's highly effective NGO (non-governmental organisation) infrastructure and grassroots capacity, which offers real voice in decision making to local communities (Stern, 2002).

(25) To maintain an appropriate macroeconomic policy mix, elements in such a mix will likely include a tight fiscal policy based on higher revenue mobilisation, more efficient public administration and a comprehensive reform of the public enterprise sector; this will allow a monetary policy that can be more independent of political interference and avoiding excessively high real interest rates; and an active flexible exchange rate policy to encourage exports (Stern, 2002).

(26) While the investment climate is evidently significant for large firms in the formal sector, it is just as, or more, crucial for encouraging the development of small and medium-sized firms (SMEs), supporting the informal sector, raising agricultural productivity, and generating off-farm employment (by removing burdensome regulations and reducing bureaucratic harassment). All of these are key for poverty reduction (Stern, 2002).

(27) Address crises of oil, fertiliser and power effectively.

(28) Curtail import and investments in non-priority sector (*The Daily Star*, 2005).

(29) Arrange facilitating institutions to make globalisation a success (*The Daily Star*, 2006).

(30) Enhance knowledge and people-centred communication (information and communication technologies) for development and poverty reduction.

(31) PRSP (poverty reduction strategy paper) must address the problems of deprived segments of Bangladesh; it must not increase their sufferings in any way (*The Daily Star*, 2006).

(32) Use Information and communication technology (ICT) to increase good governance.

(33) Continue ongoing campaign against adulterated foods to reduce nation wide health hazard.

(34) Social business enterprises (SBEs) can be allowed to set up and flourish with a view to maximising social benefits (Yunus, 2006).

(35) Social safety net programs like Vulnerable Group Feeding, Distressed and Widow Allowance, Old Age Pension, Unprivileged Freedom Fighters Allowance, Asrayan, Grihayan, Ekti Bari Ekti Khamar and a host of others for unprivileged and underprivileged children must be set up firmly (Hossain *et al.*, 2003).

(36) Enhance the technological content of the curricula vastly and graduates/diploma holders should also have practical training in the respective sector/sub-sector industries and potential vocations. Different types of training institutes ought to be more practical oriented with the specific skill needs of the various sectors of an expanding economy (Hossain *et al.*, 2003). Bangladesh must make adequate investment in its people now to take full advantage of the "knowledge-based" growth of the future (World Bank, 1998).

(37) Build infrastructure-ports, roads, electricity, telecommunications, etc. should be done at a faster pace than at present (Hossain *et al.*, 2003). Build deep-sea port as public limited company and outsource its operation management. Likewise, convert present sea port(s) into public limited company and outsource its operation management for efficiency.

(38) Proper steps must be in place to check hundi (money laundering), over-invoicing imports, fraud in imports, fake exports and non-repatriation of export profits (Hossain *et al.*, 2003).

(39) Civil society must have the determination to raise its strong voice against self inflicting injuries to the economy such as hartals (strikes), terrorism, traffic congestion, political strife and corruption (Hossain *et al.*, 2003).

(40) Future growth in crop agriculture could come from three main sources:
- The use of additional inputs (land, fertiliser and irrigation water).
- Productivity gains resulting from technical change or removing market distortions.
- A shift to higher-value crops (World Bank, 1998).

(41) Promising non-rise sub-sectors are horticulture, livestock and fisheries (World Bank, 1998).

(42) Exports and job-oriented manufacturing must hold the key to national development over the next quarter century (World Bank, 1998).

(43) Rural non-farm sector-particularly rural industry is an important source for the growth of incomes and employment (World Bank, 1998).

(44) Managed or not, urbanisation will attract tens of millions of poor people from the land to the streets and slums of cities and towns. The test of an urban strategy in the face of such formidable tasks and opportunities will be how well it responds to the needs for efficient land use, adequate housing, serviceable infrastructure, responsive urban services, competent and accountable governance, and reliable, public and private financing of urban investment (World Bank, 1998).

(45) Without enough supplies of clean water, of course, Bangladesh can neither live nor thrive. For it to do both in the coming decades, it will need to manage the ways water is used and abused – a task which may call for prompt action and which surely requires long-term, strategic planning (World Bank, 1998).

(46) To sustain pro-poor economic growth, we must concentrate on such questions as how educational and health services and social inclusion, including people's effective participation through transparent and accountable government, can enable poor people to take part in the process of growth and development (Stern, 2002).

(47) Effective disaster management and rescue operation system must be in place to tackle various types of accidents. Moreover, fire-fighting system and training must be in place for high-rise buildings.

(48) To stabilise the market, not just *ad hoc* measures, but transparent and comprehensive steps are needed to tackle the issues concerning exchange rate, inflation rate and interest rate (*The Daily Star*, 2005).

(49) Bring down the consumption of petroleum. "Anti-poor" energy pricing policy has to be changed by making octane costlier (*The Daily Star*, 2005).

(50) The macro-economic issues such as exchange rate, interest rate, inflation, import regulation and public expenditures have to be realigned (*The Daily Star*, 2005).

(51) Set up Special Economic Zones (SEZs) to encourage more local and foreign investors. SEZs will accommodate both export-oriented and non-export oriented industrial units.

(52) "The SME (small and medium sized enterprises) policy-making process in Bangladesh is historically supply oriented with the demand and market promotion aspects receiving relatively less attention." This supply-bias needs to be amended and market-directed policies should be initiated. Moreover, a core institutional network consisting of those offering finance, skill development training, technological capacity building and market promotion services should be formed as part of an extensive and pro-active policy package for rapid and sustained growth of a modern and resounding SME sector in Bangladesh (Ahmed, 2006). Set up venture capital system to encourage genuine entrepreneurship (Raihan, 2006).

(53) Some experts believe that there is a need for a strong and restructured UN, a Global Central Bank, a WTO with global anti-monopolies power and a code of conduct for multinationals and a World Investment Trust with redistributive

functions. The bottom line is that we have to put morality into the globalisation and free trade Equation (Rashid, 2003).

(54) Equipping, protecting and including people-both men and women-strengthens the link between growth and poverty reduction, sustaining growth and making it pro-poor (Stern, 2002).

(55) Far from remaining complacent with current GDP growth rate of 6 or 6.5 per cent, the nation needs to increase the GDP growth rate even higher in order to reduce poverty or increase rate of employment. To this end, all necessary steps need to be taken to increase national savings and investment. Moreover, consistent growth must be ensured in agricultural and industrial sectors. Like RMG (Ready Made Garments), more labour-intensive industries must be developed so that people from agricultural sector or villages can move to better paid jobs to improve their present living condition. Furthermore, nation needs to tackle the disparity of income between the rich and the poor. To this end, first find out the root causes and then take all necessary steps to address them. One possible answer is to increase production in certain sectors where high paid jobs for the poor can be created (Islam, 2007).

(56) The future of Bangladesh relies on the resilience, entrepreneurship, energy and demonstrated human strength of its main source, the people (SIDA, 2001).

Conclusion

Bangladesh is going to encounter series of economic hurdles in near future. A SWOT analysis of Bangladesh has uncovered her overall strength, weakness, opportunity and threat in terms of her current position in world economy. Moreover, it has presented a crystal clear picture of where the country is heading. Social, linguistic and racial oneness, steady pace of economic growth, commitment to democracy, government's undertaking of principles of market economics, low labour cost, higher return on investment and natural resources are the key strengths of Bangladesh. But Bangladesh can hardly have any lucrative sector that cannot be replicated by either India or China in terms of cost competitiveness or product quality. Bangladesh has lots of weakness that are seriously impeding nation's growth and development. Corruption is a widespread phenomenon, which undermines good governance, erodes the rule of law, hampers economic growth and efforts for poverty reduction and distorts competitive conditions in business transactions. In addition, inflation is crippling lives of the poor as well as of middle class families. Moreover, electricity shortage crises are affecting every sector and nation's economy is being incapacitated. Furthermore, weak currency and rising imports are adding fuel to the fire. Apart from that, the poor performance of the financial sector is an obstruction for higher economic growth and increased employment. Furthermore, the formidable task before Bangladesh is to diversify export items to cater to the needs of the time, or else all the trade concession may prove fruitless. On the top of that, governments' inability to pursue long-term policies is deterring economic growth and development. Besides, political instability and strikes (hartals) in the name of anything impede nation's economic progress. Additionally, vast unskilled population, low savings, low productivity, traffic congestion, bribes and other high start up costs and weak infrastructure (ports, roads, electricity, telecommunication, etc.) are creating unhealthy business environment in Bangladesh.

Despite lots of weakness, Bangladesh has some tremendous opportunities to capitalise. Bangladesh can attract quality FDI for development and growth. Moreover, as a least developed country (LDC), Bangladesh has market access to EU, Canada, Japan, New Zealand, Australia, etc. But product diversification is badly needed to harness those benefits that trade concessions have on offer. Besides, Bangladesh has suitable geographical location for exporting to Northeastern states of India, Nepal and Bhutan. Additionally, OECD countries by 2020 could generate anything up to 60 million jobs in looking after the disabled alone. That is a low-tech industry of huge potential that Bangladesh is yet to cash in on this. Bangladesh is running the risk of facing quite a few threats that could gravely damage nation's economic progress at any time. Adverse impact of high oil price, well-coordinated terror attacks, challenging future of ready made garments, natural disasters, threat of globalisation, hazardous environment, deadly threat of HIV/AIDS, regional conflict, are posing deadly warning to Bangladesh. Besides, the world market has become saturated due to the entry of China into global market. Moreover, failing to embrace e-commerce and ICT might be a fatal blow to Bangladeshi exporters in future especially in the Business-to-business arena. Considering the totality, despite some strengths and opportunities, Bangladesh has lots of weaknesses and threats that could seriously undermine nation's development process at any time. A holistic and concerted effort is much sought after to address those problems while capitalising on strengths and opportunities. Side by side, Bangladesh should try her level best to attract quality FDI. However, remittance inflow plays very crucial role in Bangladesh's economy. But deplorably, since it is almost impossible to follow the successful model of South East Asian nations, Bangladesh does not have any sure success formula of any country in hand to follow. In fact, many less successful countries will have to struggle for long uncertain period. And sadly, Bangladesh falls into that category indeed. On the top of that, a weakening macroeconomic state, rising strain on balance of payment, high petroleum, food and other commodity prices and a discouraging global economic and trade scenario – the economy today faces all these plus a number of critical political issues that make the future worrisome. Sadly, the nation's economy is on the horns of dilemma by being victim to vicious circle. In fact, Bangladesh's economy has been on an inherently unstable path that can only end in tears. But remittance inflow will act as lifeblood for Bangladesh's economy and it will slow down the total apocalyptic process indeed. However, considering the totality, Bangladesh must have to face several critical challenges at once even before embarking on the track of vision 2020! Truly, nightmare is just on!

Note

1. When US$1 = 70 Taka.

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