

**DYNAMICS OF PUBLIC POLICY MAKING: A CASE STUDY ON
THE FORMULATION OF INDUSTRIAL POLICY IN
BANGLADESH**

By

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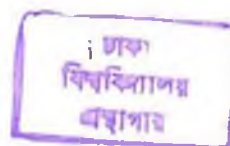
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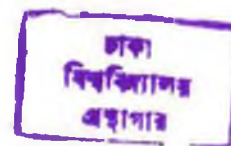
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Abstract

Public policy is an essential ingredient of the process of Governance. Efficient public policy plays a vital role in promoting economic development and enhancing the material well being and the quality of life of the people. The need for a good public policy is felt even more in a developing country like Bangladesh where poverty is widespread, and which needs strong government intervention for alleviation of poverty. The test of a good government in an economically under-developed country lies in the quality of its public policies and how efficiently these policies are formulated and implemented to lift the country out of the curse of poverty and under-development and improve the standard of living of the people.

This study is devoted to an examination of the dynamics of public policy making in Bangladesh, with particular reference to the formulation and implementation of industrial policy. Industrial policy assumes a great significance in this country because of the immense employment and income generating capacity of the industrial sector, which it influences, and the great contribution the sector can make towards the overall economic development of the country.

A review of Bangladesh's experience in industrial policy, as has been carried out in this study, reveals that notwithstanding the importance of the industrial sector it has remained among the most neglected of sectors in the economy. Insufficient recognition of the genuine needs and requirements of the industrial sector by the

policy makers in the past often resulted in the formulation of weak and inappropriate policies, for which reason the manufacturing activity did not enjoy the desired expansion and hence could contribute little to the growth of the GDP. In fact, because of ill-designed and badly conceived industrial policies, many sick industries have emerged, growth in the industrial sector has decelerated, industrial investment has slackened, the industrial productivity has declined, and industrial output has stagnated. In such a situation, an identification of the drawbacks and disabilities of the industrial sector and finding solutions thereof through proper policy becomes crucially important.

This study reveals that industrial policies formulated and revised from time to time over the years often lacked in consistency in letter and spirit, meted out inadequate treatment to different industrial sector activities, in particular to small industries vis-a-vis the large and medium ones, and provided insufficient attention to the need for product diversification and orientation of markets. The need for the adoption of appropriate technologies, and the much-required incentives like the provision of information and technical guidance for preparing viable projects and credit facilities which are essential for the promotion and development of entrepreneurship, received only scant attention of the policy makers.

The study has detected certain inconsistencies in the application of macroeconomic policies, such as inadequate protection accorded to some industries and excessive assistance given to some others, which in effect thwarted the growth and the

prospects of achieving long-run competitiveness of these industries. Moreover, industrial policies have been of little help in improving the performance, capacity utilization, and profitability of the state-owned enterprises (SOEs). Lack of policy perception, coupled with the bureaucracy's interest in attaining conspicuous successes rather than in the long-run viability of industries, the absence of a strategic vision in policy formulation, the prevalence of ideological predilections over pragmatic considerations, and the hasty attempt at promoting private sector industry with huge amount of subsidized public sector credit, have been the principal features of the country's past industrial policies, which in fact created more problems for the industrial sector rather than paving the path of accelerated industrial growth.

The position obtained in the present study is that, for purpose of enhancing the country's industrial growth, the prevailing industrial policy will need to be overhauled, the salient objectives of which will be to promote industries that serve both the domestic and the external markets, modernize and organize the small industries sector, including in rural areas, strengthen forward and backward linkages, promote export-oriented industries, review the process of privatization, and improve the role of government as a facilitator rather than as a regulator. The new industrial policy will have to be framed within the framework of a free market economy, but with the caveat that the rush toward globalization does not hinder the growth of industries that cater to the domestic market. The industrial policy will need to provide the right industrial environment with a set of closely coordinated trade, macroeconomic, exchange rate, and labour relations policies. Industrial policy should

also be made attractive to foreign investors who will bring not only the much-needed capital but also the latest technology, which is so vital for attaining global competitiveness.

The study has also identified some specific industries that enjoy actual or potential comparative advantage but which are currently beset with a myriad of problems, some of which are the result of various policy-created distortions. These problems will need quick solution. These industries include food and allied products, textile, leather, chemicals, non-metallic mineral products, and engineering goods. The most common problems faced by these industries are, of course, those of infrastructure, capital and technology, but policy constraints are no less responsible.

This study has come out with a number of recommendations, stating what the desired objectives of the country's industrial policy should be. Hopefully, a reformulation of the industrial policy by incorporating the suggested objectives will go a long way in removing the many policy constraints and inconsistencies that currently afflict the industrial sector and lead to a sustained growth and expansion of this sector, capable of facing the intensely growing global competition in the coming century.

Contents

	Page
Acknowledgements	i
Abstract	iii
Contents	vii
Chapter	
I. Introduction	
1.1 Background of the study	1
1.2 Rationale of the study	3
1.3 Review of the literature	6
1.4 Objectives of the study	22
1.5 Methodology and scope	23
II. Conceptual Framework	26
III. A Profile of Bangladesh's Industrial Sector	48
IV. The Evolution of Industrial Policy in Bangladesh	91
V. Dynamics of Industrial Policy Making	102
VI. Summary and Conclusions	128
Bibliography	135

CHAPTER I

INTRODUCTION

1.1 Background of the study

Public policy plays a dominant role in moulding the political, economic and social conditions of a country. In all civilized societies, public policy is considered instrumental in protecting and furthering the interest of the common man and improving the quality of life at all levels of the society. It contributes to improving the material well-being of the masses in diverse ways such as through provision and development of physical infrastructure, human resource development, provision of social amenities, availability of an effective legal system and a network of efficient public institutions responsible for delivering essential public services, protection of the environment, establishment of better social justice through a more equitable distribution of income, and so on.

Public policy plays an even greater role in economically under-developed countries like Bangladesh where the over-riding objective is the alleviation of poverty, which in turn can be achieved only by rapid economic growth and creation of productive employment. The advanced industrialized countries, rich in resources and having the most modern technologies, do not suffer from any constraint on the side of supply, and hence they are not much concerned with economic growth. Their main worry is that of maintaining the level of effective demand. The poor countries, on the other hand, suffer from constraints on the side

of both supply and demand. They are deficient in resources, have limited or no access to modern technologies that have been developed in the industrialized nations of the West, have rampant unemployment and under-employment, and thus suffer from abject poverty. In such a situation, public policies as means of facilitating faster economic growth, creation of productive employment and alleviation of poverty, assume increasing significance.

Given the importance of public policy in a nation's life, this study is intended to examine the prevailing practice of public policy formulation in Bangladesh, assess the shortcomings in the policy making process, and recommend ways and means whereby the policy making task can be improved. Public policy is, however, a very broad concept, its scope extending to cover a wide range of issues of public interest, such as education and public health, human resource development, population control, environmental protection, promotion of trade and commerce, stability in money, credit and financial markets, development of the productive sectors of the economy such as agriculture, industry and services, and so on. In respect of all these areas, separate public policies need to be formulated and implemented, keeping in view the specific national objectives in each of these areas. In this study, only one specific aspect of public policy, i.e., "Industrial Policy", has been chosen for analysis. The rationale for limiting the scope of the study to industrial policy alone is discussed in the following section.

1.2 Rationale of the Study

Bangladesh, with a population of 126 million (as of January 1998), is the ninth most populous country in the world, but in terms of income and standard of living it is among the poorest in the globe. The country is categorised as a "least developed country" by the United Nations on the criteria of per capita income, contribution of manufacturing activity to GDP, and literacy rate. It has a very low per capita income which is only \$260, and nearly a half of the population live below the poverty line. The country faces an acute resource constraint, the result of which is vast poverty and under-development. The country's extreme poverty is reflected in its low per capita income, high rate of unemployment and under-employment, illiteracy, agricultural and industrial backwardness, food shortage, malnutrition, and unhygienic and sub-standard living condition. The economy is dependent mainly on agriculture which accounts for 32 percent of GDP but provides employment to as much as 63 percent of the country's labour force. Meanwhile, the country's population and labour force are growing rapidly every year, and it is well nigh impossible that the growing labour force can ever be absorbed in the agriculture sector, unless employment opportunities can be created by rapidly expanding the country's manufacturing sector.

It is here that the importance of industrial development and the associated need for an effective industrial policy comes to the forefront and which thus establishes the rationale for the present study. It is now agreed on all hands that, given the unfavourable land-man ratio and the undeveloped state of the agriculture sector in the country, the key to poverty alleviation lies in the generation of productive

employment through rapid economic growth and structural transformation of the economy away from the traditional agriculture and toward industry. In fact, all successive governments since independence announced strategies for accelerating the process of economic growth through the development of the industrial sector.

Unfortunately, however, the desired structural change in the economy has not been achieved thus far. Despite a quarter century of planned development efforts and pursuance of IMF/World Bank-directed structural adjustment programmes, Bangladesh's experience with growth and structural change has been rather frustrating. The overall growth of the economy has remained sluggish, and the little structural change in the economy that was achieved in the decades of the 1970s and the 1980s came to a virtual halt in 1994-95. In fact, the share of manufacturing in GDP started declining since 1994-95.

Equally disturbing is the fact that the declining share of manufacturing in GDP has been accompanied by a significant deceleration in the growth of manufacturing production. Policy makers should take a careful note of the many unwelcome consequences that the deceleration of the growth of the manufacturing sector may have for the economy as a whole – for example, fall in employment, income, exports and government revenues, increase in trade and payments deficits and a further depletion of international reserves, rise in the inflationary pressure, and so on.

While the slow growth of the industrial sector may be attributed variously to factors like energy shortage, reduced availability of bank credit for both working and new capital, fall in foreign direct investment (FDI), labour unrest, poor law and order conditions etc., inconsistent policies pertaining to the industrial sector which discourage investors and vitiate the overall business environment, have been no less responsible for debilitating the industrial sector and acting as a brake on its growth. A thorough reform and reformulation of the country's industrial policy is, therefore, needed to remove the malaise and facilitate a sustained growth and expansion of this sector.

From the foregoing discussion, the significant role that the industrial sector can play in the economic advancement of Bangladesh becomes clear, and at the same time it becomes apparent that for the industrial sector to flourish a congenial atmosphere should be created. For this purpose a strong, well-structured and meaningful industrial policy is a must. The people responsible for the formulation of policy should be aware of the needs and problems of the industrial sector, and accordingly frame policy guidelines and measures that will favourably influence the efficiency, pace, and the structure of the entire industrial sector. However, in Bangladesh, the bureaucrats, the politicians, ministers, and various pressure groups that are involved in the policy making process, and the top officials of the administration who implement policies, do not always have any practical awareness of the needs and problems of the industry. This is why it is often said that the industrial policies in Bangladesh are formulated without a strategic vision. Most of the policies follow the traditional bureaucratic process, and hardly

address the genuine industry-related problems, find appropriate solutions, and thus do little to give any direction for promoting the pace of industrialization. Moreover, it is argued that the Government of Bangladesh is used to formulate and/or reform industrial policy on political rather than pragmatic considerations. This partly explains the country's poor industrial performance and the deceleration of industrial growth in the recent years and also reiterates the need for adopting a sensible and growth-oriented industrial policy for the country.

This study is intended to highlight the desirable features of such a policy that will be useful and instructive for the policy makers as well for the business community in general. The objective, scope and methodology of the study will be presented at the end of this chapter but, in order to set the issue in its proper perspective, a critical review of the existing literature on the subject is made in the following section.

1.3 Review of the Literature on Industrial Policy

Industrialization is considered to be the key to economic development of a poor country. The pace of industrialization depends on a large number of factors, e.g., factor and resource endowment, size, location, social mores, international environment etc., but experience shows that policy is the main determinant of industrial growth and structural change of a country's economy (James et al 1987).

In Bangladesh, the development of the industries sector has been one of the most important objectives of the Government's economic policies. To this end in view, the

Government pursued industrial policies right from the beginning of the 1970s which culminated in the adoption of the New Industrial Policy (NIP) of 1982, the Revised Industrial Policy (RIP) of 1986, and the Industrial Policy (IP) of 1991. However, Bangladesh's experience with industrialization has been very frustrating as is indicated by various parameters such as the rate of growth of GDP and per capita income, changes in the structure of GDP, growth of manufacturing value added and growth of employment in manufacturing. A large literature on the subject has developed over the recent years on the various aspects of industrial policy, the causes of poor industrial performance, and the manner in which industrial policy formulation in the country should be improved with a view to achieving a rapid transformation of the country's economy. Some of the important works on the subject are reviewed in this section.

An early contribution on this subject is by A.H.M. Mahfuzur Rahman [1976] who describes the industrial development strategy of Bangladesh as conceived in the country's First Five-Year Plan (1973- 78). He observes that Bangladesh, like many other developing countries, pursued a policy of industrial development based on import-substitution (IS) and points out that the result of such a strategy was not at all encouraging. The growth of output was slow, a mere 15% in industrial production over the period 1965 to 1970, which provided a very small base for the country's overall economic growth. Whatever growth occurred was largely in the jute sector. Moreover, the IS strategy made the country more import dependent although it was not able to earn enough foreign exchange to pay for the import needs of the IS

industries. Many of the industries developed surplus capacity, and their dependence on foreign supplies of inputs greatly increased.

Pointing out the pitfalls of the IS strategy, Rahman tried to establish a rationale for an industrialization strategy based on export promotion (EP). He emphasized on the need for establishing labour-intensive industries, which have good markets in the industrially developed and labour scarce countries. He observes that exports of manufactures from the developing to developed countries have increased remarkably despite numerous obstacles imposed by the latter on such exports. Rahman also notes that the volume of exports from an individual developing country is largely determined by the degree of its foreign market orientation. A country with a limited range of export products, geared to a limited number of destinations, is less likely to flourish compared to a country with a wide variety of products and having access to a larger external market. He, however, observes that the developing countries face many barriers to their exports, including "tariffs" and "quota", and international co-operation will be needed to reduce these barriers.

A lesson that can be drawn from Rahman's paper is that appropriate reforms are needed in the country's industrial policy, and all barriers that currently stand on the way of industrialization should be removed for development of a self-sustaining industrial sector in the country. The Government should have a firm commitment towards industrial development and take proper policy measures to accelerate the growth and diversification of the industrial sector led by a strong private sector.

A.H.M. Habibur Rahman in his paper [1976] emphasizes the potential role of small entrepreneurs in the country's industrialization. He notes that emphasis on small industries was laid in all past development plans of the country along with large industries. A variety of promotional measures like the establishment of a Small Industries Development Corporation and fiscal incentives in the form of exemption from duties were provided for the promotion of this sector. But the response from the potential private investors in small industries has been very poor. The small industries sector during the immediate post-liberation years (during the First five-year Plan period) was undergoing a process of rehabilitation. There was hardly any development during this period. The slow growth was due to the inability of promotional institutions to develop small entrepreneurs. The inadequacy of entrepreneurship was one of the major causes, which hindered the growth of small industry in the country.

Rahman recommended the adoption of a multidimensional approach to tackling the problems of promoting entrepreneurs which includes, among others, (1) the provision of incentive to prospective new small investors, (2) provision of information and consultancy services for the preparation of viable projects, (3) adoption of local technology instead of foreign technology, (4) facilities for obtaining credit, (5) assistance in buying raw materials and marketing products, and (6) some other measures for promotion of entrepreneurship. Rahman's observations on the need for the development of small and medium sized industries are highly plausible in the context of Bangladesh. Promotion of small entrepreneurs should constitute an important part of the strategy of industrial development in this country.

Nuimuddin Chowdhury in one of his early writings on the subject [1976] laid emphasis on the need for industrial development in Bangladesh as a part of the country's overall economic development. He explained why some small industries of Bangladesh stagnated in the past and gave broad directions for growth and modernization of this sub-sector. Presenting a picture of the structure of the small-scale industry in the rural areas, Chowdhury observed that without adequate working capital and fundamental asset distribution promoting greater relative income equality no strategy of small industry development would succeed. The small industry sector requires a more equitable distribution of capital and enough flow of funds, which does not increase indebtedness. According to him, expanded supplies of conventional facilities by BSIC centering on entrepreneurship development will be required for that purpose. In a subsequent paper [Chowdhury 1985], Chowdhury analyses the strategy of rural industrialization to stimulate the growth of rural industries. Rural industries are mainly composed of cottage level activities and small enterprises. Small-scale industries are likely to exist with greater probability of success in developing countries where the challenge from large-scale industry is likely to be relatively low-keyed. According to him, rural industry products are not inferior goods. The problem that is associated with rural industrialization is that of the transformation of Bangladesh's agriculture.

Chowdhury notes certain inconsistencies in the Government's policy making in the sphere of the small industry sector. The policy concerning the small industries is made with the high intention to make them competitive with large-scale industries. The over-enthusiastic policies were formulated for transforming the agriculture-

Priority should be given to the growth of the private sector and development of small industries in the country.

Al-Husainy also recommends that the new enterprises should be given moderate protection but eschew all direct controls, thus allowing market forces to dominate as far as possible. In addition, he suggests that controls on remuneration of workers should be relaxed and good labour-management relation should be established. Wages of industrial workers should be linked with productivity. Industrial development will be hampered if the afore-mentioned inefficiencies were not removed soon and the present deficiencies were not corrected through proper policy measures.

A large part of the literature on industrialization and industrial development is devoted to the public sector-private sector controversy. Among these, the contributions of Muzaffer Ahmad, Mohammad Taheruddin, A.M.H. Rahim and Q.K. Ahmad are reviewed here. Muzaffer Ahmad [1977] discusses the performance of the nationalized industries and the problems faced by the nationalized sector. He compares the value added, capacity utilization, and sales and profitability of the nationalized industries in both the pre- and post-nationalization periods. He notes that despite policy constraints confronting the public (nationalized) sector enterprises (PSEs), their performance compared quite favourably with that of the private sector enterprises. He observes that the character and quality of the public sector intervention, its structure, its methods, and results are determined by the politically and socially powerful forces which shape the socio-economic policy of the country.

These forces also influence the efficiency and operation of the PSEs as well. The state remains in the hands of the economic interest group which also dominates the social and the political arena. The picture of pre- and post-liberation Bangladesh shows that public investment without a policy package to institutionally offset the distortions does not help the situation much; it may in fact lead to further distortions instead.

In the Bangladesh context, Ahmad shows how party, labour, bureaucracy, rising bourgeoisie and trading group work to take advantage of the public enterprises and at the same time work against the efficiency of PSEs. The author further observes that money, machine, and materials are neutral between private and public sectors. The main problem of public enterprise is bureaucratic intervention, and the bureaucrats' interest in conspicuous successes, while commercial management calls for a continuous, steady, and sustained success. The lesson that one can derive from Ahmad's paper is that the Government of Bangladesh lacks in a clear perception and the willingness to create a congenial atmosphere in which both the public and private sectors can run smoothly side by side without any disturbance from any part of the country's dominant class. A suitable policy has to be introduced for resolving the public-private sector conflict.

Mohammad Taheruddin [1981, 1995] observes a great deal of complementarity between public and private sectors in the industrial development of Bangladesh. Before partition of the sub-continent the British mercantile interests, and the Marwari Bengali Hindu bourgeoisie looked after the industrial sector. After partition the

industrial groups of West Pakistan origin entered into the picture under the patronage of the then Pakistan Industrial Development Corporation (PIDC). The Government in many ways facilitated the entrepreneurs, e.g., by fiscal incentives, cheap credit, export bonus scheme, tariff protection etc. But the Bengali entrepreneurs could not grow significantly. After liberation of Bangladesh in 1971, the industrial enterprises were taken over by the Government. For various reasons such as the absence of adequate number of trained personnel, ravages of the war, disruption of trade links etc., efficient management of the industrial sector became a problem.

Various incentives were offered to promote the participation of private sector in industrial activity. These included abolition of the ceiling on investment, reduction of public sector reserve lists, facilities for joint ventures, tax holidays, credit and equity support etc. Still the private sector could not show the performance it was expected to show and it could not meet the development requirement of the country. The reason was the absence of a forward looking entrepreneurial class, having industrial mentality, adequate investible resources, and specialized institutional and technical support to industry. The public intervention in industrial sector thus became a compelling necessity. There is thus an element of complementarity rather than competition between the public and the private sector. Accordingly, the author argues for a public and private sector-mix, which is not only feasible but also desirable for the country.

The strength of the forgoing argument notwithstanding, it is strongly felt that a policy merely for influencing the investment in the public and private sectors will not be

enough for promoting industrial activity. Other policy measures regarding these two sectors, e.g. liberalization of trade regime, greater reliance on market forces, deregulation of financial markets, and improved labour-management relations are essential requisites for the development of the industrial sector.

A.M.H.Rahim [1996] in his paper argues that the nationalized sector could be made to contribute significantly to the country's industrial development, if its performance efficiency were improved. The PSEs could be made to operate efficiently if a congenial atmosphere were created for their operation. There should be a clear demarcation of responsibility between the concerned ministry, the relevant Sector Corporation as the regulating agency, and the individual enterprise directly in charge of productive operations. While the responsibility of the Government would be that of monitoring the performance of PSEs, the latter should have operational autonomy so that they would operate as commercial entities and thereby achieve maximum efficiency. A conclusion of Rahim's paper is that there is a great need for management training and retraining for old and new recruits of public enterprise managers so that their operational efficiency is improved. A lesson that can be drawn from the author's analysis is that the management of industrial enterprises, whether public or private, should be of high quality, highly experienced, and well trained. At the same time, the Government should pay due attention to formulate policies in such a manner that the labor-management relation is improved so that each can contribute to raising enterprise efficiency and productivity.

Q. K. Ahmad's observations [1977] on the institutional arrangements and policy guidelines contained in the First Five Year Plan (FFYP) for the efficient management of Bangladesh's nationalized industries sector are quite revealing. He finds a clear lack of division of responsibilities between the corporation and industrial enterprises. He suggests that these responsibilities should be defined clearly and that the enterprises must be given full freedom to act on commercial principles within the fixed framework of the corporation and government policies. In the absence of a proper set of rules of business for the nationalized industries, the sector corporations were not able to provide effective guidance to the enterprises and they were not able to handle the problems of enterprises and keep a watch on their performance.

While the First Five-Year Plan (FFYP) recognized the critical need to develop managerial and technical skills through management training by developing new institutions, Ahmad feels that there was the need for introducing the system of motivation, and incentive in the reward structure of the nationalized sector. Most of the nationalized industries or state monopolies and the government had tight controls over the pricing policy. No institutional arrangements were made for fair distribution of goods at controlled price and ensure against black-marketing.

According to Q.K Ahmad, the various problems in the nationalized sector could not be solved through policy planning; rather they needed political attention. In his view, the management of the nationalized sector should be taken into due consideration by the political leadership and be treated within the political framework, which provided the best environment for management of the nationalized sector. While Q.K Ahmad's

views on the improvement of the nationalized sector are quite illuminating, one cannot but notice that policy planning is a very complicated task for the Government, because in it different interest groups from among the bureaucrats, political parties, trade unions etc. are involved. In devising industrial policy, the views and opinions of all these groups have to be considered. No single group can decide on the important issue like industrial policy planning. It requires cooperative group decision from all walks of life and cannot be resolved by merely the political leadership as Q.K. Ahmed in his argument indicates.

Md. Abdur Razzaque in his 1983 paper stresses the importance of industrial "revolution" as the key to the solution of Bangladesh's economic problems. In order to achieve this objective, a sound dynamic industrial policy is needed. He believes that the dynamism of the industrial sector can be increased if industries of national importance were left in the public sector. These are arms and ammunition, atomic energy, mineral wealth, petrochemical complex, electricity, telegraph, telephone and wireless, forestry etc. For efficient running of these sectors, the relevant government departments and institutions should be made as dynamic as private enterprises so that they may operate at a high level of efficiency. Other industries which are not so essential in character and which are run primarily on commercial basis may be included in the semi-public sector. These are heavy chemicals, civil aviation, road and water transport, pharmaceuticals, drugs and medicines, etc. In his view, preference should be given to labour-intensive industries over capital intensive ones. While he lays emphasis on the IS strategy of industrialization for creating

employment opportunities, he wants to combine it with the export promotion policy as well with a view to overcoming the country's balance of payments problems.

Shah M.Farid [1991], an eminent civil servant, highlights the distinctive features of the 1991 industrial policy and the steps taken under it to implement decisions in respect of two areas - rehabilitation of sick industries and privatization. He takes an optimistic view of the industrial policy and believes that the measures for rehabilitation of sick industries implemented and the process of privatization intensely carried through will pave the way for a rapid expansion of the private sector in a competitive market environment.

Rehman Sobhan in his masterly treatise on industrial strategy and policy [Sobhan 1991] points out three central limitations of Bangladesh's past industrial policies. These are: (1) the absence of a strategic vision in the formulation of industrial policies, (2) prevalence of ideological predilections over pragmatic and empirical considerations specially in regard to the ownership of enterprises, and (3) the abortive attempt at promoting private industry through public credit. He suggests a reformulation of the country's industrial policy, the salient features of which are the following: (1) Rural oriented development strategy is essential. (2) Industries should be developed to serve both the domestic market and the external market. (3) There should be a definite programme to modernize and organize the handloom sector to serve the garment exporters. (4) Engineering industry should be strengthened to sustain a process of backward and forward linkages. (5) Special emphasis should be placed on developing and modernizing rural industry. (6) Export oriented industries

should be promoted. (7) In the industrialization process, the state must once again assume the lead role. (8) The privatization program should be carefully reviewed. (9) Commitment of public resources to finance private investment must be carefully calibrated to the industrial strategy of the country. (10) The policy of indiscriminately winding down the public sector must be reviewed.

The essence of Sobhan's suggestions is that in the present state of the country's industrial development, the role of the state will remain significant. The superiority of private sector is not obvious if the market mechanism does not function smoothly and hence the need for state intervention. Many privatized firms have not been able to improve their performance, and hence there is the need to carefully review the programme of privatization and divestiture of PSEs. The most significant among his suggestions are: (1) the emphasis on developing and modernizing domestic industries along side the export-oriented ones, (2) pursuing a strategy of rural development aiming at enhancing the purchasing power of the rural population and thereby increasing the demand for domestic industrial products, and (3) the development of forward and backward linkage industries.

Bhuyan and Rashid's book on Bangladesh's Trade Regimes and Industrial Growth [Bhuyan and Rashid 1993] is devoted to a review of the industrial policy measures and reforms that have been instituted since the early 1970s with a view to improving the performance of the country's industrial sector. It contains an analysis of how the policy emphasis on import substitution under bureaucratic control, which Bangladesh

inherited from Pakistan. has gradually changed over the 1970s and the 1980s into one of export orientation led by the private sector.

The authors have summarized the major improvements in trade and industrial policies that took place over the past two decades, all of which are reflected in the industrial policy of 1991. While this latest policy seeks to achieve a rapid growth of the private sector in the framework of a competitive market economy, its most important objective is to increase efficiency and productivity in the industrial sector by transferring public sector industries to the private sector.

The authors' suggestions for making the policy meaningful are, among others, the following: (1) Simplification and liberalization of investment sanctioning procedures achieved so far have to be complemented by reforms in areas like tariff system and import regulations. (2) The anomalies in the tariff structure and the import regime should be removed. (3) The existing system of export incentives should be improved to minimize the administrative hindrances and facilitate smooth and quick implementation of policy. As regards the PSEs that are retained under state ownership and control, the authors observe that unless clearer performance criteria were established, the ailing PSEs would continue to be a burden on the economy instead of contributing to its growth.

Salma Chowdhury Zohir [1996] has attempted a comprehensive review of the evolution of industrial policy in Bangladesh prior to the New Industrial Policy (NIP) 1982. She argues that the major shifts in industrial policy came about between 1975

and 1978 and that the New Industrial Policy (NIP) of 1982 was but an extension of the former.

According to Salma Zohir, the major policy changes introduced between 1975 and 1978, but accelerated through the NIP of 1982, are: (1) The reserved list for public investment, a concurrent list, and an Industrial Investment Schedule (IIS) were introduced in RIP 1975. (2) The IIS was made indicative in the 1976-78 schedule. (3) The free list was introduced in 1978 in which no formal sanction for investment was required. (4) Concessionary import duty on machinery and equipment was extended in 1978. (5) In 1978, industries exporting 80% of their output were designated as export oriented industries, and incentives and additional facilities were introduced. (6) Accelerated depreciation and investment allowance was introduced in 1978 as an alternative to tax holiday. (7) Project approval authority was decentralized in 1978.

Other important changes, which took place during the late 1970s, included a major shift in trade policy by moving to a floating exchange rate in mid-1979. The system of Bonded Warehouse, first introduced for the ready-made garments, and the Export Credit Guarantee Scheme were introduced in 1978. Apart from these, major policy changes that took place regarding private investment during 1975-78 were: (a) a qualitative shift in terms of changing the boundary lines between public and private enterprises, (b) a watershed, or quantum change or landmark shift in terms of (1) the incentive for stimulating private investment, (2) decentralizing investment approval processes, and (3) expanding the scope of industrial finance. The process of export-

oriented private sector-led industrialization strategy was in fact initiated during the 1975-78 period.

A second major policy shift began with the IMF stand-by loan in December 1985 and continued under the Structural Adjustment Facility (SAF). Extended Structural Adjustment Facility (ESAF) included (1) liberalization of trade and import payment system and (2) the unification of the exchange rate. More incentives were given to export oriented industries, foreign investment, and small and cottage industries.

A consensus that may be developed on the basis of the works reviewed in the foregoing is that the Government should formulate a meaningful industrial policy with a view to creating a stable climate for industrial growth for purpose of improving the long term performance of the economy in terms of productivity, employment and international competitiveness. In formulating such a policy, the government should have a clear perception about the needs and problems of the industrial sector. Such a policy should be essentially dynamic and contain elements, which were not only neglected in the past industrial policies but have also escaped the attention of scholars and experts. These elements which should constitute important parts of the Government's industrial policy will be highlighted in the next few chapters of the study.

1.4 Objectives of the study

The general objective of the study is to review the prevailing processes of public policy making in Bangladesh, specifically pertaining to the industrial sector, and

lay down new directions for making industrial policy in Bangladesh. The specific objectives of the study are to :

- (1) Make an overview of the different industrial policies that have been undertaken in Bangladesh since 1972;
- (2) Assess the process of the formulation of the industrial policy;
- (3) Determine the areas of further reforms, changes and reformulation of industrial policy; and
- (4) Recommend a range of measures, which may be adopted for improving the performance of some selected industries.

1.5 Methodology and Scope of the study

Research on the study is based essentially on the secondary sources of data and information obtained principally by examining government policy documents and other relevant works and reports as have been available. In particular, various manuals, the First, Second, Third, Fourth, and Fifth Five Year Plan documents, planning guidelines and other survey reports, and relevant documents and publications of the Ministry of Industries have been examined to review the policies, the policy making process, and the procedures that exist in practice.

For eliciting informed opinion and judgment, experts in the fields of Public Administration and Development Economics, experts of donor agencies, members of civil service, political leaders, and private sector business people have been consulted. Mentionable among the officials and persons interviewed are an honourable Member of the Planning Commission, a former Secretary of the

Ministry of Industries, the chairman of the Privatization Board, the Executive Chairman of the Board of Investment, the Division Chief of the General Economics Division, Planning Commission, the Secretary General of Bangladesh Textile Mills Associations (BTMA), the Deputy Secretary, Metropolitan Chamber of Commerce and Industry, the Chief of Research Cell of Beximco Group of Industries, a representative of the World Bank's Resident Mission in Dhaka, the Secretary, Federation of Bangladesh Chambers of Commerce and Industry, a number of mid-level officials of the Planning Commission and the Ministries of Industry, Textiles and Jute, and some senior professors of the Department of Economics of the University of Dhaka.

The report is organized as follows. While this Introductory Chapter discusses the background, rationale, objective, and scope of the study and has also presented a general review of the literature on the subject, Chapter II is devoted to an examination of the conceptual framework of public policy making. Chapter III presents a profile of Bangladesh's Industrial sector, discusses the problems confronting the industries in the organized sector as well as the cottage industries, and makes some tentative suggestions for their solution. Chapter IV reviews the historical evolution of Industrial Policy in Bangladesh, and Chapter V highlights the dynamics of industrial policy making and makes some recommendations for policy. Concluding observations and a summary of recommendations are presented in the sixth and final Chapter.

As is usual for research works of this type, the present study has its limitations. A major difficulty encountered during the course of the study has been that of restricted access to official documents and sometimes obstacles in getting the desired information in time. Yet, the findings of the study will hopefully enlighten the interested reader and may also be useful and instructive to the policy makers.

CHAPTER II

CONCEPTUAL FRAMEWORK

For a clear understanding of the concept of public policy a good definition of the term is essential. From the very beginning of the policy concept, different authors have defined the term in various ways. Generally speaking, the term 'policy' means the behaviour of some actor or a set of actors like an official, a governmental agency, or a legislature which act in such areas as consumer protection and public transportation. Public policy can also be defined as whatever governments choose to do or not to do. These definitions may be helpful for the layman but, for the discussion of the systematic concept of public policy, a more precise definition would be more appropriate.

Political scientist Harold D. Lasswell and philosopher Abraham Kaplan define policy as "a projected program of goals, values and practices" [Lasswell and Kaplan, 1970]. Political scientist Carl J. Friedrich defines, "It is essential for the policy concept that there be a goal, objective or purpose" [Friedrich, 1963]. These definitions make a distinction between particular governmental actions and an overall program of action toward a given goal. The problem, however, in insisting that government actions must have goals in order to be labeled 'policy' is that we can never be sure whether or not a specific action has a goal, or if it does what that goal is. We normally think that if a government chooses to do something there must be a goal, objective or purpose, but the thing actually we observe is what governments choose to do or not to do. Our notion of public policy actually must

include all actions of government and not just stated intentions of governments or government officials.

Another approach to defining public policy is to break down the general notion into various component parts. Political scientist Charles O. Jones makes a distinction among proposals (specified means for achieving goals); programs (authorized means for achieving goals); decisions (specific actions taken to implement programs); and effects (the measurable impacts of programs)[Jones, 1977]. Here we have the problem of assuming that decisions, programs, goals and effects are linked. It is seen that in many areas like welfare and energy, decisions of government have little to do with announced "programs" and neither are connected with national "goals".

Political scientist Heinz Eulau and Kenneth Prewitt gave a definition of public policy: "Policy is defined as a 'standing decision' characterized by behavioural consistency and repetitiveness on the part of both those who make it and those who abide it" [Eulau and Prewitt, 1973].

According to political scientist Hugh Hecló: "A policy may usefully be considered as a course of action or inaction rather than specific decisions or actions, and such a course has to be perceived and identified by the analyst in question" [Hecló, 1972]. So, from analyzing the definition we can come to a conclusion that public policy is whatever governments choose to do or not to do. It is to be noted here that our focus is not only on government action but also on government inaction.

that is, what government chooses not to do. We contend that government inaction can have just an impact on society as government action.

A basic definition of policy is "A purposive course of action followed by an actor or a set of actors in dealing with a problem or matter of concern." The definition focuses on what is done, as distinct from what is intended, and it distinguishes policy from decisions. Governmental institutions and officials through the political process develop public policies. These policies have legitimate authorities. David Easton designates the authorities in a political system as the "elders, paramount chiefs, executives, legislatures, judges, administrators, councilors, monarchs, and the like,[who] engage in the daily affairs of a political system" [Easton,1965]. Moreover, these people are "recognized by most members of the system as having responsibility for these matters, and take actions which are accepted as binding most of the time by most of the members so long as they act within the limits of their roles" [Easton,1965].

It would be helpful for the reader if some of the implications of the concept of public policy are discussed here. First, the definition connects the policy to purposive or goal-oriented action instead of random behaviour or chance occurrences. In modern political system, public policies are designed to accomplish particular goals or produce definite results. These goals are not always achieved.

Second, policies consist of courses or patterns of action, which are undertaken by government officials over time, rather than their separate, discrete decisions. A policy includes or takes into consideration the decision to adopt a law or make a rule on some issue. However, it also takes into consideration any subsequent decisions that are supposed to enforce or implement the law or the rule.

Third, when policy demands are raised, public policies emerge in response to that. Public policies also take place when there prevail claims for action or inaction on some public issue made by others like private citizens, group representatives, or other public officials. These actors upon government officials and agencies make these demands.

Public officials make decisions according to policy demands, which provide the content and direction of public policy. These decisions may enact statutes, issue executive orders, promulgate administrative rules, or make judicial interpretation of laws.

Formal expressions or articulations of public policy can be called policy statements. Included therein are legislative statutes, executive orders and decrees, administrative rules and regulations, and court opinions as well as statements and speeches by public officials. These indicate the government's intentions, goals and targets, and also what will be done to realize them. Policy statements are sometimes found to be ambiguous. Different levels or branches or units of

government may give conflicting policy statements, such as, in controls on environmental pollution or liability for consumer products.

Fourth, policy takes consideration of what government actually do, not just what they intend to do or what they say are going to do. In other words, the concept of policy refers to policy output. The concept can be best understood by such policy outputs as taxes collected, miles of highway built, welfare benefits paid, removal of restraints on trade, traffic fines collected, and foreign-aid projects undertaken. These policy objectives can be achieved with little difficulties. However, it is often found that policy outputs differ somewhat or even significantly from what policy statements indicate they should be.

Fifth, public policy may be either positive or negative. On the one hand, some form of governmental action may deal with a problem on which action is demanded. On the other hand, government involvement may be sought in some areas of public interest but the government officials may decide to do nothing on such matters. This is a negative perspective. In other words we can say that governments can follow a hands off policy of laissez-faire generally, or in some areas of economic activity in particular.

Finally, public policy is based on law and is authoritative in its positive form. Members of the society accept the law as legitimate. They accept the laws that taxes must be paid, import controls must be obeyed, highway speed limits must be complied with, jail sentences or other legally imposed sanctions or disabilities

must be suffered. Thus public policy has an authoritative, legally applicable quality which the policies of private organizations do not have. The monopoly over the legitimate use of coercion is a major characteristic that distinguishes government from private organizations. Governments can legally incarcerate people but the private organization cannot.

There are a number of general typologies that political scientists and others have developed for categorizing public policies. Some of these are mentioned in the following.

(1) Substantive: Substantive policies are those which involve what government is going to do like constructing highways, paying welfare benefits, acquiring bombers, or prohibiting the retail sale of liquor. Substantive policies directly distribute to people advantages and disadvantages, benefits, and costs.

(2) Procedural: Procedural policies are those, which say how something is going to be done or who is going to take action. They include organizational matters, such as which agencies are responsible for enforcing laws such as on illegal drugs and making processes and procedures for handling activities.

Anderson [1984] distinguishes between four types of public policies. They are:

(1) Distributive: Distributive policies involve allocation of services or benefits to particular segments of the population---individuals, groups, corporations and

communities. These policies involve using public funds to assist particular groups, communities, or industries.

(2) Regulatory: Regulatory policies involve imposing restrictions or limitations on the behaviour of individuals and groups, which means, they reduce the freedom or discretion to act of those who are regulated, whether bankers, utility companies or others. Regulatory policies differ from distributive policies, which increase the freedom or power of discrete persons or groups affected.

The most extensive variety of regulatory policies is that which deals with criminal behaviour against persons and property. Gun control, pornography, and abortion fall into the category of social regulatory policies, and many civil rights policies are also regulatory.

(3) Self-regulatory: Self-regulatory policies are similar to regulatory policies in that they involve restricting or controlling some matter or group activities. Sometimes as a means of protecting or promoting the interests of its members the regulatory group supports the self-regulatory policies which are unlike the regulatory policies.

(4) Redistributive policies: Redistributive policies involve deliberate efforts by the government to shift the allocation of wealth, income, property or right among broad classes or groups of the population, such as haves or have-nots, proletariat

and bourgeoisie. Redistributive policies are not only difficult to obtain, they are also hard to retain.

Public policies may also be described as either material or symbolic, depending upon the kind of benefits they allocate.

(a) Material: Material policies either provide tangible resources or requisite power to their beneficiaries or impose real disadvantages on those who are badly affected. The example of material policies is legislation requiring employers to pay a prescribed minimum wage, providing money for a public housing program, and so on.

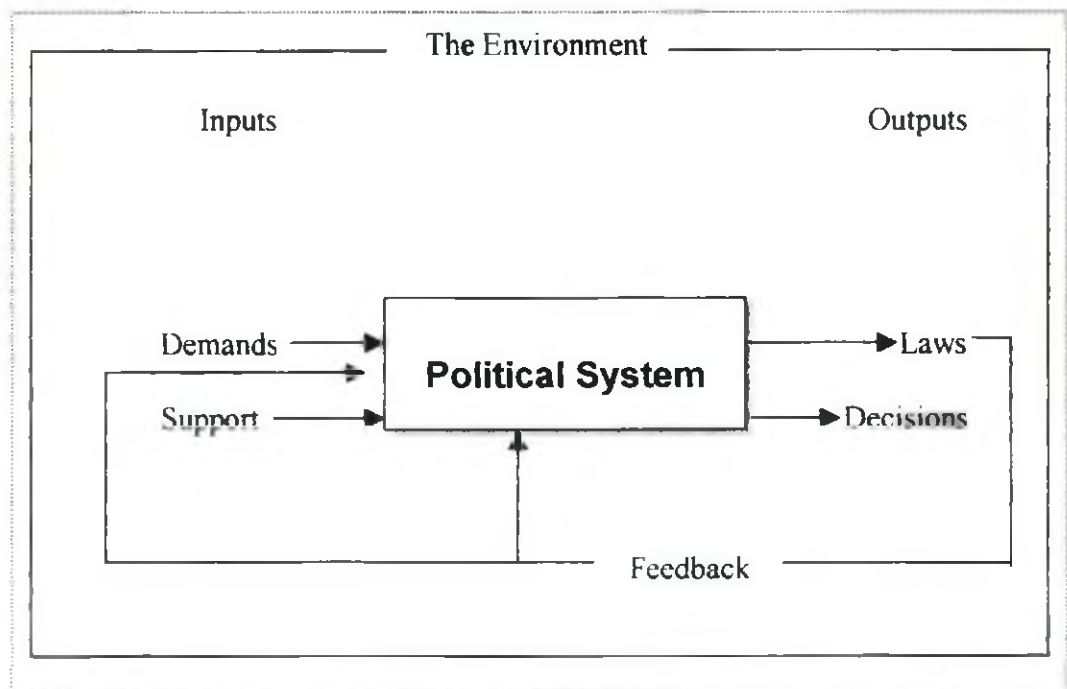
(b) Symbolic: Symbolic policies, in contrast to material policies, have little actual influence on people. These policies do not deliver what they appear to deliver. They do not allocate any tangible advantages and disadvantages. They instead appeal to people's cherished values such as peace, patriotism, and social justice.

Public policies may deal with a wide variety of substantive areas---Defense, energy, environment, foreign affairs, education, welfare, police, highways, taxation, housing, social security, health, economic opportunity, urban development, inflation and recession and so on.

Some theoretical approaches of public policy-making include political systems theory, group theory, elite theory, institutionalism, and rational choice theory, which are briefly described below.

Political Systems Theory: Public policy can be made as a response of the political system to demands arising from its environment. The environment consists of all phenomena -- the social system, the economic system, the biological setting--which are outside the boundaries of the political system. Outputs of the political system include laws, rules, judicial decisions, and the like. Policy outputs may produce new demands, which lead to further outputs, and moves on as a continuous flow of public policy (Figure 2.1).

Figure 2.1: A Model of the Political System.



Group theory: "Group theory begins with the proposition that interaction among groups is the central fact of politics" [Truman, 1951]. Individuals with common interests formally or informally put their demands upon governments. According

to political scientist David Truman, an interest group is “a shared attitude group that makes certain claims upon other groups in the society;” such a group becomes political “if and when it makes a claim through or upon any of the institutions of government” [Latham,1956]. Individuals are important in politics only when they act as part of, or on behalf of, group interests. The group becomes the essential bridge between the individual and his government. Politics is really the struggle among groups to influence public policy. Political scientists Earl Latham described public policy from the group theory viewpoint as follows; What may be called public policy is actually the equilibrium reached in the group struggle at any given moment, and it represents a balance which the contending factions or groups constantly strive to tip in their favor – The legislature referees the group struggle, ratifies the victories of the successful coalition, and records the terms of the surrenders, compromises, and conquests in the form of statutes [Latham,1956: 239].The influence of groups is determined by their numbers, wealth, organizational strength, leadership, access to decision makers, and internal cohesion.

Elite theory: “Public policy may be viewed as the preferences and values of a governing elite” [Dye and Zeigler,1981]. Elite theory suggests that, “the people” are apathetic and ill informed about public policy, that elites actually shape mass opinion on policy questions more than masses shape elite opinion. Thus, public policy becomes the preferences of elites. Public officials and administrators merely carry out the policies decided upon by the elite. In this system, policies flow “downward” from elites to masses; they do not arise from mass demands.

Elitism does not mean that public policy will be against mass welfare, but only that the responsibility for mass welfare rests upon the shoulders of elites.

Institutionalism: Government institutions are the oldest topic of study of political science. Political life is closely concerned with and attached to the governmental institutions such as legislatures, executives, courts, and political parties. Public policy is authoritatively formulated and implemented primarily by these institutions. Institutional structures, arrangements and procedures often have important results for the adoption and content of public policies. Institutional theory only provides partial explanations of policy.

Rationalism: A rational policy is one that is correctly designed to maximize “net value achievement.” By net value achievement it is meant that all relevant values of a society are known, and that any sacrifice in one or more values that is required by a policy is more than compensated for by the attainment of other values. This definition of rationality is interchangeable with the concept of efficiency. We can say that a policy is rational when it is most efficient -- that is, if the ratio between the values it achieves and the values it sacrifices is positive and higher than any other policy alternative. To select a rational policy, policy makers must (1) know all the society’s value preferences and their relative weights; (2) know all the policy alternatives available, (3) Know all the consequences of each policy alternative, (4) calculate the ratio of achieved to sacrificed societal values for each policy alternative; (5) select the most efficient policy alternative [Dror, 1968].

The Official Policy makers: Those who have legal authority to engage in the formation of public policy may be called official policy makers. These include legislatures, executives, administrators and judges. Everyone performs the task of making policy, which is at least somewhat different from the others. In complex industrial societies much discretionary authority as rule-making power has been vested in the administrative agencies. It is doubtful that any modern industrial society could manage the daily operations of its public affairs without bureaucratic organizations in which officials play a major policy making role.”

Unofficial Participants: Many other participants take part in the policy-making process along with the official policy-makers. They may be categorized as interest groups, political parties, research organizations, communications media, and individual citizens. They are called unofficial participants. Though they are important or dominant in various situations, they lack the quality to have legal authority to make binding policy decisions. They seek to influence but they themselves do not decide. That is the prerogative of official policy-makers.

Stages of the Policy Process:

In the conceptual framework, the policy process involves six distinct stages of activity. These categories are summarized in table 2.2.

Table 2.2 The Policy Process.

Policy Terminology	1st stage problem formation	2nd stage policy agenda	3rd stage policy formation	4th stage policy adoption	5th stage policy implementation	6th stage policy evaluation
Formal definition	Relief is sought from a situation that produces a human need, deprivation, or dissatisfaction	Problems among many, that receive the government's serious attention	Development of pertinent and acceptable proposed courses of action for dealing with public problems	Development of support for a specific proposal such that the policy is legitimized or authorized	Application of the policy by the government's bureaucratic machinery to the problem	Attempt by the government to determine whether or not the policy has been effective
Common sense	Getting the government to see the problem	Getting the government to begin to act on the problem	The government's proposed solution to the problem	Getting the government to accept a particular solution to the problem	Applying the government's policy to the problem	Did the policy work?

Policy Formation: Problems, Agendas, and Formulation

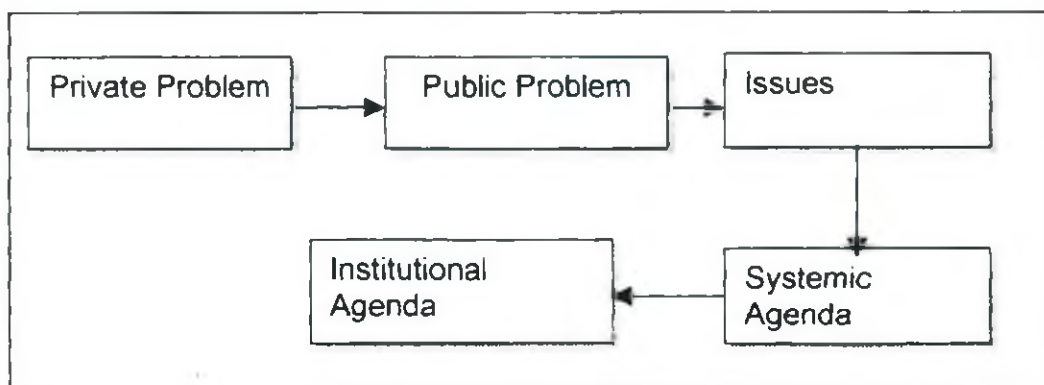
There are three interrelated aspects of policy formation, such as, nature of public problems, agendas and the process of agenda setting, and the formulation of proposed policies to deal with problems. Policy formation denotes the total process of creating or developing and adopting a policy.

Problem Formation: First of all, a public problem has to be identified. To be converted into a problem, a condition must be seen as an appropriate topic for governmental action and as something for which there is a governmental remedy or solution. Here we are concerned not only with problems but with public problems. Public problems are those, which effect a substantial, number of people and have broad influence including consequences for persons not directly involved [Anderson 1984]. A problem is, for our purposes, a situation that produces, "a human need, deprivation, or dissatisfaction, self-identified or

identified by others, for which relief is sought" [Anderson]. Pollution, inflation, crime, unemployment and OPEC oil policy have become problems, because they produce sufficient anxiety and dissatisfaction to cause people to seek relief. There are many kinds of needs and demands, but only those that move people to action and are articulated become problems demanding policy solutions.

The Policy Agenda: Among the many demands made upon government, only a small number of problems receive serious attention by public policy makers. The individual problem must compete for official attention because of limited time and agenda. The demands that the policy-makers feel to act on at a given time or become inevitable to be acted on constitute the policy agenda. To achieve agenda status, a public problem must be converted into an issue or a subject requiring public attention. (Figure 2.3)

Figure 2.3 The Agenda Setting Process.



Agenda Setting Process: In the policy formulation, many problems and issues will be competing for the consideration and attention of public officials, who will

have their own specific ideas to push. But a small part of these problems will be successful in achieving the agenda status, because the officials lack in time, resources, interest and information to consider many of them. Agenda building is therefore a competitive process where a great deal of factors determines whether an issue gets on an agenda as well as how the problem at issue is defined.

The Formulation of Policy Proposal: Policy formulation is one that involves the development of accepted/proposed courses of action (often called alternatives, proposals or options) for dealing with public problems. Various competing proposals for dealing with a problem are presented.

There are several organizations that are involved in developing policy proposals. Among them are Government Agencies, Presidential Organizations, Legislators, and Interest Groups.

Policy Adoption: "Policy adoption stage is not selection from among a number of full blown policy alternatives but rather action on a preferred policy alternative for which the proponents of action think they can win approval, even though it does not provide all they might like" [Anderson 1984]. In this state of policy formulation process, as the process moves toward the decision stage, some provisions will be rejected, some will be modified, difference will be reduced, bargains will be made, and finally the final policy decision will become a formality.

Theories of Decision-Making: There are three theories of decision making that describe the procedure and activities involved in making a decision.

(1) The Rational Comprehensive Theory: The rational comprehensive theory is the best known theory of decision making. This theory deliberately specifies the procedures involved in making decisions, which tend to maximize the attainment of goals whether personal or organizational. Herbert Simon gave this theory. According to Simon decision to be correct has to be rational. He defines rationality as, "One concerned with the selection of preferred behaviour alternatives in terms of some system of values whereby the consequences of behaviour can be evaluated" [Simon, 1976].

(2) Incrementalism: A renowned theorist Charles E. Lindblom has contributed to the literature of decision making. He criticized the rational comprehensive theory of Simon as an unrealistic, time consuming and costly one and gave his theory of incrementalism. He defined incrementalism as, "a slow gradual step by step extension of the present into the future." It suggests that decisions should be made by small manageable steps i.e. small changes from the existing system [Lindblom, 1968].

(3) Partisan Mutual Adjustment: Lindblom finds out some weaknesses of incremental approach, which he compensated by the theory of "Partisan Mutual Adjustment." Lindblom's decision making approach centers around the concept of Partisan Mutual Adjustment. Since participants do not share common criteria ,

they differ in the values they think are important. Thus, they are highly partisan. It denotes that decision making should be and is normally done by groups of people concerned, and by mutually adjusting their views and concerns. To Lindblom, since decision making in administration is a plural activity, it involves mutual consent among many participants. The theory provides opportunities for the necessary coordination among numerous decision-makers. It links the decision to the decision-makers.

Decision Criteria: Decision-making may be collective or individual. In the individual process, the emphasis is on the criteria individuals use in making choices. In the collective process, majority makes the decision.

Values: There are five categories of values that may guide the behavior of decision-makers, such as organizational, professional, personal, policy, and ideological.

The important decision-makers, especially the bureaucrats may be influenced by the organizational values. To agency personnel, the professional values become important more than anything else does. The personal values often become important to decision makers or they may be guided by the drive to secure or develop their own physical or economic well being, reputation, or historical position. Policy values are very important factors for the decision-makers and therefore they take into consideration the public interest or what is proper, necessary, or morally correct public policy. Ideological values serve as guides to

action for decision-makers in many respects. In the twentieth century, “nationalism “ has become a major factor, which shaped the actions of many nations, especially developing countries in Asia, Africa and the Middle East.

Styles of Decision-Making: There are three styles of collective decision-making, bargaining, persuasion, and command.

(1) What involves negotiation, give and take, and at last compromise to reach a mutually acceptable position may explain bargaining by the two or more persons in positions of power or authority.

(2) The people who persuade generally try to build support for what they want without even modifying their own positions.

(3) **Command:**—Command is the hierarchic relationship among superiors and subordinates. The higher authority influences and makes the subordinates accept their decisions. They use sanctions in the form of either rewards or penalties. He who accepts the superior’s decision is rewarded and the one who refuses to accept the decision may be fired or demoted. Bargaining is the most common form of decision making in the American policy process.

Budget: Budget is an important factor in the policy making process. Policy makers face a tough problem if there is deficit budget.

Policy Implementation: After the policy adoption phase of the policy process has been completed smoothly and after a bill has become a law it can be called public policy. The next step of the policy process is to put the policy into effect that may be termed as the implementation phase or administration. The implementation process involves many players, organizations, procedures and techniques that carry policy into effect in an attempt to attain their goals.

Different levels of the society are involved in the implementation phase. They are normally the legislature, the courts, pressure groups and community organizations. So, we understand that a variety of participants may have a hand in administration of a given policy.

Administrative policy making: Administrative decisions and other functions sometimes influence in determining the main theme of public policies. There are several ways by which the administrative agencies can help shape or make practices and program operation.

Techniques of Control: All public policies, whether promotional, regulatory, prohibitive, or re-distributive, include an element of control. The control techniques are important components of public policies by which they are to be implemented. The techniques of control are designed to engage people to do things, refrain people from doing things, or carry on doing things that they otherwise would not do.

Evaluation Process: The final stage in the policy process is the evaluation of policy that is a sequential pattern of activities. Policy evaluation is concerned with the estimation, assessment or appraisal of policy including its content, implementation and effects. Policy evaluation in fact takes place throughout the policy process and not only in its final stage. Before adopting any policy the various policy alternatives are estimated whether it will be feasible or an appropriate policy to be undertaken by the policy makers.

A systematic objective evaluation of programme is undertaken to measure their societal impact and to judge whether they are gaining their intended objectives. Systematic evaluation pays much attention to the effects a policy has on the public need or problem towards which it is directed. Systematic evaluation provides the policy-makers as well as the general public with some notion about the actual impact of policy. The findings incurred by the evaluation can be used to modify current policies and programme and to help design others for the future.

Policy Termination: The termination of policy can occur if there is dissatisfaction with its costs and results, development and proliferation of political opposition after the evaluation and appraisal of policy. But policy termination is difficult for a number of reasons. So policy change is more likely than termination.

Lessons for Practical Policy Making

The foregoing discussion on the theoretical under-pinnings of public policy provides an important insight into how to go about making public policies, which is one of the most important functions, and also a very difficult one, of a modern Government. The Government may draw important lessons for framing and implementing policy from the conceptualization of the term "policy" by the western writers and from the alternative theoretical approaches to public policy making as discussed in these writings. The public policy maker may derive lessons about how to identify a policy problem, set the policy agenda, and formulate a policy proposal. Major conclusions of this chapter that will be instructive to the policy makers are summed up in the following.

Firstly, a public policy must have a purpose, and the action required to achieve that purpose should be goal-oriented. Secondly, a policy may be called a series of actions performed by public officials starting from its enactment to its implementation and enforcement. Thirdly, public policy is what Governments actually do, and not what they intend to do. Fourthly, a government can take either a positive or a negative stance regarding a problem on which action was sought. Finally, a policy can be authoritatively applied as it has a legal basis.

Public policy making process follows some steps that are described below:

Policy initiation is the beginning of the public policy process. It is the formulation of proposed policies, which deals with problems. In this system a public problem has to be identified first. Among many demands only a number of problems

attract the attention of the policy makers. In the second stage, the identified public problem has to be converted into an issue to achieve the agenda status. After the setting stage comes the stage of the formulation of the policy proposal. Next comes the stage of policy adoption. After the policy adoption phase is over, and the bill becomes a law, it can be called a public policy. Then another stage comes into the scene that is the policy evaluation. Before adopting any policy, various alternatives are estimated in order to assess whether it would be an appropriate policy to be undertaken by the policy makers. If a systematic evaluation shows that the benefits and costs are unsatisfactory, the policy may be terminated. But policy termination is often difficult for a number of reasons, and hence a change in policy is more likely than termination of the policy.

The underlying ideas presented in this chapter, based as they are on the writings of renowned political scientists of the West, are well known not just to the policy making bodies of the developed nations but to the policy makers of this country as well.

However, in developing countries, policy making is constrained by many pitfalls, for which reasons instances of policy failure have been seen to multiply. But if public policies can be formulated and implemented in accordance with the tenets of established theories, and if these are in conformity with the practices pursued in the developed countries where public policies are successfully applied, the danger of policy failure will be greatly minimized.

CHAPTER III

A PROFILE OF BANGLADESH'S INDUSTRIAL SECTOR

The specific objectives the study being to recommend measures for improving public policy formulation and implementation pertaining to the industrial sector with a view to improving the performance of specific industries, presenting a detailed description of the country's industrial base appears advisable. This chapter provides a clear picture of the overall industrial sector and its development in Bangladesh. The description will enable the reader to get an idea of what sort of industries Bangladesh has, what products are produced in these industries, which industrial products we import from foreign countries and what we export abroad. This chapter in fact deals with the industrial structure of Bangladesh along with the problems that it currently faces.

Industrial Structure of Bangladesh

The structure of industrial sector in Bangladesh is very weak. During the British period there was virtually no large-scale industry in this country. The manufacturing activity was carried out mainly in the small scale and cottage industries. There was little policy support during the British rule for the growth of large-scale industries in Bangladesh. The situation was no better during the Pakistani regime, when official policy was consciously directed at the industrialization of the country's western wing, to the utter neglect of the interest of East Pakistan, which currently comprises Bangladesh. The foreign currency

earned by exporting the raw materials of East Pakistan (now Bangladesh) was used for the establishment and development of industries in West Pakistan.

The industrial climate slightly improved in the post-liberation years, but even today the process of industrialization is constrained by the dearth of capital, appropriate technology, intermediate inputs and raw materials, shortage of skilled labour, lack of entrepreneurs etc. The contribution of the industrial sector to the growth of income and employment in this country has therefore been necessarily small. In fact, this sector contributed only 9.0 percent to GDP in 1972-73, and this contribution increased modestly to 11.1 percent in 1996-97. The low contribution of this sector to the growth of GDP reflects the extreme underdevelopment and acute structural weakness of the industrial sector as a whole.

From the structural point of view, the industrial sector can be divided into three categories, viz.,

- (1) Large scale industries
- (2) Medium scale industries
- (3) Small-scale and cottage industries

(1) Large scale industries: Large-scale industries are characterized by the production on a large scale, using large inputs of labour, capital, and raw materials. These industries also employ relatively modern and advanced technologies. In general, industries engaging more than 230 labourers are classified as large-scale industries in this country. Among the major large-scale

industries, Jute, Cotton, textiles including (Ready-made garments), Fertilizer, Paper and Newsprint, Sugar and Food, and Iron and Steel are important.

(2) Medium-scale industries: The medium scale industries are those that employ more than 20 but less than 230 labourers in production. These industries, like the large scale ones, apply modern methods and advanced technology of production. The requirement of capital investment in the medium industries is, however, less than in the large-scale industries. The distinction between large and medium industries is often blurred, because with the passage of time and gaining in efficiency a medium scale industry can grow into a large scale one. Similarly, poor performance and slow progress may degrade a medium scale industry to the status of a small-scale industry. The important medium scale industries are—soap and chemicals, plastics, nylon, leather, matches, cigarettes, cosmetics, glass industries etc.

(3) Small and Cottage Industries: Small and cottage industries operate on a small scale and are carried on wholly or mainly by members of a family at their home either taking it as a part time or full time occupation. These industries usually employ less than 20 employees per unit.

The small-scale industries employ paid labour for production purposes and also uses electricity. On the other hand the cottage industries are run by family members and often use electricity for productive purposes depending on the type of the activity. But in both these cases industrial products are manufactured by

using low capital, a small number of labourers and easily available raw materials. In Bangladesh handloom industry, silk industry, pottery industry, cane and bamboo industry, brass and metal industry, salt industry, coir industry, conch shell and ivory industry, wood industry etc. fall into the category of small scale and cottage industries.

Present Position, Problems and Future Prospects of Some Selected Large Scale Industries –in Bangladesh.

(1) Jute Industry: Jute industry is the most important industry in Bangladesh. Three-fourths of total world supply of jute is produced in Bangladesh, in about 15 to 20 lakh acres of land. Approximately 30 million people are directly or indirectly dependent upon jute-related activities. Bangladesh also earns a significant amount of foreign exchange by exporting raw jute and jute products. Jute is known as “golden fiber” of Bangladesh.

Though Bangladesh is the biggest jute producing country in the world, there was not a single jute mill in Bangladesh before partition in 1947. During the British period there were 108 jute mills in undivided India and all of them were located in the territory of India. In Bangladesh, the first jute mill was established in 1951. In 1960 with the entrepreneurship of the then East Pakistan Development Corporation (EPIDC) 14 jute mills were established. At the time of liberation in 1971-72 there were 68 jute mills in Bangladesh. There are at present 77 jute mills in the country. After liberation in 1972 all the jute mills in Bangladesh were nationalized. Among them, 40 jute mills uptill now have been transferred to the

private sector and the rest remain under the management of the Government. The country's 77 jute mills produce, overall, more than 4 lakh metric tons of jute products every year, virtually the whole of which is exported.

At present, jute products account for about 8 percent of the country's total export earnings. Among the various products manufactured in different jute mills are sacking, carpet backing cloth (CBC), and jute yarn. Different kinds of bags, sandal, mat, showpieces, etc. are also produced from jute. Raw jute and jute goods are mainly exported to U.S.A, U.K, India, Egypt, Russia, Poland, Bulgaria, France, Italy, Japan and Germany. In the 1970s and the early 1980s, jute goods were the largest single item of export, accounting for about 60 percent of the foreign exchange earnings. In the recent years with the expansion of RMG exports, the share of jute goods in total exports has fallen sharply. The export earnings from jute products in the last few years are shown in table:3.1.

Table:3.1 Export earning from jute goods (in million US \$)

YEAR	EXPORT INCOME
1993-94	83.0
1994-95	319.0
1995-96	329.7
1996-97	318.3

Source: Export Promotion Bureau

The Problems of Jute Industry: At present the jute industry is beset with many domestic and international problems, some of which are discussed in next page.

(1) The status of Bangladesh as the sole producer of jute is decreasing day by day. Many other countries like India, Brazil, Thailand, Myanmar, Nepal and Taiwan have expanded jute production in the recent years.

(2) Jute faces tough competition from several other natural fibres, which are close substitutes of jute. Among these, hemp, kenaf and sisal are important.

(3) The major factors which reduced Bangladesh's jute markets in Europe and indeed worldwide are: the move towards bulk handling which started in the 1950s, paper and plastic bags which developed their use rapidly in the 1960s, and above all, the introduction of flat and circular woven polypropylene plastic (PP) tapes for carpet backing and sacks. This last named factor started in 1966 and radically altered the outlook for jute goods markets around the world.

(4) After liberation, the jute industries has faced multifarious problems in domestic production. Because of the old and worn out machinery, scarcity of necessary mechanical spare parts, insufficient supply of electricity, frequent power interruptions, lack of proper transport and communication, and problems of management and operational inefficiency in the public sector jute mills, both production and productivity have declined. The cost of production has also increased making the export of jute goods uncompetitive in the world market.

(5) The fundamental problems faced by the jute industry in the domestic front are: excess capacity, a structure and tradition which favours employment at the expense of productivity and indeed profitability; centralized bureaucratic decision making which has progressively got worse since nationalization in 1972; falling

standards of management and maintenance: and a huge debt problem. All these problems have to be tackled before the present spiral of decline becomes irreversible.

Future of the Jute Industry: The problems in the jute industry notwithstanding, there are still good prospects for it to be internationally competitive, if appropriate steps are taken.

(1) The production of jute per acre should be increased and the cost of production should be reduced as far as possible.

(2) There should be diversification of jute products away from the currently normal product range, viz., hessian, sacking, CBC, and yarn. For this purpose, new and diversified end uses of jute should be found, which would lessen the dependence on the traditional products. Examples of newer uses are: utilization of low grade jute (instead of scarce items like bamboo and wood) for producing pulp and paper; handicrafts and decorative fabric such as fashionable shopping bags, ladies purse, dolls, soft luggage etc; flexible jute packaging for bulk carrying of tea and other aromatic items; clothes as screen for windows and apparel wear; jute wall covering; and jute carpets.

(3) All-out market promotional activities on the basis of target markets and target products can increase the demand for Bangladesh jute goods, including diversified products.

(4) The Green Revolution and environmental awareness can lead to an increase of Bangladesh share of jute goods in the world market. Making the governments of the developed countries and regions aware that jute is more environment friendly

than synthetics can increase demand. Therefore, they should introduce national or international legislation to give preference for environmentally friendly products like jute.

(5) Reform of the jute sector through privatization and restructuring of enterprises will improve management and operational efficiency of jute mills, reduce unit cost of production, and make jute goods attractive. Demand will increase as a result.

Cotton Textile Industry

The cotton textile sector has traditionally played a dynamic role in the process of industrial growth in most developed countries, and also more recently in the NIEs in East/South East Asia. In Bangladesh, the cotton textile industry is the second largest industry after jute, and its importance can be easily gauged from the fact that it contributes more than one-third of the value addition generated by industries and its share around 5 percent of the GDP. The export-oriented ready-made garment (RMG) sub-sector, which had a modest beginning in the early eighties, has been a phenomenal success story, and currently contributes about 65 percent of the country's total foreign exchange earnings. In particular, the textiles sector directly provides employment to more than 3.5 million people, which accounts for 45 percent of the country's industrial employment. Further, the growth of the sector has spawned a whole set of linkage industries and helped expand and strengthen many service sector industries. In particular, with the expansion of the textile industry, a large number of medium and small scale engineering enterprises are being developed to meet the sector's requirements of

machinery and spare parts. Finally, the sector is also contributing to the social transformation process by providing employment in increasing number to the female work force, and thus mainstreaming them in the development frame.

It is, however, widely recognized that the cotton textile sector in Bangladesh has, in a broad sense, had a lopsided growth while the final stage RMG has flourished, there have been little or negligible effective backward linkages for developing the spinning and fabrics sub-sectors. As a result, the RMG industry has had a fragile foundation as it has so far been entirely dependent on imported fabrics, accounting for about 95 percent of the fabric needs. As regards imported accessories – where the situation appears to have vastly improved – the dependence still remains to the tune of about 50 percent of the total requirements. This has meant that the real foreign exchange earnings from RMG exports from Bangladesh is only about 20-25 percent of the total value of exports. Serious apprehensions are currently being expressed about the challenges that RMG exports will have to face in the world market in the post-MFA regime, when the sector will be completely integrated with WTO and governed by WTO rules. The crises will naturally deepen for Bangladesh unless appropriate backward linkages can soon be built to face the challenges of the emerging environment in the global textiles trade. There is therefore a crying need for creating new capacity in spinning, weaving, knitting, and dyeing and finishing industry with the most modern and appropriate technology in order to ensure quality products at competitive prices.

The Structure of Bangladesh's Cotton Textile Industry

The cotton textile sector of the country can broadly be classified into the following sub-sectors:

- 1) Spinning Mills operating both in public and private sector
- 2) Weaving mills operating both in public and private sector
- 3) Specialized textile units and power looms in the private sector
- 4) Handloom in the private sector
- 5) Knitting and hosiery units in the private sector
- 6) Dyeing, printing and finishing units under public and private sector
- 7) Export-oriented ready-made garment units

The structure of the cotton textile industry and its sub-sectors in terms of the number of units, installed capacity, and capacity utilization is shown in Table 3.2.

Table: 3.2 The Structure of Bangladesh's Textile Industry

Industry	No. of Units	Installed capacity		Actual Production (million)	Capacity Utilization (%)		Employment (000)
		Machine (000 unit)	Production (million)		Machine	Production	
Spinning	118	604	183 kg	123.2 kg	68.5	67.3	65.1
Ring: Public	27	spls	43 kg	12.7 kg	33.4	29.5	19.4
Ring: Private	76	1464spls	132 kg	104.3 kg	83.0	79.0	
Rotor Private	15	37.2 rtr	8 kg	6.2 kg	75.0	77.5	45.7
Weaving:	1126	40.27 lms	777.4 mtr	281.3 kg	45.8	36.2	60.7
Public BTMC	7	2.37 "	31.2 mtr	1.5 mtr	17.2	4.8	3.9
Private BTMC	13	2.90 "	78.2 mtr	11.3 mtr	28.1	14.4	5.5
Specialised & Powerlooms	1106	35.00 "	668.0 mtr	268.5 mtr	46.5	40.2	51.2
Handloom	212421	514.0 lms	925.0 mtr	595.7 mtr	49.2	64.4	491.5
Dyeing, Printing & Finishing: Mechanized & Semimechanized	250	0.25 unit	65.32 mtr	46.4 mtr	83.3	71.4	22.5
Knitting/Hosiery	588	8.79 mach	54.22 kg	40.28 kg		74.3	13.2
Export-Oriented	254	1.30 circ 4.36 body	37.18 kg	28.76 kg	97.5	77.3	8.5
Domestic	334	3.13 body	17.04 kg	11.52 kg	45.3	67.6	4.7
Readymade Garments	1830	101 sewing	1510.0 pcs	855.5 pcs	46.5	51.9	1200

Source: Ministry of Textiles, **Quarterly M.I.S. Report**, July-Sep 1995, Oct-Dec 1995, Jan-March 1996, and April-June 1996.

Spinning

The ring spinning and rotor spinning are the two main types of spinning technology available in Bangladesh for yarn production, of which ring spinning is the most commonly used system. There are at present 103 ring spinning mills (27 in the public sector and 76 in the private sector) with 2068 thousand spindles, which account for 95 percent of the country's total yarn production. There are at present 15 rotor spinning units, all in the private sector. The dominance of the private sector is clear: the ratio of production capacity between private and public sector is 76:24. Production capacity of the spinning sub-sector is around 183 million kg per year, of which only 67.3 percent was realized in 1995-96. Most of the units in the public sector are too old or technically out of date to produce good quality yarn. The demand for good quality yarn to produce the fabrics for both domestic and export-oriented garment industry will increase many fold in the coming years. Hence, the existing old units should be brought under BMRE programme and simultaneously new capacity with modern technology should be created to meet the present and the future demand.

Apart from cotton spinning, there are some specialized mills in wool, nylon, viscose, and silk in the public sector. There are also some polyester mills in the private sector where production started in the early nineties. There is only one woolen mill in the country (in the public sector) which is engaged in both spinning of wool and weaving of woolen fabrics. There is also one mill in the public sector producing nylon yarn. There is one viscose rayon plant (Karnaphuli Rayon and Chemicals Ltd) with annual production capacity of 1.5 million kg of

viscose staple fiber. The plant, however, was beset with many problems and stopped production in 1994. There are two silk mills in the public sector having annual production capacity of 0.54 million kg of silk yarn. Both the mills are under Bangladesh Sericulture Board. Silk industry has also been developing in the private sector, which now has an annual production capacity of 4.16 million kg.

Weaving

The production of fabrics is carried out by the organized mill sector and the handlooms. The former includes large public sector (BTMC) and private sector (BTMA) mills and smaller specialized units and power looms in the private sector which together supply about 32 percent of the country's domestic production, while the handlooms supply about 68 percent.

There are 1126 weaving mills in Bangladesh of which 7 are in the public sector managed by the BTMC, and the rest (1119) are in private sector. Among the private sector mills, 13 are members of the BTMA and 1106 are specialized units and power looms. The public sector mills supply as little as 0.5 percent, the BTMA mills supply 4 percent, and the specialized units and power looms account for the remaining 95.5 percent of the country's total domestic mill production of grey fabric.

The total annual production capacity of the weaving sub-sector is 777.4 million meters of fabric with an installed capacity of 40270 looms. However, the utilization of production capacity in this sub-sector is very low and has also been

declining in the recent years. The rate of capacity utilization is only 4.8 percent in the BTBC mills, 14.4 percent in the BTMA mills, and 40.2 percent in the specialized units and power looms. The reason behind this low capacity utilization and less production is that almost all existing loomage capacity in these mills is old having shuttle looms of narrow width with out-dated technology. There is an urgent need to modernize and update the existing weaving units with most modern technology to meet the growing demand of the domestic and the export-oriented ready-made garment sectors.

Handloom

The handloom industry dominates the weaving sub-sector in terms of production of fabrics, supplying about 68 percent of the local fabric requirements. There are 212,421 handloom units in the country with a total of 514 thousand looms, which have a production capacity of around 925 million meters of fabrics. At present, the capacity utilization in terms of machinery is 47 percent, and in terms of production 64 percent. The low capacity utilization as well as its decline in the recent years can be attributed, *inter alia*, to shortage of working capital, high price of inputs, and particularly, uneven competition from illegal imports.

Knitting/Hosiery

There are at present 334 hosiery units having 3131 body machines engaged in meeting domestic demand (for under garments, stockings etc.). These units have annual production capacity of 17 million kg. However the capacity utilization of these units in terms of installed machinery is only about 45 percent. There are also

254 knitting units with 1309 circular knit machines and 4363 hosiery body machines in the export-oriented sector having an annual production capacity of 37.2 million kg. Utilization of production capacity in the export-oriented sub-sector is the highest (98 percent) among all sub-sectors of the textile industry. This is a highly promising sub-sector and supplies about 40 percent of the total requirements of the export-oriented garment units of the country.

The knitters of Bangladesh mostly depend upon imported yarn due to the insufficient availability of the desired quality of yarn from the local source. The establishment of modern spinning mills is necessary to produce the superior quality for the knitting industry, which will ultimately increase the value addition of the export-oriented garment sector.

Dyeing, Printing and Finishing Industry

There are 75 mechanized and 175 semi-mechanized dyeing, printing and finishing units with a total production capacity of 653 million meters. The capacity utilization in terms of production is 71 percent. Besides, around 600 million meters are said to be dyed and finished manually in the non-mechanized mills per year. A problem with the dyeing, printing and finishing industry is the use of old and out-dated machinery for which quality of output is very poor. There is, therefore, a strong need for establishing new units with modern technology to meet the present and future requirements of the domestic and the export-oriented RMG sector.

Ready-made Garment Industry

The export-oriented RMG industry made its first appearance in Bangladesh in 1977 with 9 units having annual production capacity of 8.01 million pieces of garments and generating export earnings of only 0.07 million US dollars. As of June 1996, there were 1830 export-oriented RMG units, with 101 thousand sewing machines having annual production capacity of 1510 million pieces. The latest information is that there are now more than 2200 export-oriented RMG units in the country. In 1995/96, the RMG exports generated foreign exchange earnings worth US\$ 2.58 billion, a 5-fold increase over 1989/90, depicting an annual compound growth of over 30 percent during these years (Table 3.3)

Table: 3.3 Production and Export Earnings of RMG Industry.

Year	Production (million pcs)	Value of Exports (million Tk)	Value of Export (million US \$)	Annual Growth Rate of Value of Exports (%)
1977-78	3.15	1.02	0.07	-
1978-79	3.94	1.56	0.10	42.8
1979-80	13.40	10.08	0.68	580.0
1980-81	23.64	52.99	2.93	330.9
1981-82	30.73	140.14	6.34	116.0
1982-83	34.62	255.22	10.42	64.4
1983-84	36.25	774.78	30.74	195.0
1984-85	206.85	1,944.08	69.43	125.9
1985-86	291.56	2,916.93	96.27	38.6
1986-87	255.11	9,650.02	311.29	223.3
1987-88	285.50	10,482.74	332.78	6.9
1988-89	296.46	12,006.66	372.07	11.8
1989-90	316.12	17,910.04	513.18	37.9
1990-91	367.12	23,344.22	652.25	27.1
1991-92	436.43	42,750.00	1,096.15	68.1
1992-93	582.29	57,275.00	1,439.07	31.3
1993-94	789.47	61,997.00	1,540.30	7.03
1994-95	1,184.20	89,529.00	2,232.64	44.9
1995-96	1,315.80	106,337.00	2,581.00	15.6

Source: Export Promotion Bureau.

The phenomenal growth of the RMG industry can be attributed to factors like cheap and abundant labour supply, use of inexpensive and easily available machinery, low capital requirement, the emergence of a rising class of well-motivated entrepreneurs, favourable policy incentives such as a liberal trade policy for the RMG industry, preferential tariff on imported machinery, bonded warehouse facilities for duty-free imports of inputs, facility to import under back-to-back L/C, and liberal bank finance facility, and above all, the benefit of reserved markets that the country has enjoyed in industrial countries under the quota system of Multi Fiber Arrangements (MFA).

However, the export-oriented RMG industry has so far been dependent mostly on imported fabrics because the local fabrics are of inferior quality and inadequate supply. To feed the industry with the required fabrics, development of backward linkage industry is very essential with the creation of new capacity in spinning, weaving, knitting, and dyeing and finishing industry with appropriate technology.

Problems and Prospects of Textile Industry

The domestic production of fabrics falls far short of demand for domestic use and for the export-oriented RMG sector, and the gap between demand and supply will be widened over the years to come. According to BGMEA and Textile Ministry sources, the country's total demand for fabrics was 2839.18 million meters in 1993-94, which was 1807.48 million meters higher than what the domestic weaving industry could produce. The demand-supply gap will further increase to 2899.33 million meters by 1999-2000, and to 4131.49 million meters by 2004-05.

To meet this total demand and supply gap, the country would require a large amount of new capacity in spinning, weaving, knitting, and dyeing and finishing.

The total domestic production of yarn is also too small to meet the requirements of fabric production for domestic consumption and for the export-oriented RMG industry. The demand for yarns to produce fabrics for domestic use during 1993/94 was 151.86 million kg as against the domestic production of 113.20 million-kg (a shortfall of 38.66 million kg). But adding the domestic demand of yarns to the yarn requirements for producing fabric for the export-oriented RMG (assuming that all RMG needs will be met locally), it comes to 369.98 million kg and the demand-supply gap appears to be 256.78 million kg. This gap will gradually increase to 398.78 million kg by 1999-2000 and to 560.62 million kg by 2004-05. To meet this huge demand, the productivity of the existing spinning facilities have to be improved, by BMRE programme wherever applicable, and new spinning units will have to be established.

The cotton textile industry and its various sub-sectors are beset with many problems, some of which are highlighted in table 3.4. There are yet other problems, which are the result of inappropriate government policies, and still others that emanate from policies and practices pursued by other countries. Appropriate solution of these problems is to be found if the professed objective of achieving self-sufficiency in the textile sector is to be achieved. Some of the major problems are discussed in the following.

Table: 3.4: Major Problems of the Textile sub-sectors

Textile Sub-sector	Major Problems Identified
Spinning	(1) Obsolete technology (2) Frequent interruption of electricity (3) Scarcity of raw materials (4) High import duty on raw materials and spares (5) High percentage of wastage (6) Lack of proper maintenance of machinery (7) Slow progress of privatization of public textile mills
Weaving	(1) Obsolete technology (2) Inferior quality product (3) Low capacity utilization (4) High prices of yarn (5) High tariff and taxes on imported yarn (6) Electricity failure (7) Lack of working capital (8) Non-availability of funds for BMRE Of some industries
Handlooms	(1) High prices and irregular supply of yarn and raw materials (2) Non-Availability of working capital (3) Lack of trained manpower (4) Problems of marketing as the industry is unorganized in character
Dyeing, Printing, and Finishing	(1) Lack of modern facilities (2) Shortage of quality yarn and fabric from domestic sources
Knitting and hosiery	(1) Technological handicaps in knitting and fabric processing (2) Non-availability of quality raw materials (3) Shortage of working capital
Sericulture and silk industry	(1) Shortage of cultivable land (2) Lack of research (3) Traditional technology (4) Excessive operational cost in the public sector (5) Dearth of skilled workers

Source: Government of Bangladesh, Textile Policy 1995.

(1) There is the lack of a well-defined strategy for the development of the sector, although the Government's 1995 Textile Policy designated it as a 'Thrust Sector'.

The textile policy emphasizes the need for achieving self-sufficiency in textiles through a harmonious development of all textile sub-sectors. The thrust is for establishing backward linkages so that value addition can be increased. There is, however, little indication as to how this objective will be achieved.

(2) There are certain anomalies and inconsistencies in the structure of tariffs and other types of protection accorded to this sector which in effect adversely affect its growth.

(3) The most debilitating constraint faced by the industry is the high cost of raw cotton, which makes the locally produced yarn uncompetitive with that of India and Pakistan. In order to relieve the industry from the disadvantages it suffers in competition with the neighboring countries, an appropriate support mechanism will have to be introduced.

(4) The machinery and spare parts imports for all sub-sectors should be allowed duty free. A major structural constraint faced by the industry is the problem of technology. In most cotton mills, technology used is very old. Machinery used is out-dated, with little or no investment made for renovation and modernization. Some units have new equipment but very conventional technology. There is in fact no alternative to getting the latest technology if the industry is to become internationally competitive.

(5) Power shortage has been a chronic problem in Bangladesh which affects every sector including the textile sector and is a major reason for low capacity utilization.

(6) The lack of access to cheap credit is a serious constraint faced by the textile industry.

(7) Another problem pertaining to the textile industry is the lack of trained and qualified manpower. With the installation of sophisticated units, the demand for qualified textile engineers, managers and operators will go up. At the present, the country does not have adequate facilities to produce the required number of qualified and skilled personnel.

(8) Finally, and most importantly, a huge investment would be needed in the various textile sub-sectors. Given the poor physical and socioeconomic infrastructure it is very difficult to attract foreign investment in this sector. An all out effort must be made to mobilize domestic resources as well as external funds to meet the investment demand.

LEATHER INDUSTRY:

The Leather industry and its development deserve some special attention. It is an old and established sector and a major exporter of merchandise products. For several reasons it can be considered a dynamically important sector for Bangladesh. Firstly, a trend is discernible in the international market for leather to

shift the tanning process away from the increasingly strict environmental controls in industrial countries towards developing countries like Bangladesh with long tradition and adequate water supplies. Secondly, the leather and leather products industry is a chain of inter-related products, each of which can be imported or exported. Under the circumstances, Bangladesh can have the option of specializing in those products in which it has comparative advantage. Some of the products are quite labour intensive and Bangladesh can expect to take advantage of lower wages to ensure competitiveness in the production of such goods. Thirdly, enormous potential exists to increase the export revenues through policies to discourage smuggling of hides and skins, better preparation and preservation of hides and skins, and to improve processing in the tanneries. The main features of the leather industry as discerned in the following will indicate the problems and potential for the industry.

The leather sector covers a number of activities -- hides and skins collection, tanning of leather into wet blue, crust and finished leather, footwear and other leather products. Each of these products may be used as input to another stage of production. But each output individually can either be imported or exported in the world market.

The collection of hides and skins is the first stage in the leather industry. The industry in Bangladesh is based on the use of indigenous cattle (cow/buffalo) hides and goat/sheep skins. Domestic supply, however, is limited by the slaughter rate for meat and for ceremonial use during Qurbani, a religious festival for the

majority population. Present annual supply is estimated at 175 million square feet of which the contribution of cow/buffalo hides and goat/sheep skins is at the proportion of 2 to 1. The availability of hides and skins has remained more or less constant at this figure as is evidenced from the volume of leather produced and exported in the recent years (see table 3.5). The prospect of increasing the domestic supply in the short to medium term is very limited as growth in herd size is limited. The country has little possibility to support an increased herd size within the present husbandry practices.

Table 3.5 Production and Export of Leather.

Year	Production (million sft)	Export (million sft)	Export (million US \$)
1991/92	121	120	145
1992/93	143	139	148
1993/94	165	157	168
1994/95	165	162	202
1995/96	176	156	212
1996/97	N.A.	133	185

Sources: Bangladesh Bureau of Statistics, Export Promotion Bureau.

The supply situation may be improved by allowing free imports of hides and skin which until recently remained banned. Despite the lifting of ban, the actual import has remained negligible. There are, however, possibilities of increasing the supply of raw materials by removing the various problems from which the existing supplies of hides and skins suffer. Because of unscientific and primitive modes of cattle rearing in the country, scars and injuries are common in the cattle hides.

Cattle hides suffer from removal defects and damages as well. Much of the hides and skins are also spoiled by poor handling by the middlemen and lack of skills or facilities for proper preservation.

A good thing is that, the quality of Bangladesh hides and skins has universal acceptance. The quality of goat skins is particularly good and its light and fine grain is accepted as suitable for the manufacture of good leather goods. The goat skins are also free from defects and damages because these are usually pulled and not flayed. The quality of cow hides is also better than of those in India where most hides come from animals that have died of disease.

The domestic consumption of leather in Bangladesh is very low relative to total availability. Only 15-20 percent of the available hides and skins are used in the production of shoes and a variety of leather goods for domestic consumption. Export of leather shoes is very small. Domestic consumption being low relative to availability, there is a great need to export the surplus material. Government policy has been to encourage greater value addition in production and export of crust and finished leather instead of in raw or wet blue form. Export of hides and skins is banned in order to promote leather finishing of domestic supplies of hides and skins. The export of wet blue has been restricted since 1977 to promote the export of finished leather.

In the long run, export income from this sector should accrue more from value added through a gradual shift from the fully finished leather to the manufacture

of leather goods, such as footwear, gloves, handbags, wallets and leather garments for which there are growing markets abroad.

In the medium term, however, emphasis should be more on finished leather exports. This will call for support of measures to the existing tanneries in the form of speedy and concessionary import of chemicals and components for processing as well as establishment of new ones, preferably with joint ventures involving foreign investment, for developing the competitiveness and technological and marketing capabilities of the industry.

For the development of the leather industry and for maximizing export income from this sector, several recommendations can be made.

(1) Proper Trade and Industrial Policy: The Government of Bangladesh should pursue a pragmatic trade and industrial policy for the development of the leather and the leather product industry. Separate cells may be established and strengthened in the Ministries of Commerce and Industry for the purpose.

(2) Common Finishing Facilities Centre: A common Finishing Facilities Centre should be set up to provide infrastructural facilities to the various institutions which are closely linked and connected with the leather industry. The small tanneries will be able to produce finished leather goods if such a centre is set up.

(3) Import of Leather, Equipment and Chemicals: Import duties on chemicals and spare parts used by the manufacturers of wet blue, finished leather and leather goods should be reduced. Duty-free and unrestricted imports of finished leather should be ensured to the producers-exporters of leather products, particularly potential exports of footwear and leather jackets, so that they can respond to comparative advantages offered by low wages. Simultaneously, the entrepreneurs of this industry should be provided with loans with low interest to meet their investment needs.

(4) Imports of hides and skins should be free from all complications so that the tanning capacities may be utilized more fully.

(5) Facilities for the supply of electricity: Dearth of supply of electricity is a major problem of leather industry. It is often found that tanneries are left out of electricity for even 2 to 3 hours together. It stands as a great barrier to the processing and finishing of leather. Supply of electricity should be ensured in these industries round the clock; otherwise the industries will incur losses continuously.

(6) Facilities for Investment: The Government of Bangladesh can attract foreign investors or entrepreneurs by providing them with some investment facilities. Provision should be made so that the domestic entrepreneurs can work in joint-venture or in collaboration with the foreign investors to establish industries of leather goods and chemicals used for the leather industries. These facilities should

be provided by the Government for the future development of our leather industries.

(7) Separate Industrial Estate (Leather Town) for tanneries: The whole world is striving against environmental pollution. But in this country there are no treatment plants. Therefore, the emitted dirt by the tanneries affects the environment dangerously. So, the government should take steps to select a vast land area for the tannery industry with all the facilities of fresh water treatment plant, electricity, gas, transport and roads, labour colony, and the establishment of warehouse for storing raw leather.

(8) Hazaribagh, which is the centre of leather industry and trade, is in urgent need for improved civic facilities. The roads need to be widened, drainage needs improvement and effluent facilities need to be installed. Until such time as the "leather town" is developed, no existing industrial unit should be forced to move out there.

(9) There is a general lack of technicians to ensure high quality tanning of wet blue, crust or finished leather. The output of technicians from the Institute of Leather Technology is small. Both private and public sectors need to invest more in imparting training and research activities.

(10) Leather producers-exporters through their trade associations and the Export Promotion Bureau should ensure quality control of leather exports.

(11) Lastly, to familiarize Bangladesh's leather goods in the international market, producers-exporters of leather goods should be encouraged to participate in different international leather exhibitions and trade fairs. Bangladesh's Embassies and High Commissions abroad as well as foreign missions situated in Bangladesh can play a vital role in this regard.

TEA INDUSTRY

Tea Industry is one of the major large-scale industries of Bangladesh. There are at present 158 tea estates in the country where tea is produced on commercial basis. Tea is produced in 47,781 hectares of land in Bangladesh. Ninety percent of the total production of tea is produced in Sylhet, Moulavibazar and Habiganj, and the remainder is produced in Chittagong. Most of the tea processing units are established in the Sylhet region. The concentration of tea estates and plants in the Sylhet region can be attributed to certain locational advantages.

Firstly, Production of tea needs huge amount of rainfall. But water should be removed from the pedestal, for otherwise stagnant water will damage crop. In Sylhet, the water can be easily drained away from the hilly areas, which is why tea is grown in these places in huge quantity.

Secondly, tea industries require efficient and experienced labour for tea processing. Efficient labour is very much available near the tea gardens of Sylhet region, and as a result tea industries have developed there.

Bangladesh is, however, a small world producer and exporter of tea. Both production and export have remained stagnant in the recent years, as tables 3.6 and 3.7 indicate.

Table:3.6 :Production of Tea.

Year	Production (million Kg)
1992-93	49
1993-94	51
1994-95	47
1995-96	51

Source: Bangladesh Bureau of Statistics.

Bangladesh exports tea mainly to U.K, U.S.A, France, Germany, Italy, Russia, Holland, Czechoslovakia, Bulgaria, Poland, Hungary, Japan, Egypt and Pakistan.

Table:3.7 Value and Volume of Bangladesh's Tea Exports.

Year	Value (million US\$)	Volume (million kg)
1992-93	41.0	32.8
1993-94	38.0	27.4
1994-95	32.8	25.2
1995-96	33.4	21.4
1996-97	38.3	32.0

Source: Export Promotion Bureau.

Major problems confronting the tea industry are the stagnant level of production, caused principally by natural factors like irregular rainfall, but also by poor access to capital and modern technologies. The most important impediment to tea export, however, lies in its quality, which is now at the lower end of world scale. Bangladesh, which produces less than 3 percent of world tea exports, may increase its share of the world market through improvements in product quality. The experience of Malawi, which went through a process of upgrading its tea industry and thereby obtained substantial benefits, is indicative of the possibilities. Prospects for Bangladesh should, therefore, be better if a thorough rehabilitation program is undertaken by tea estates to improve quality and expand production.

PAPER INDUSTRY:

Paper industry is another major industry of Bangladesh. There was no paper industry in this country during the time of partition of India in 1947. A paper mill was established in 1953 in Chandraghona of Chittagong Hill Tracts which was named "Karnaphuli Paper Mill", which is the foremost and the biggest paper mill in this country. At the initial stage the production capacity of this mill was 30 thousand tons. The current production capacity is 60,000 metric tons. A newsprint mill was established near Khulna in 1959 known as the Khulna Newsprint Mill (K N M). It is the second largest paper industry of Bangladesh. The installed capacity of 48,000 metric tons is not, however, sufficient to meet the country's domestic demand. The demand for newsprint has increased rapidly during the last few years because of its use as writing paper and the government's policy of cherishing the

freedom of the press. And a large quantity of newsprint is being imported into the country to meet the shortfall.

The geoa wood of Sundarban is used as the raw materials of paper and newsprint. A hardboard industry was established in Khulna in 1966 with a production capacity of 10,000 metric tons per annum. In 1969 a paper mill was established in Pakshi of Pabna known as "North Bengal Paper Mill."

The production capacity of this mill is 15.24 thousand metric tons per annum. In Chhatak of Sylhet a paper and pulp mill was established with the capacity of 45,000 metric tons per annum. A mill named Adamjee Particle Board was established in Narayanganj near the Adamjee Jute Mills, with an annual production capacity of 5,600 metric tons of particles. Another Hardboard mill was established in Kaptai in the district of Rangamati with the capacity of 2,500 metric tons.

These industries produce mainly writing paper, printing paper, packing and other papers and newsprint. The paper industries use mainly bamboo, softwood, nalkhagra, bagasse and jute straw as raw materials. Bangladesh is, however, a net importer of paper and newsprint, even though it could export a sizeable quantity of newsprint only a few years ago.

The Problems of Paper Industry: The paper industries in our country are beset with many problems.

Scarcity of raw materials: Bamboo, nalkhagra, soft geoa wood, bagasse etc. are used as raw materials in the paper industry. Supplies of these materials are, however, insufficient and irregular. Most of these materials are also used as fuel, as a result of which the scarcity of raw materials creates problems for capacity uses of paper industries.

Scarcity of chemicals: One of the major problems of paper industry is scarcity of chemicals. Caustic soda, bleaching powder, soda ash, chlorine, sulfur, sodium sulfate, aluminum sulfate etc. are the important ingredients used by paper industries. The cost of production is high because of the high cost of imports of these materials. Irregular availability as well as high import duties raises production cost further making the products internationally uncompetitive.

Dearth of Power: Insufficient availability of power supply is a major problem of the paper industry. There is no supply of natural gas and hydro electricity in the western and southern parts of Bangladesh. For this reason, there prevails continuous scarcity of electricity in the paper mills of these regions. Moreover, frequent interruptions of power supply throughout Bangladesh are a great hindrance to smooth operation of all industries in general. The paper industry is, therefore, no exception.

Labour Unrest: A major problem of the development of paper industry is labour unrest, which, as in many other industries, leads to the decline in production in the industry.

Low quality of production: Another important problem of the paper industry is the low quality of paper and newsprint, which, together with high production costs, makes the locally produced paper and newsprint less attractive to consumers, vis-à-vis the imported products.

Suggestions for the Development of Paper Industries: The following suggestions may be helpful for the development of paper industries of our country:

(1) Supply of raw materials: Adequate supply of raw materials required to run the paper industry should be ensured. For this purpose, the production of bamboo, geoa, nalkhagra, etc. should be increased. Bagasse should be supplied to the paper mills instead of using them as fuel. By increasing jute production, the green jute may be used as raw materials in the paper mills.

(2) Manufacturing of chemicals: The chemicals needed in the paper industries should be produced domestically to ensure their easy availability.

(3) Supply of electricity: Regular supply of sufficient electricity must be ensured for the paper industries to utilize their capacity to the full extent.

(4) Standardization of paper: The paper produced in the paper industries should be of high quality and standardized. If the quality becomes better it will be more attractive to the domestic consumers as well as to foreigners. Enhancement of

quality may enable saving or earning a significant quantity of foreign exchange by the paper industry.

Main Cottage Industries in Bangladesh: The cottage industries in this country have passed through very difficult times during the British rule. The problems persisted during the Pakistani regime and continue till today. There are a number of cottage industries of various types in the country, which are striving hard for their existence. With appropriate policy assistance, these may survive alongside the large and medium sector industries of the country. The principal cottage industries of Bangladesh are briefly discussed here.

(1) Handloom Industry: It is the most important cottage industry of Bangladesh. The famous products produced by these industries are Muslin, Zamdani, Pabnai, Bayazidpuri, Benarashi sarees, Lungi, Ganjee, Socks, Mosquito-net, clothing etc. They have good demand in the domestic market. The principal centres of handloom industry in Bangladesh are Dhaka, Pabna, Narshingdi, Baagerhat, Mynamati and Tangail. Handlooms currently meet about 68 percent of the domestic fabric requirements of the country.

(2) Silk Industry: Silk cultivation and silk weaving are other important cottage industries which are found in the northern districts of Bangladesh. Rajshahi and Bogra are the important centers of this industry.

(3) **Hand-Spinning industry:** Noakhali and Comilla are the principal centers of this type of cottage industry. Hand spinning industry produces "Deshi Khaddar" cloth made of yarn.

(4) **Pottery Industry:** This industry produces various types of earthenwares. Pottery industry is scattered all over the country. These industries produce jar, container, plate, and tub, which are the important earthenwares of Bangladesh. A considerable number of people are employed in this industry and its products are very popular among the great mass people of our country.

(5) **Bidi making industry:** One of the principal cottage industries in Bangladesh is Bidi making industry. The people of rural areas in general and the low income group of people in particular happen to be the main consumers of bidi. During the Pakistan period bidi production was virtually stopped, but after liberation, due to rise in the price of cigarettes, these industries have shown signs of a revival. Thousands of people are engaged in bidi making in this country.

(6) **Coir Industry:** Coir industry produces rope, yarn, twines, brushes etc. These are produced out of raw jute, coconut, husk etc. The coir industry is found in the coastal districts of Bangladesh.

(7) **Conch-shell and Ivory Industry:** The principal products of this industry are buttons, combs, bangles, rings, necklaces and various kinds of ornaments. Dhaka, Jessore and Rangpur are the main centers of conch-shell, and ivory industries.

These products are very popular and can also successfully compete with the products of large-scale industries.

(8) Cane and Bamboo Industry: Different kinds of furniture of various designs are made of cane, bamboo, hogla leaves etc. on cottage industry basis in some parts of Bangladesh. Dhaka, Khulna Sylhet, Barisal, Chittagong and Chittagong Hill Tracts are the important centers of these industries. Sylhet is the most important and prominent center for the cane industry.

(9) Salt industry: Salt industry is an important cottage industry of Bangladesh. Chittagong, Noakhali, Khulna, Barishal are the important salt producing centers. Salt is produced by evaporating sea water on cottage industry basis.

(10) Soap Industry: Dhaka, Chittagong, Bogra, Comilla etc. are the important centers of this industry. Washing soap in Bangladesh is produced mainly on cottage industry basis.

(11) Wood Industry: Wood industry is found almost all over Bangladesh. The important and mentionable products of wood industry are bedstead, chair, table, alna, almirah, plough, boat, and various types of house construction materials.

(12) Brass and Metal Industry: These industries mainly produce ashtrays, cutlery goods, flower vases, ornaments etc. The main centers of these industries are Dhaka, Narayanganj, Mymensingh, Rajshahi and Faridpur.

(13) Leather Goods Industry: Leather products are produced in Bangladesh on small and cottage industry basis. The important products of this industry are bags, belts, shoes, sandals and suitcases.

(14) Miscellaneous: Other cottage industries, in addition to those mentioned above, are mat-making, oil-pressing, book-binding, rice-husking, cheera producing, milk and milk products, cosmetic goods, musical instruments etc.

Main Problems of Cottage Industries in Bangladesh: Cottage Industries occupy a significant position in the economy of Bangladesh. Some of these industries had a glorious past, but factors like policy biases of the British Colonial regime against cottage industries and in favour of large-scale ones, lack of direct patronage by the Government during the Pakistan regime, competition from cheap machine made goods, and changes in the consumer tastes towards sophisticated machine-made products of modern industries thwarted their development and gradually led to a decline in these industries. At the present, cottage industries are badly organised and face many problems, some of which are discussed here.

(1) Lack of capital: The artisans of cottage industries are very poor. They have virtually no savings, and hence they have very little capital of their own. The dearth of capital is in fact the major constraint to the development and expansion of our cottage and small-scale industries.

(2) Lack of credit: Because of the dearth of capital cottage industries require credit for their operation. The village moneylenders charge a very high rate of

interest on the capital supplied by them. The cost of loans from these sources is thus very high. The quantity of their loanable funds is also small. The Commercial Banks hesitate to extend credit to the cottage workers because they cannot offer suitable securities. They, therefore, fall in the hands of fariahhs and beparies who advance them credit at a very high rate of interest and purchase their products at lower prices. The cottage and Small Industries Corporation has been giving some amount of credit to these industries, which also is insufficient to meet their needs. According to the directive of the Government of Bangladesh the Commercial Banks and Co-operative societies advanced some loans, but these also fell short of actual credit needs of the cottage workers.

(3) Low Wages: Cottage Industries cannot offer satisfactory wages to its workers, as a result of which they are gradually leaving such industries in search of higher wages in other fields of occupation.

(4) Dearth of raw materials: The cottage artisans cannot purchase sufficient quantities of raw materials due to lack of good communication facilities, the ignorance of market conditions, and for want of sufficient capital and credit facilities. They cannot also procure raw materials of good quality. Cottage industries cannot therefore ensure regular supplies of good quality finished products.

(5) Scarcity of Modern Tools: For regeneration and proper development of cottage industries, the availability of modern tools and implements is a must. But

financial disability acts a major constraint for our cottage industries to purchase modern tools and implements.

(6) Lack of Education: General education is a quality that makes workers ambitious and more responsible that help increase their productivity. But most of the artisans and craftsman of our cottage industries are illiterate which is one of the deterrents to the progress of such industries in Bangladesh.

(7) Lack of technical training: There is a general lack of technical education and training among artisans of Bangladesh. They are not fully acquainted with the modern and up to date techniques of production. There is no arrangement in our country to give them proper training, for which their productivity and efficiency suffer.

(8) Inferior Quality Product: The use of old and outdated techniques of production, the absence of modern appliances, lack of general education and technical training, all result in the production of inferior quality of products, which fail to meet the changing tastes of the present day consumers.

(9) Lack of Power: The cottage industries in developed countries are run by power-driven machines which enables quick supply in large amount and of better quantity at low cost. But cottage industries in Bangladesh are mostly situated in the rural areas where there is insufficient arrangement for the supply of cheap power, and hence these industries are operated manually employing a very

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difficult and crude production process. For this reason, the output produced seldom becomes uniform, and the product standard becomes inferior.

(10) Absence of Government Patronage: Lack of proper patronage and attention by the government over the ages led to the overall decay and degradation of cottage industries in this country. The British Government did not take any steps to develop the cottage industries of Bangladesh. They rather destroyed some of our industries in a planned manner, as a result of which the world famous Muslin industry was completely ruined. The situation was almost similar during the Pakistan regime. As a result, our cottage industries are still at such a backward stage.

(11) Competition with large-scale industries: The cottage industries of Bangladesh have to face tough competition with the large-scale industries, which have huge physical and financial resources. As the products of cottage industries are of low quality and lack standardization, they cannot withstand the competition from products of large-scale industries. Being unable to face competition, some of the cottage industries have already stopped production and disappeared altogether.

(12) Change in consumer's taste: The consumers' tastes and habits are changing rapidly. They prefer the products of large-scale industries, because, compared to the cottage products, these are more up-to-date in fashion, more qualitative and relatively cheap. As such, the market of cottage products is being narrowed down day by day.

(13) Exploitation of Middlemen due to defective marketing and communication system: The owners of cottage industries are ignorant of the different market conditions as they are illiterate. They cannot send their products to furthest places to sell them at higher prices due to defective marketing and communication systems. Their holding capacity is also small because of poverty and financial weakness. Therefore the middlemen exploit them as they are compelled to sell their products to them at low prices immediately after the completion of production.

(14) Uncertainty of market: The cottage products do not have steady demand and hence the market for these products is uncertain. The absence of proper gradation and standardization of cottage products according to quality often discourages buyers.

Suggestions for the solution of the problems: The importance of cottage industries hardly needs any exaggeration. Given the income and employment generating potential, cottage industries should be revived and developed by finding appropriate solution to their diverse problems, as mentioned earlier. Some tentative suggestions are made in the following:

(1) Improvement of credit facilities: Credit facilities should be provided to the cottage industries on easy terms and conditions and at lower rates of interest. The commercial banks, agricultural banks, and cooperative societies should be made to play a useful role in that regard.

(2) Upto date technique of production: Modern tools and implements should be used for the regeneration of cottage industries. The small and cottage industries of Japan have been able to exist side by side with large-scale industries because of their adoption of modern techniques. In our country the Government should help the cottage industries to get modern tools and implements at subsidised prices. The BSCIC can do a lot in this respect.

(3) Supply of raw materials: Government should restrict the export of raw materials in order to enhance their availability for processing by the cottage industries. Cooperative societies can help the cottage workers to buy the raw materials in large quantities and at low cost, and store them up for the whole year. The Government should make arrangements to ensure the supply of imported raw materials, as and when required.

(4) Education and Training: General education and technical training are essential to improve the skill and efficiency of workers. Government-patronized cottage industry homes and vocational and technical training institutions should be established to impart training and technical knowledge among the illiterate artisans.

(5) Marketing facilities: The formation of cooperative marketing societies by the cottage industries may solve the problem of marketing. The Government should take a systematic attempt to popularise cottage industry products at home and abroad by propaganda through cinema, radio, television, exhibition, and fairs.

(6) **Supply of cheap power:** The use of power driven machines by cottage industries can increase their efficiency and result in quick production in large volume with better quality and at low cost. Uninterrupted supply of power should, therefore, be made available to the cottage industries at comparatively low cost.

(7) **Development of transport and communication:** The transport and communication system of the rural areas should be improved so that cottage industries can procure raw materials in time and at low cost and also easily market their products to the furthest places at remunerative prices.

(8) **Creation of external market:** External markets for our cottage products should be explored. The commercial sections of Bangladesh missions abroad can play a useful role in popularising Bangladesh's cottage goods in the international markets. Participation in international fairs and exhibitions will also be helpful in that respect.

(9) **Classification and standardisation of cottage products:** The products manufactured by cottage industries should be properly classified, graded and standardised. This will help the buyers from distant places to choose the goods just by seeing the sample.

(10) **Purchase by the Government:** Government may purchase cottage products, whenever possible. This will also encourage the general public to buy more cottage articles and thus boost their demand in the country.

(11) Protection from foreign competition: Protective duties may be imposed to protect products of domestic cottage industries from foreign competition. At the same time, a suitable policy of subsidising domestic products may be devised to keep them competitive against imported products.

(12) Extensive research: For qualitative improvement of cottage industries and making them produce products according to the taste and liking of the consumers, extensive research should be undertaken by the Government. Research will be needed to invent new production techniques, and improve product standards with a view to making the products attractive to the clientele and raise their demand.

From the above discussion it is clear that though there are a number of industries of different types in Bangladesh, they suffer from manifold problems and difficulties. Different policies have been initiated for the development of these industries at different times, but the problems and drawbacks, which they face still, persist. Therefore of these industries have fallen sick. Some have incurred heavy losses, as a result of which they are about to be closed down and those, which are still running, have to face innumerable problems on the way of their operation. So, instead of developing gradually, the industries sector is moving downhill day by day. It cannot contribute to the economy of Bangladesh as expected. The Government should attach much more importance and emphasis to the development of the industries sector. Some suggestions have been made in the foregoing, which will be instructive to the policy makers.

CHAPTER IV

THE EVOLUTION OF INDUSTRIAL POLICY IN BANGLADESH

The industrial policy is purported to create a stable climate for industrial growth intending to improve the long-term performance of the economy in terms of productivity, employment, and international competitiveness. The term "Industrial Policy" is, however, very comprehensive and often misleading. It covers such a wide range of options and instruments falling under the domain of trade, fiscal, monetary and exchange rate policies that one may prefer to consider the broader term "Industrial Strategy" as a more appropriate way to describe the environment in which economic policy making should take place. Because of their close interrelationships, a judicious co-ordination of these instruments is essential for attaining the professed objectives of industrial policy.

Before attempting an outline of how industrial policy in Bangladesh evolved over the past two decades, the meaning of the term "Industrial Policy" should be made clear. First, the "Industry" of industrial policy is generally assumed to be "manufacturing" and does not include agriculture, construction, services, or transportation. However, certain service industries that are closely linked to the development of a manufacturing industry, such as computer software or telecommunications, may well be considered as objects of "Industrial Policy", as may electric power and other energy-related sectors.

Secondly, the policy contents of industrial policy are very wide and may be grouped as follows: (1) policies that affect the allocation of resources to industry, i.e., policies that affect the infrastructure of industry in general, such as the provision of industrial sites, roads and ports, and electric power; (2) policies aimed at regulating the internal organization of particular industries, such as industrial restructuring, consolidation of firms, output restrictions, and the adjustment of output and investments; (3) policies influencing the growth of small and medium enterprises (SMEs); (4) policies directed at achieving non-economic goals, such as local industrial promotion measures aimed at regional development, measures designed to restrain the consumption of luxury goods, and measures to increase the self-sufficiency of certain goods for national security reasons.

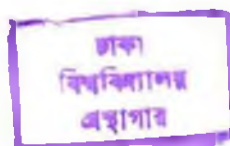
Evolution of Industrial Policy:

Bangladesh inherited the industrial policy framework from Pakistan. This policy emphasized on import substitution and was based on bureaucratic control of a largely private industrial sector. Before independence of Bangladesh the West Pakistanis owned the industrial enterprises. After the independence of Bangladesh in 1971, the Government of Bangladesh (GOB) nationalized all industries abandoned by West Pakistani entrepreneurs and also all Bangladeshi owned enterprises with fixed assets exceeding Tk.1.5 million. All large-scale industries, in particular jute and cotton, textiles, and sugar were totally nationalized. Therefore, the public sector's share in the fixed assets of the modern industrial sector went up to 92%, and the number of enterprises under public ownership reached 854 of which 392 were nationalized large and medium scale enterprises and the remainder abandoned units.

The First Phase

The first Industrial Policy statement in Bangladesh was issued in January 1973. It restricted the role of the private sector by limiting investment to TK. 2.5 million, which could be developed through reinvestment of profits. The policy permitted foreign direct investment (FDI) in joint venture with the public sector and with minority equity participation. The policy certainly ensured a ten-year moratorium on nationalization and provided fiscal and other incentives to potential investors. The aim of the overall policy was to foster and maintain public enterprises in large and medium scale industry and to limit private sector activity to only small industries.

Since 1973, the GOB's policy shifted towards encouraging private sector in manufacturing by reducing the role of the public sector. In July 1974, the industrial investment policy was revised and the investment ceiling was increased from TK. 2.5 million to TK. 30 million. The number of industries reserved for the public sector was reduced to 18. Fiscal and monetary incentives were used to encourage private investment. For purpose of incentives (import duty rebates, tax holiday etc.), the country was classified into developed areas, development areas, and priority development areas. The policy allowed private investors whether local or foreign to set up enterprises along with public sector corporations except in some basic industries. The moratorium on nationalization was increased from 10 to 15 years, and tax holiday for less developed areas was extended from 5 to 7 years. In addition to this a Priority List of Industries (PLI) was published in October 1974 for liberal tariffs.



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As the response of the private sector to these policy changes was very poor, the Industrial Policy was again revised in December 1975. The policy initiated important changes in policies and institutions to improve the investment climate. Loan disbursement and investment approval were simplified and 22 sub-sector of industries out of the total of 293 published in the Industrial Investment Schedule (IIS) were declared free sectors. Here no permission was essential to establish industries; required capital machinery was imported under Wage Earner's Scheme or non-repatriable foreign investment. The investment ceiling was raised from TK.30 million to Tk.100million and then withdrawn in September 1978. Private investment was permitted in an additional 10 sectors, both local and foreign. It thus reduced the reserve sector to a hard-core consisting of eight categories of industries. In these 10 sectors preference was given to joint venture of public and private firms. Investment in all other areas was open for private investors. The public firms were still free to invest in these open areas. Also, the assurance of a moratorium on nationalization was withdrawn because it was felt that any discussion on nationalization would deter and hamper the private investors. It was also declared that fair and just compensation would be made if any industry were ever nationalized in special situation.

The Second Phase

The most significant policy reform took place in the industrial sector in June 1982 when the Government of Bangladesh announced a New Industrial Policy (NIP). The objective of the NIP was to encourage industrial development through the private sector and to that end it made fundamental changes in the industrial policy environment and promotional instruments. The nationalized jute and cotton textiles

mills were transferred to their local owners, and industries were grouped under three lists, namely, a reserved list of six strategic industries for public sector investment, a concurrent list of 13 sectors where both public and private investment would be allowed, and all other industries reserved exclusively for the private sector. The number of industries in the Free List was enlarged from 22 to 49. Investment in these industries under certain conditions could be made without formal permission.

Project approval authority was decentralized to various agencies such as Development Finance Institutions (DFIs) and commercial banks, and time limits were set for project appraisal and approval. Moreover, an Investment Assistance Unit was established in the Department of Industries. This unit was set up to provide one stop service facility regarding processing of projects, and acquisition of land and arrangement for power, gas etc. For the purpose of promoting regional development and to provide fiscal and monetary incentives, different areas of the country were re-categorized into two areas:- developed and less developed areas instead of the previous three categories. For the enhancement of foreign private investment the Foreign Private Investment (Promotion and Protection) Act of 1980 was drawn up. Liberal terms and incentives were made available for foreign investment in the Chittagong Export Processing Zone (EPZ).

The Third Phase

The NIP was again revised in 1986 and the Revised Industrial Policy (RIP) made further changes in which all industries excepting the seven strategic industries of the reserve list were open for private investment. After the introduction of the RIP 1986,

there were no restrictions on investments if the investors imported machinery and equipment using their own resources. The public sector corporations were converted into public limited companies in order to make 49% of their share available for public subscriptions. They were also given operational autonomy in pricing, procurement etc. Under RIP a large number of fiscal and other incentives were introduced to promote rapid industrial development of the country. A number of import bans and quantitative restrictions were relaxed to promote industrial efficiency. Greater emphasis was given to foreign investment as well as for the establishment of export oriented industries. Board of Investment (BOI) was set up as a one-stop service agency that started operations from 1 January 1989.

The Fourth Phase

In July 1991, the latest Industrial Policy was announced by the GOB. This policy reiterates the objectives of NIP and RIP of achieving a rapid growth of the private sector and its transformation into a more competitive market economy. The major goal of the 1991 Industrial Policy (IP) was to increase the efficiency and productivity in the industrial field by transferring the public sector industries to the private sector. The policy emphasized on the strengthening of the privatization process and introduced certain measures for improving the operational efficiency of the public sector enterprises. Investment incentives, namely, for export-oriented and export linkage industries, were expanded. There will be no discrimination between domestic and foreign investors. Protection of foreign investment from nationalization, tax exemption on royalties, repatriation of proceeds from sale of shares, profits and dividends, on interest on foreign loans and on capital gains from the transfer of shares

etc. were assured. For promoting industrial development more export processing zones would be established.

If we study the three successive industrial policies starting from 1982, we will find certain features common in all of them. Thus, the New Industrial Policy of 1982, the Revised Industrial Policy of 1986, and the Industrial policy of 1991 all contained the following features:- (1) to expand private sector participation in manufacturing. This means freeing up of more "reserved" areas for private sector investment, liberalization of investment sanctioning, the disinvestment of public enterprises under the control of public corporations, denationalization of enterprises taken over in 1972, and privatization of the distribution of publicly produced goods such as fertilizer; (2) to liberalize the import regime by reducing QRs on imports and the level of tariff protection for domestic economic activities, and provide incentives to exports, including exchange rate adjustments designed to keep Bangladesh's exports globally competitive; (3) to ensure greater reliance on market forces as a basis for allocation of resources, and in the determination of prices, and distribution of public goods; (4) to privatize and deregulate financial markets; (5) to reduce the role of public enterprises through decentralization; and (6) to increase the efficiency of those enterprises that were retained.

Interestingly enough, most of these reforms were put into effect in the 1970s and in the early 1980s. The process of privatization gradually came into effect. Areas "reserved" for public sector investment narrowed down with a view to expanding private sector opportunities. Policy interventions to encourage both domestic and

foreign investment have accompanied institutional reforms and financial support for promoting private sector activity. However, bureaucratic impediments to investment that needed to be removed were to be tackled to enable private economic activity, to run smoothly. The structural adjustment programme and their industrial policy components have achieved little by way of accelerated investment or sustained industrial growth. In fact, as experience in the decade of the 1980s shows, the reforms undertaken have retarded the process of expansion and structural transformation of the manufacturing sector.

The stagnation in the industrial sector in the 1980s may appear surprising in view of the wide range of policy interventions associated with the NIP of 1982, RIP of 1986, or IP of 1991, but it can be explained by the fact that industrial policy in Bangladesh has provided a variety of incentives to promote industrialization without a strategic vision or without any direction of industrialization. Liberalization of imports, without a sound industrial base, has not helped export oriented industrialization. Instead it has hampered the growth of domestic industries. For Bangladesh, the distinction between import substituting and export oriented industrialization should not be stretched too far because the third world countries could not build up their initial industrial base without resorting to protection. Bangladesh, in its present stage of industrial development, will need to grow through a phase where it services a large part of its domestic market needs. Specific industries have to be developed for the export markets also. For this reason, a strategy has to be devised whereby we can promote exports concurrently with guaranteeing markets for domestic industries. The endemic

poverty of our population limits the size of our domestic market and only a dynamic rural economy can sustain a major industrialization program.

Industrial Performance in Bangladesh: Industry plays a very significant role in the overall economic development of a country. But the manufacturing sector in Bangladesh has grown only marginally over the past years. In Bangladesh, the success of the manufacturing sector hinges very greatly on the performance of the public sector. This accounts for about 40% of total fixed industrial assets of the country. Public sector corporations have incurred heavy losses since independence. The public sector enterprises have become a burden on the economy through poor performance instead of contributing to the growth of GDP and domestic resource mobilization. Overall GDP growth has been around only 4%-5%, which is hardly sufficient for a poor country like Bangladesh. The manufacturing sector after stagnating throughout the 1980s has registered a moderate growth in the nineties. And now the industrial sector contributes only 11% of the country's GDP. The contribution of the small-scale industries never exceeded 2%, and large scale manufacturing industries accounted for only about 8% of the growth of the country's GDP between 1973 and 1990. Table 4.1 shows the data on the industrial sector GDP and their annual growth rates over the past six years.

Table 4.2 presents the data on Bangladesh's GDP and its sectoral growth rates during 1973-1997. It shows that the share of the manufacturing sector as a whole in GDP declined from 12.0 percent in 1973-80 to 11.1 percent in 1996/97. The growth rate of the manufacturing GDP declined from 7.8 percent in 1973-80 to 3.3 percent in

1996/97. And the contribution of the manufacturing sector to incremental GDP also declined from 16.2 percent in 1973-80 to as low as 6.6 percent in 1996/97. While some structural change took place in the economy during the decades of the seventies and the eighties, the contribution of the manufacturing sector remained negligible.

The contribution of large-scale industries remained stagnant while that of the small-scale enterprises visibly declined. But if the Government of Bangladesh becomes conscious and takes good care of the neglected industrial sector it can contribute a lot in economic expansion and growth of Bangladesh. Appropriate attempts in the proper direction should therefore be made without delay to improve the industrial sector for overall economic advancement of the country. At the moment, well defined, purposeful, effective, strong industrial policy is essentially desirable for achieving the desired goal.

Table 4.1: Manufacturing GDP and its growth rate at 1984-85 constant prices, 1990-91 to 1996-97 (Values in Million TK)

Industrial sector	Sub	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Small and Cottage		21154 (2.9)	21775 (2.9)	22406 (2.9)	23302 (4.0)	24281 (4.2)	25228 (3.9)	26210 (3.9)
Medium to Large		29269 (4.2)	32342 (10.5)	36627 (13.3)	40363 (10.2)	44884 (11.2)	48053 (7.1)	49020 (3.0)
Total		50423 (2.4)	54117 (7.3)	59033 (9.1)	63665 (7.8)	69165 (8.6)	73281 (6.0)	7523 (3.3)

Note: Figures in parentheses indicate annual growth rates in percentage.

Source: BBS. Taken here from Ministry of Finance, Govt. of Bangladesh, Bangladesh Economic Review, 1997.

Table 4.2: Bangladesh's GDP and its sectoral growth, 1973-1997 (percentage)

	1973/80 average	1981-90 average	1990-91 average	1991-92 average	1992-93 average	1993-94 average	1994-95 average	1995-96 average	1996-97 average (Estimate)
Sectoral Shares in GDP									
Agriculture	47.4	40.5	37.6	36.9	35.9	34.6	32.8	32.2	32.4
Industry:	16.5	16.2	17.2	17.6	18.2	18.8	19.5	19.5	19.1
Manufacturing	12.0	10.1	9.8	10.1	10.5	10.9	11.3	11.3	11.1
Others1	6.5	6.1	7.4	7.5	7.7	7.9	8.2	8.2	8.0
Services2	36.1	43.3	45.2	45.5	45.9	46.6	47.7	48.3	48.5
Sectoral Growth Rates									
GDP	4.9	4.8	3.4	4.2	4.5	4.2	4.4	5.3	5.7
Agriculture	2.4	3.0	1.6	2.2	1.8	0.3	-1.0	3.7	6.0
Industry:	7.9	4.8	4.3	7.1	8.0	7.8	8.3	5.3	3.6
Manufacturing	7.8	2.6	2.4	7.3	9.1	7.9	8.6	5.3	3.3
Others1	9.5	6.0	7.0	6.8	6.5	7.7	8.0	5.4	3.9
Services2	7.4	6.5	4.6	4.8	5.3	5.8	6.9	6.2	6.2
Sectoral Contribution to GDP									
Agriculture	23.3	32.9	18.1	19.5	14.9	2.9	-8.0	13.1	34.5
Industry:	23.1	15.9	21.7	28.8	31.3	33.6	35.3	23.9	12.3
Manufacturing	16.2	9.9	6.9	17.0	20.4	19.7	21.2	14.6	6.6
Others1	6.8	6.0	14.7	11.8	10.9	13.9	14.2	9.3	5.7
Services2	53.6	51.2	60.2	51.7	53.8	63.4	72.7	63.0	53.2

Sources: BBS, Statistical Year Book, Various issues; Ministry of Finance, Bangladesh Economic Review; World Bank, Country Economic Memorandums, Various Issues.

Notes : 1. Construction, Power, Gas, Water and Sanitary Services

2. Transport and Communications, Trade, Housing, Public Administration, Defenses, Social Services etc.

CHAPTER V

DYNAMICS OF INDUSTRIAL POLICY MAKING

Public policy has proved to be a complex and dynamic process throughout the world. Policy-making by government in any area is concerned with preparing major policy framework and guidelines for future action in that area. These guidelines or policies formally aim at serving the interest of the public by the best possible means. Policy-making is a process of continuous activity that takes place within a structure. To be sustained, it needs a continuing input of resources and motivation. This conclusion is applicable to all kinds of public policy, whether they are at the macro level, viz., fiscal monetary or commercial policies, or they are addressed to specific sectors such as agricultural or industrial policies. As it is a dynamic process, it changes with time, and with that an active intervention by the Government assumes increasing significance.

Accordingly, the state must play an active role in directing the industrialization process of Bangladesh. But of late the state has been gradually reducing its active intervention in the industrialization process because of the pressures from the donor community. This is in contrast to the experience of the successful newly industrializing Economies (NIEs) of East Asia like the Republic of Korea, Taiwan, and Singapore, where the state played a dominant role in their industrial development, and even today it performs the role of strategic planner and absolute supervisor of the industrialization process.

While policy making is a complicated and challenging task in any society, it is more so in a developing country like Bangladesh. The Government of Bangladesh makes policy for raising the welfare of its people. It is expected that the higher authorities formulate policies keeping in mind the problems and needs of the general masses.

Different types of people are engaged in the policy making process in Bangladesh. They are the different ministries, the parliament, professionals, bureaucrats, political parties, pressure groups, and the donor agencies. The business organizations, multinational enterprises, international contractors or bidders are all responsible in some way or other for policy making or influencing the policy process in the country. There is continuous interaction and feedback among these groups, which is an important aspect of the policy making process. Through continuous discussions, the opinions and suggestions of these groups are placed before the policy-making bodies on the basis of which they arrive at some decision that finally takes the shape of a policy. The actors who have a dominant role in the policy making process in Bangladesh may be broadly and systematically categorized as follows:

Internal Actors

The Official Policy Makers

1. Parliament

2. The Political Executive: (i) The Prime Minister

(ii) Cabinet

(iii) Ministers

3. The Permanent Executive: (i) The Secretariat

(ii) Ministries

(iii) Divisions

4. The Courts

5. Policy Staff Within Government

6. Advisory Boards

Unofficial Participants:

1. Political Parties

2. Service Associations

3. Trade Unions

4. Professional Bodies

5. Clientele Groups

6. Mass Media

External Actors

1. Donor/Funding Agencies

2. Foreign Investors

3. Regional and International Economic and Political Forums

4. International Pressure Groups

5. International Experts/Consultants

Specifically, in respect of industrial policy making in Bangladesh, the parliament, the Ministries of Commerce and Industries, and business organizations, among others make decisions on this important issue and contribute to the policymaking process in this area. It is now evident that during different political regimes in Bangladesh in the past the country's industrial policies have changed drastically. These have time and again undergone the process of reorganization and, new reforms have been initiated.

Changes in the policies were made whenever there arose a need for a new policy in a particular sector or sphere. Ideally speaking, policies in Bangladesh pertaining to the industrial sector should have been changed or reformed according to the genuine demands of the sector. In actual practice, however, the policy planners were often found to make changes in the policies rather carelessly, without any prior examination of the impact of the attempted changes. It is not surprising, therefore, that many of the policy changes have failed to produce any favourable impact on the industries sector.

However, the policy makers alone need not be held responsible for a bad industrial policy or for making sudden alterations in the industrial policy because there are some other problems which are beyond the control of the policy makers and which thus debilitate their authority. As Bangladesh is a poor country it has to depend very greatly on foreign aid for a smooth running of the economy. The aid giving countries and donor agencies behave like economic masters of Bangladesh and greatly influence the formulation of various policies at different times.

Among the major donors the World Bank, the IMF, the USAID, and Japan play the vital role. They feed the county with their strong opinions and directives regarding the economic policies to be followed by Bangladesh. Their extensive pressure on the formulation and conduct of economic policy has often proved insurmountable. The dependence on foreign aid has influenced the type of policies Bangladesh has adopted. Sometimes, the donors determine the policies of nationalization. When the policy of gradual dis-investment and denationalization was formulated during the period of 1975-85, at the desire of the donor agencies like the World Bank, IMF, the IDA, the ADB, and the USAID, they also assured the Government of providing all necessary support to implement the policy. So, whenever we speak of the international situation that set the scene for Bangladesh public policy making, three aspects need to be taken into consideration:

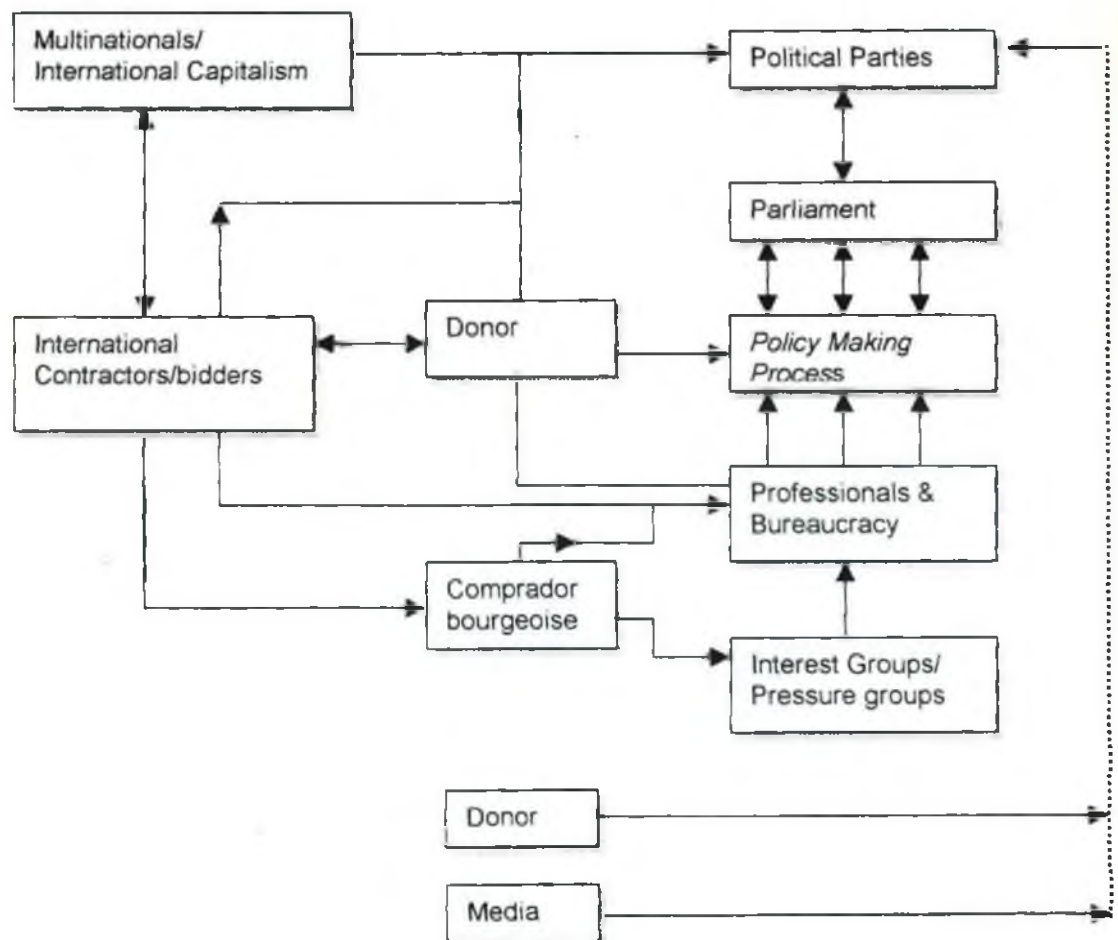
- a. Bangladesh's links with the multilateral aid groupings such as World Bank, the IMF, the ADB, etc and aid giving countries.
- b. Various multinational and International NGOs within the country.
- c. Bangladesh's memberships in different regional forums such as SAARC, etc. and international organization such as UN, OIC, Commonwealth etc.

So it is clear that the so-called development partners have been acting as pressure groups in industrial policy making in the country since the country's economy is largely dependent on the development assistance of various donor agencies. Their

influence is much greater than any other party involved in the decision making process in Bangladesh.

The country's industrial performance in the recent past is a reflection of how the formulation and implementation of industrial policy affects this sector which is in fact the most neglected sector of Bangladesh economy at present. Figure 5.1 illustrates the dynamics of the policy making process in Bangladesh.

Figure 5.1: Dynamics of Policy Making Process in Bangladesh



The steps followed in the formulation of industrial policy are also discussed in details that will show the dynamic character of the policy formulation process in this particular area.

Steps in the formulation of Industrial Policy:

(1) At the outset, the Minister of Industries forms a Convening Committee comprising civil servants of key Ministries---Industry, Commerce, Textile, and Jute, representatives of the Board of Investment (BOI), Bangladesh Tariff Commission (BTC) etc., and representatives of leading Chamber bodies and Trade Associations, to recommend provisions and terms of the Policy. This Committee, after usual deliberations, prepares a draft report and submits it to the Minister.

(2) In the second stage, the Minister forms a Sub-Committee to formulate a Draft Industrial Policy.

(3) In the third stage of the policy formulation process, all members of the Convening Committee discuss the draft threadbare. The Convening Committee, after making necessary changes, gives a final shape to the Policy and submits it to the Minister

(4) The Minister then places it before the cabinet and then to the Parliament for undergoing the usual process of legislation.

This is the traditional procedure for formulation of industrial policy in Bangladesh. Efforts are currently underway to restructure and reformulate the existing industrial policy. The process framework is the same as outlined above. Immediately after coming to power in June 1996, the present Government set the process in motion that has reportedly crossed the various committee stages and now awaits cabinet approval and legislation by the Parliament. The contents of the draft proposal are not yet made public, but as understood from Government pronouncements, the “new” industrial policy, which is in the offing, will have features that are market friendly, will meet the need of the time and will create a business environment which is conducive to fostering and enhancing industrial growth in the country.

Some Of the desirable features of the “new” industrial policy will be discussed presently, but before that it will be worthwhile to briefly mention the structure and functions of the various committees that are currently entrusted with the task of formulating the said policy.

The Convening Committee

President

The Minister for Industries and Commerce happens to be the President of the Committee.

Members

- (1) Seven respected members of the Parliament.
- (2) Secretary, Ministry of Industries.
- (3) Secretary, Economic Relations Division, Ministry of Finance.
- (4) Secretary, Ministry of Commerce.
- (5) Secretary, Internal Resources Division, Ministry of Finance, and Chairman, National Board of Revenue (NBR).
- (6) Executive Chairman, Board Of Investment (BOI).
- (7) Governor, Bangladesh Bank.
- (8) Chairman, Bangladesh Tariff Commission.
- (9) President, Federation of Bangladesh Chambers of Commerce and Industry.
- (10) President, Bangladesh Employers Association.
- (11) President, Metropolitan Chamber of Commerce and Industry.
- (12) President, Bangladesh Chamber of Industries.
- (13) President, Foreign Investors Chamber of Commerce and Industry.
- (14) President, Dhaka Chamber of Commerce and Industry.
- (15) President, Chittagong Chamber of Commerce and Industry.
- (16) President, Khulna Chamber of Commerce and Industry.
- (17) President, Rajshahi Chamber of Commerce and Industry.
- (18) President, Bangladesh Economic Association.
- (19) General Secretary, Bangladesh Economic Association.
- (20) Industrialist (Garment)
- (21) Industrialist (Leather)
- (22) Two Labour Representatives.

Member -Secretary

Additional Secretary, Ministry of Industries is the member secretary.

Functions of the Committee: The functions performed by the committee are the following:

- (1) The Committee will examine the existing industrial policy as well as other related policies thoroughly and profoundly.
- (2) The Committee will prepare a draft industrial policy with a view to making the process of industrialization easier, dynamic, and faster (than the existing one).
- (3) The Sub-Committee responsible for the formulation of industrial policy within the Ministry of Industries will provide the Committee with all secretarial assistance.
- (4) The Committee will submit its report and recommendation report to the Government of Bangladesh within the specified period of two months.
- (5) The Committee can co-opt some other members, if required, or whenever necessary.

Sub-Committee:

As per decision of the Committee for developing a new industrial policy by restructuring the existing one, a sub-committee was formed headed by the Minister for Industries and Commerce and comprising of the following members:-

Convenor:

He is a Member of the Parliament.

Members:

- (1) Another Member of the Parliament.
- (2) Executive Chairman, Board of Investment.
- (3) Chairman, National Board of Revenue.
- (4) Additional Secretary, Ministry of Industries.
- (5) President, FBCCI.
- (6) President, Bangladesh Employers Association.
- (7) An industrialist.
- (8) Secretary General, Metropolitan Chamber of Commerce and Industry.
- (9) General Secretary, Bangladesh Economic Association.
- (10) A representative of the Industries and Physical Infrastructure Division, BIDS.
Dhaka)

Functions Of the Sub-Committee:

- (1) The Sub- committee will evaluate/restructure the existing industrial policy.
- (2) The Sub- committee will identify the prospects of industrialization and draft an industrial policy in the light of open market economy.
- (3) Within one month the Sub- committee will submit a draft industrial policy to the committee formed for restructuring the existing industrial policy and formulate a new industrial policy.
- (4) The sub- committee can co-opt members if needed.

(5) The Industrial Policy Subdivision of the Ministry of Industries will provide secretarial service to the Sub-committee.

To meet the needs of the economy and the society the industrial policies have to be reformed and reorganized from time to time. The reform and reorganization made in the previous industrial policies were intended to foster the growth and development of the industrial sector. The major policy process requires devoted and powerful policy makers who can improve the existing industrial policy process far better than the past. Developing adequate knowledge, experience, training, and foresight will allow them to be strong enough to produce better policy in the industrial sector. The new industrial policy should aim at consolidating/summarizing the earlier efforts and gains and move on to more pragmatic policies and strategies so that Bangladesh becomes a fully developed and industrialized nation.

Drawing on the lessons from the successful NIEs and from our own past experiences, our industrial policy will have to be reformulated. Such a policy may contain the following features.

New Direction of Industrial Policy in Bangladesh:

First, there is the basic issue of orientation of industrialization--domestic market import substitution or orientation toward external markets. Second, a rural oriented development strategy with emphasis on developing rural industry should be pursued. Third, sectoral approaches to industrialization (picking the winners)

should be avoided. Fourth, special emphasis should be given to the growth of linkage industries. The fifth, is the role of foreign direct investment (FDI), and related to that, the issue of acquisition or transfer of technology. Sixth, is the competition policy. Seventh, is the role of state enterprises in the industrial sector and the related issue of privatization. Eighth, is the need for deregulation by government. Ninth, is the task of identifying specific problems of various industries and finding their solution. Tenth, is the labor relations policy. Each of these is briefly explained below.

(1) Trade Orientation: A liberal trade policy with fewer import restrictions and an appropriate exchange rate should be pursued to favour export-oriented industrialization. Newer incentives should be given to industries enjoying global comparative advantage and to those having backward linkage potential. At the same time, it will be necessary to pursue a policy of efficient import substitution by which industries with sufficient backward and forward linkages can be supported and protected for a limited time period. Adequate measures should also be adopted to protect domestic industries against unfair competition from subsidized and dumped imports.

(2) Rural Oriented Development Strategy: Only the growing income and purchasing power of the people can sustain industrialization program. Majority of the country's population live in rural areas. The market for the domestic industry will expand only with the increase in the purchasing power of the rural population. Hence, a rural-oriented development strategy should be pursued.

There is a rule of thumb that a 3.5% growth rate in the rural economy can sustain an industrial growth rate of 9%. Special emphasis should also be given to developing and modernizing rural industry. Policies to promote and protect rural industries so that their use within the rural areas is guaranteed should also be designed.

(3) Targeted Sector Policies: Except for the development of selected industries in the backward and disadvantaged regions, targeted sectional policies whereby the government selects “winning” industries and provides them with financial assistance, either directly or through tax incentives or concessional loans, should be avoided. An industrial strategy of “pick the winners” rests on mistaken notions of the role the Government should play in a market economy and on the ability of bureaucrats to perceive the future. There is no basis for believing that the government’s ability to make a decision for economic investment is superior to that of the entrepreneur who places his own money at risk. In fact, there is considerable doubt that targeting certain industries for promotion has worked well in the countries where it has been tried.

The Government of Bangladesh is in fact committed to the ideology of market and has accepted the principle of competition to determine prices and investments. In a market environment characterized by the presence of a competitive market structure and provision of easy entry and exit, targeting specific industrial sectors for promotion is hardly necessary. Given the right industrial environment governed by trade, macroeconomic (fiscal and monetary)

and exchange rate policies, availability of infrastructure, and access to adequate finance capital, it is only market forces that should determine the choice of industrial projects. The state of prevailing and potential market demand (to be ascertained by market studies) and constraints on the side of supply will guide the entrepreneurial decision. The Government's task is merely to provide the right atmosphere and, in a liberal trade policy regime, to ensure that domestic industries do not face unfair competition from imported products. It is acknowledged on all hands that in a liberal trade policy the structure of the economy will change as part of the normal growth process. Depending upon changes in technology, tastes, and international comparative advantage, some of the nation's industries will at a particular time be growing rapidly, others will be stagnating, while still others will be declining. In short, the rise and decline of individual industries is endemic to overall growth in a nation's economy. Industrial policy should be concerned with facilitating, not impeding, this normal ongoing process.

(4) Scope for Backward and Forward Linkages: Industries with forward and backward linkages should receive special attention in the industrial policy. Determining sectoral linkage is a difficult task. As for the manufacturing industries, a thorough exercise of the intra-industry pattern of use will be needed to determine the backward and forward linkages of each industry. Ordinarily speaking, however, one would expect to find significant linkages in certain import-substituting activities that do not involve sophisticated technology. Likewise, there is great potential for domestic linkages in the export of

"traditional goods" such as textiles, footwear, processed food, and sport goods. Engineering industries, both large and small scale, dockyards etc. should also have both backward and forward linkages. On the other hand, modern industries using sophisticated technology that are mainly the domain of FDI have limited scope for domestic linkages. Little or no domestic linkages are generated in the assembling-type activities where only the labour-intensive process is transferred to the assembling country, and the more capital- and skill-intensive processes are retained in the home country of the foreign investors.

Among other industries, there are several activities in the chemicals sector which are intensive users of natural resources and which are also in abundant supply in Bangladesh. Some of these activities enjoy the advantage of rapidly expanding domestic as well as export markets. Most of these activities do not use very sophisticated technology and have the potential for generating considerable domestic linkage. Examples are natural gas-based products, viz., urea fertilizer, PVC, synthetic fibers, bleaching powder, caustic soda, soda ash, methanol, acetone, and formalin, which are used in agriculture as well as in a number of industries like paper mills, chemical plants, soap and detergent manufacturing units, glass factories, and so on.

The most important export-oriented industry to offer significant opportunities for promoting backward and forward linkages is the RMG sector. Definite programme should be chalked out to modernize the handloom sector, develop cloth, spinning, dyeing and finishing mills, and the textile machinery industry

aiming to retain the foreign exchange earnings from the RMG sector. Considerable backward and forward linkages may be generated in leather industry, in the manufacturing of glass sheet, and in the engineering industries, many of which are relatively labour-intensive. Significant backward and forward linkages also exist in the food and allied products sector. Industrial processing of many agro-based products, too, offers such opportunities. Examples are canned pineapples, mangoes, jackfruit, lichi, processed vegetables, and dairy products like milk, butter, cheese etc. Modernization and growth of these sectors and measures to keep their supplies competitive should be part of the development strategy for industry.

(5) FDI and Technology Transfer: The greatest attractiveness of FDI is that it brings in the latest technology that is vital for attaining global competitiveness. Also, when FDI firms use advanced technology and produce cheaper and better capital goods or intermediate products, the competitiveness of sectors that use these products is improved. In this country, the Government encourages FDI to complement domestic resources for industrialization. In order, however, to ensure that the foreign investors bring in new technology, a strict screening of FDI will be necessary. In other words, permission to foreign investors to do business in this country should be made contingent on their bringing in the latest technology.

(6) Competition policy: The preferred size, distribution, and market structure are important considerations in industrial policy. Conceptually, and on grounds of equity, competitive markets and the absence of monopolies and oligopolies (large

companies) are to be preferred. In reality, however, large size connotes efficiency and competitive strength that are deemed necessary to operate in foreign markets.

In Bangladesh, there is currently no competition law, or no anti-monopoly law, but sooner or later there must be one, if efforts at introducing the competition policy in the WTO are any indication. Governments in developing countries are ambivalent about such a policy, because of the trade-off between growth and equity. In Bangladesh, as in many other developing countries, there is an extensive small enterprise sector which can not compete against the large enterprises but which has the political sympathy of the public because of their greater labour intensity and contribution to employment. It is desirable that in industrial policy reforms, certain areas of activity where small and medium enterprises are relatively more adept are declared off-limits to large-scale production. Such a reservation policy has been prevalent in India and Indonesia. In fact, while large enterprises or conglomerates have their ardent supporters on efficiency grounds, they have their demerits as well, and hence some provision for protection of small enterprises may be inserted in the country's industrial policy.

(7) State Enterprises and Privatization: A market economy with a strong private sector can not be expected to thrive when there is a large presence of SOEs. The present industrial policy suffers from a contradiction in that the Government wants a gradual transfer of public units to private sector and at the same time calls for raising their efficiency. It is, however, hardly likely that an SOE will ever behave like a profit-seeking private sector enterprise and improve

its efficiency. An outright policy of privatization seems to be the only solution to the problems of the ailing SOEs. Several arguments may be put forth to justify their privatization.

(A) In order to become profitable, many of the SOEs would require considerable physical restructuring and revamping with regard to manufacturing process and production, modification, and breaking up of the larger units into comparatively smaller profit centers.

(B) Long years of unprofitable operation have rendered many of the SOEs heavily debt-ridden. Heavy financial restructuring with immense burden on the government budget will be needed to keep them going. Yet doubts remain if the SOEs would ever become viable. If studies show that some of these units are never likely to become viable and efficient, these should be closed down and their assets sold.

(C) Physical and financial restructuring might not bring back the operational efficiency of the SOEs unless these are manned by suitably skilled people and are given the essential operational autonomy. These requirements can be met only if the units are owned by the private sector. Privatization would bring with it a more dynamic management and reinvigorate a poorly run SOE.

(D) A strong argument for selling or disposing an SOE is to dispense with a "loser", an enterprise that is sapping the national budget and credit resources. By

privatizing, a reduction of fiscal and monetary burden on the government will be achieved.

The argument presented above reiterates the need for immediately restarting the stalled process of privatization. The pitfalls that resulted from the denationalization program implemented thus far should be avoided. Care should be taken for correct valuation of the assets and then for putting the assets up for sale at the right price. The question of choosing the buyer may also be important to ensure that the divested unit goes to persons with good entrepreneurial background. No disadvantageous conditions should be attached to the sale of an SOE, which may prevent it from becoming profitable (e.g., compulsory retention of surplus manpower). In order to generate confidence of the potential buyers, the Government should allow total, instead of partial, divestiture of SOEs. Retaining majority government control is only likely to create distrust and diffidence among potential investors.

(8) De-regulation Policies of Government: Government's role should be one of a facilitator, not that of a regulator. Its sphere should be limited essentially to the provision, development and maintenance of essential infrastructure and utilities in which the private sector is unlikely to show any interest. Unnecessary regulations should be eliminated. Regulations usually transfer resources from the private sector to the public sector, and impose significant compliance costs that affect all industries and lead to reduce efficiency. Regulations that are necessary, for example, those pertaining to environmental and worker health and safety policies,

should be set more realistic goals, be implemented more efficiently, and be subjected to periodic policy review.

(9) Problems of Selected Industries and Their Solution: The State should assume the task of monitoring problems of specific industries, finding their solutions thereby preventing them from being sick, and also creating devices to attract domestic and foreign investment to these activities. Problems faced by some of the major industries of the country including cottage industries were discussed in chapter III above. A sector wise description of the problems and their tentative solutions are schematically presented in Table 5.1 below.

Table 5.1: Problems of Some Selected Industries

Sectors	Problems requiring solution
1. Food and Allied Products:	
<ul style="list-style-type: none"> - Fruit and Vegetable processing and canning - Dairy farming including dairy products - Frozen Foods - Fish meal and fish oil - Processed potato for exports 	<ul style="list-style-type: none"> a) Infrastructural Problems: Transportation and communications, non-availability of suitable industrial plots for setting up shrimp cultivation industries, interruption of power supply. b) Financial: Lack of export credit facility and working capital. c) Fiscal: Unfavourable duty and tax structure d) Technology: Upgradation needed
2. Textile Products:	
<ul style="list-style-type: none"> - Cotton textile (spinning, weaving, dyeing and finishing) - Ready-made garments - Specialized textiles, cotton and synthetic - All types of woven and printed labels, interlining etc. 	<ul style="list-style-type: none"> a) Infrastructural: interruption of power supply, capacity underutilization, old machinery b) Financial: Constraints of working capital and investment for BMRE, faulty tariff structure c) Management: Lack of qualified management and skilled labour force, labour unrest d) Technology: Obsolete and out-dated.

Sectors	Problems requiring solution
3. Leather and Leather Products:	
<ul style="list-style-type: none"> - Finished leather - Leather goods (travel bags, footwear, saddlery, handbags etc.) 	<ul style="list-style-type: none"> a) Environmental: Absence of pollution control measures b) Financial: Lack of funds for expansion c) Technology: Upgradation needed right from the stage of flaying, curing down to finishing
4. Chemicals:	
<ul style="list-style-type: none"> - Pharmaceutical - Fertilizer - PVC and synthetic fibres - Bleaching powder, caustic soda, soda ash, methanol - Pesticides - Soaps and detergents - Dyes and pigments - Rubber tyres for automobiles - Dry-cell batteries 	<p>Infrastructure: Power outages and interruptions</p> <p>Funding problem: Funding problem in respect of term loans as well as working capital</p> <p>Technologies: Dearth of technically qualified and experienced professional and skilled labour.</p>
5. Non-metallic mineral products:	
<ul style="list-style-type: none"> - Pottery China and earthenware - Glass and glass products - Bricks - Cement 	<ul style="list-style-type: none"> a) Infrastructure: Transportation problem, irregular power supply b) Technology: Advanced technology needed for glass and China ware
6. Engineering Industry:	
<ul style="list-style-type: none"> - Hand and small tools - Disposable needlless and syringes - L.P.G. cylinder - Capital machinery and equipment - Horological Instruments, electrical and electronic - Surgical, medical and dental equipment and instruments, - Imitation jewellery - Bicycle Chain - Aluminum foil - Scientific precision instruments and laboratory equipment - Office equipments 	<ul style="list-style-type: none"> a) Infrastructure: Lack of feeder industries, lack of downstream processing facilities, smuggling across borders b) Fiscal: Facing negative protection c) Technological: Lack of adequately trained and qualified management personnel. Lack of R & D facilities and initiatives to introduce new technologies are the root cause of stagnation

The most common problems faced by all these industries are those of infrastructure, capital, and technology. These problems are also inter-related. Investors will not be attracted unless infrastructure bottlenecks are removed. There is thus an urgent need to improve power, highways, ports, transports, telecommunications, solid waste management, water supply, and drainage as national priorities.

Getting the required amount of funds for infrastructure development is a problem for the Government. Multilateral agencies are no longer keen to assist infrastructure development projects through public sector due to its inefficiency, apathy, and the wastage of resources that thus results. It may, however, be possible to obtain long-term credit from the World Bank for BOO (Build, Own and Operate) and BOT (Build, Operate and Transfer) projects. Currently, the World Bank is assisting Sri-Lanka's private sector to develop the Colombo Port under the BOO scheme. This is an example which may be tried in Bangladesh to great advantage for the country and the economy.

(10) Labour Relations Policies: Labour policy should be suitably amended with a view to improving labour-management relations and enhancing labour productivity. It should be based on the principle of mutuality of interests between the employees and the employers.

Wages should be indexed to productivity. In this country, however, wages are determined largely by militant labour unions, often backed by political parties,

that succeed in increasing wages, which hardly have any correspondence with productivity. Militancy of labour unions pushes up wage far above the marginal product of labour resulting in greater losses to both SOEs and denationalized firms. Labour unrest and lack of obedience to labour laws are major problems that affect business confidence and scare away investors whether local or foreign.

The major focus of labour unions in this country is on the protection of employment. Privatized firms also inherit the problem of a large and politicized labour force that are insulated from retrenchment which partially explains why privatized firms had very limited success in this country in the seventies and the eighties. Reforms are, therefore, needed to depoliticize labour. The members and office bearers of labour unions should be from amongst the employees only. The union officials should be adequately trained so that they can understand objectively the issues surrounding labour management relations, look after the long-term interest of workers as well as of management, and desist from disruptive practices. In depoliticizing labour, a major responsibility lies with the political parties that have their own affiliated trade unions. With commitments of political parties to de-link their labour wings obtained, labour unions and workers will concentrate on the increase of the output and productivity and derive benefits from such improvements free from any outside interference.

In the light of what has been said above, the industrial policy may be reformulated to achieve the following objectives:

Based on the observations of the study, the researcher thus proposes some broader perspectives and dimensions that could be taken into consideration while formulating a Industrial Policy. Desired objectives of the industrial policy should be:

- (1) To increase gross domestic product, income and employment through the development of the industrial sector.
- (2) To encourage private sector participation in industrial activity, and with that end in view, make the role of Government promotional rather than regulatory.
- (3) To develop export-oriented as well as import substituting industries on the basis of comparative advantage.
- (4) To encourage expansion of small, cottage, and medium scale industries.
- (5) To promote industrial growth through development and acquisition of appropriate technology and to that end, adopt policies to stimulate innovation, strengthen the technology base for commercial application, and promote R&D directed at commercial products and processes.
- (6) To encourage capital formation and investment in new technology.

- (7) To achieve self-sufficiency in essential consumer goods through efficient production.
- (8) To encourage agro-based industries and industries based on indigenous raw materials and technologies.
- (9) To encourage development of industries in different geographical regions, aiming at reducing inter-regional disparity within the country.
- (10) To encourage investment in intermediate and basic industries.
- (11) To create opportunities for rehabilitation of sick industries whenever these are viable, and for exit of the unviable industries.
- (12) To attract foreign direct investment in the industrial sector.
- (13) To protect environmental balance and minimize the extent of air and water pollution as a result of industrial activity.
- (14) To ensure coordination of trade and macroeconomic (fiscal and monetary) policies for attainment of these objectives.

CHAPTER VI

SUMMARY AND CONCLUSIONS

This study has examined theoretically and empirically the dynamics of public policy making, especially the industrial policy making process in Bangladesh. Major conclusions and findings of the study can be discerned in the previous chapters. These are pieced together in this concluding chapter, without of course making monotonous repetitions.

The introductory chapter briefly discusses the importance of public policy making, in particular the significance of industrial policy formulation and its proper implementation in Bangladesh. Various documents, research reports and books relevant for the study are also reviewed and commented upon in this chapter.

The rationale of the study, emphasizing the need for reformulating the country's industrial policy, has been found to be in the great contribution it can make to the progressive growth and expansion of the industrial sector that has immense capacity to generate employment and income generating activities, the accumulation of productive resources, and the acquisition of foreign direct investment and the latest technologies, all of which are essential for Bangladesh's economic development. The industrial policy should be strengthened to create an enabling environment for industrialization in which the industrial sector will be able to flourish and become internationally competitive. Past policy makers have,

however, inadequately appreciated the dynamic role industrial policy can play in industrialization and economic advancement of the country.

This study places strong emphasis on the quality, skill and foresight of the various policy-making agents that are directly involved in the process of formulation of industrial policy and its implementation.

Public policy making is one of the most important and also complex tasks of a modern government. A public policy must have a purpose. It should be goal-oriented. It should also have a legal basis and its success will crucially depend upon the strong commitment of the people responsible for its formulation and implementation. The industrial sector, in general, suffer from various structural problems and chapter three also put forward some suggestions for the solutions of these industries.

A chronological view of the historical evolution of industrial policy indicates that the industrial policy was reformed at various times in the past under the administration of different governments. The first industrial policy was issued in 1973 and was revised on several occasions thereafter. The first major revision was incorporated in what came to be known as the New Industrial Policy (NIP). The NIP was announced in June 1982 and was further revised in 1986. The latest industrial policy was announced in July 1991. This policy was intended to achieve a faster growth and expansion of the private sector in a more competitive market economy. Currently, work is under way for a further revision of the industrial

policy. The revision is understood to be in the finalization stage now and expected to be made public soon.

It must be mentioned, however, that even though industrial policies in the past were subjected to frequent reviews and underwent thorough revisions, they lacked in a proper identification of the problems related to the industrial sector. As a result, the performance of the industrial sector remained very poor and it could contribute very little to the overall growth of the GDP. This study highlights some of these policy weaknesses and makes some tentative suggestions for reforms, which, if properly implemented, may improve the performance of the industrial sector.

Essential to the task of policy-making is the availability of a set of well-qualified and devoted policy planners, if the policy is to be dynamic, in the true sense of the term, and become effective in achieving its goals. Such a policy should more or less have the following attributes:

- (1) It must be responsive to the emerging needs and demands of the beneficiaries, in this case the industrial sector.
- (2) It should be predictable.
- (3) It must be credible, so that the private agents take it seriously.
- (4) It must be implementable and backed by adequate resources, whether institutional, financial or human.

In Bangladesh, policy formulation and implementation have been deficient for many reasons. The first is the weak policy formulation capacity. Policies often fail because these are not formulated on the basis of rigorous and sound analyses. The personnel engaged in formulating policy often lack the technical skill and are unable to carry out the research required to bring out the potential impact of alternative policy directions. Policies also fail because the institutional arrangements for policy formulation are not always clear as the economics ministries formulate the broader macro economic policies, while responsibilities for sectoral policies are relegated to the line ministries.

The other problem is that of weak implementation and monitoring capacity. Commitments at the bureaucratic level may be weak when the donors put pressure to initiate a particular policy. Public servants might lack the technical capacity to carry out the policy themselves, either because of their limited competence or because the actual constraints were not identified at the time the policy was formulated.

Policy formulation and implementation can, however, be improved by better coordination among ministries and implementing agencies. A participatory approach may also contribute to good policy formulation. Many industrial and developing countries now regularly consult concerned citizen groups. But in Bangladesh the whole process is often shrouded in secrecy. The participation of multiple and countervailing groups should be encouraged for a good policy formulation process to be evolved in the country.

The past industrial policies in the country suffered from many weaknesses. These should be removed as soon as possible. Some of the suggestions for reforming the industrial policy are discussed in details in chapter 4, which are briefly mentioned here. First of all, there is the basic issue of orientation of industrialization - domestic market import substitution or orientation towards external markets. Second, a rural oriented development strategy with emphasis on developing rural industries should be pursued. Third, special emphasis should be given to the growth of linkage industries. Fourth, sectoral approaches to industrialization should be avoided. The fifth is the issue of attracting foreign direct investment (FDI) and the associated need for the screening of FDI with a view to getting access to the most appropriate technology. Sixth, there should be an appropriate competition policy, in particular for safeguarding the interest of small enterprises against competition from large domestic and multinational enterprises. Seventh, is the need for deregulation by government. Eighth, is the task of identifying specific problems of various industries and finding their solution. And, finally, industrial policy should be accompanied by a good labour relations policy that will effectively deal with labour-related problems, which affect business confidence and scare away investors, both local and foreign.

The reforms regarding various industrial policy measures in Bangladesh are not being effective and meaningful for inherent bureaucratic complexities, incompetence, corruption, red tape and delays in decision making. These inefficiencies, prevalent among the administrative machinery, must be immediately removed. Improving public policy making, though a lengthy and

difficult process, is nonetheless a feasible one. Our industrial policy should be so developed that it encourages industrialization and rewards entrepreneurs. It is often found that reform measures underway in Bangladesh are mostly on paper and very little of it is put into practice. All these inefficiencies should be removed, and favourable and congenial atmosphere should be created for an efficient and honest bureaucracy to flourish along with a reform of civil administration so that the government can work better and act as a facilitator of industrial development and economic growth. However, we need to ensure that the state as the entrepreneur and policy planner becomes more experienced, acquire skill, knowledge, foresight, efficiency and become accountable to the people. If the state is able to cultivate these good qualities within itself, we can hope that Bangladesh will surely move towards sustained industrial growth by the beginning of the 21st century.

The study has focused on the shortcomings and limitations of the formulation of industrial policy and at the same time suggested some reforms needed to bring immense benefit to the country's industrial sector. The findings of the study will hopefully build a new platform for the ministry of Industry and Commerce and those in the policy making apparatus to formulate policies by using improved methods and techniques. It may generate not only new knowledge about the nature and content of policy measures but also help in suggesting new areas for further reform and reformulation of industrial policies. In other words, this study, by throwing light on the shortcomings and limitations of the existing policies will help in formulating pragmatic and realistic policies for the future industrial

development of the country. This study may also be of some help to those who are directly or indirectly involved in policy making in development administration in Bangladesh and elsewhere in the developing world.

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