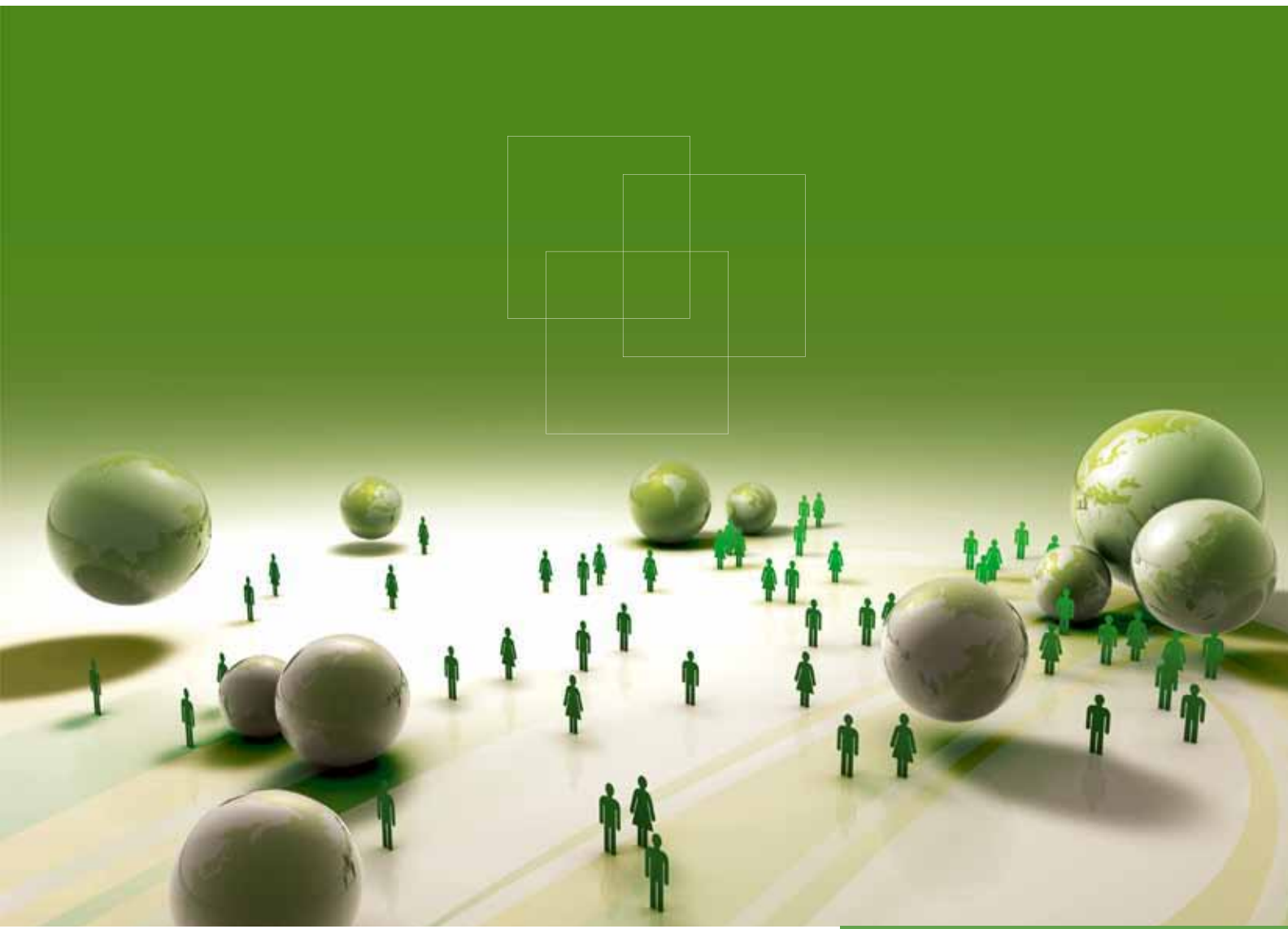
International Labour Organization

BANGLADESH COUNTRY REPORT:TRADE AND EMPLOYMENT



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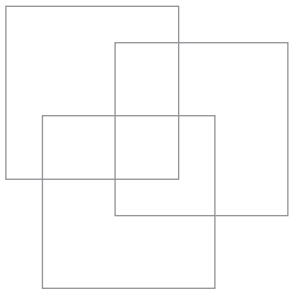

BANGLADESH COUNTRY REPORT:TRADE AND EMPLOYMENT

FOREWORD

In recent decades, Bangladesh has experienced unprecedented changes in every sphere of its economy and its society. With a steady growth rate for almost a decade, the country has improved certain socio-economic realities at the micro and macro levels and made progress in attaining the Millennium Development Goals (MDGs). Bangladesh's integration with global markets and increased use of new technologies has vastly expanded economic opportunities, but they have also exacerbated inequalities and vulnerabilities in the country. In this context, this report takes stock of Bangladesh's trade and labour-market policies, analyzes the links between trade and employment, and highlights relevant policy recommendations for maximizing the employment impact of trade in Bangladesh.

This publication is an outcome of a European Union funded project, which is being implemented by the International Labour Organization (ILO), entitled "Assessing and Addressing the Effects of Trade on Employment (ETE)". This project aims to provide its constituents with capacity building, sound research evidence, and a platform for discussion and formulation of national policies related to trade and employment. We believe that the findings of this report will be of great interest to all, particularly policy makers and the social partners in Bangladesh, who are concerned about the challenges that developing countries face in a globalized world.

A key recommendation of this report is that Bangladesh should continue to focus on the policy framework for implementing an export-oriented manufacturing strategy with special attention to export diversification. Much of the policy attention will need to focus on production incentives, quality and cost competitiveness, and diversification of the country's export basket. Another important recommendation is that skill development should be an integral part of all strategies related to trade and employment. The country's capacity to deliver technical and vocational education and skills training should be substantially upgraded.

We would like to thank the contributors, Bazlul Haque Khandker, Hasina Begum, Mahfuz Kabir, Selim Raihan and the ETE training participants for their contribution to this report. We hope that this report will provide data and analysis that policy makers will find useful and will contribute to policy discussions for job-rich growth and inclusive development in Bangladesh.

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The authors extend thanks to Mr. Abdullah Mohammad Tawsif (Administrative Assistant for Bangladesh, ETE) for formatting and compiling of the chapters.

All errors and omissions remain the responsibility of the authors.

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EXECUTIVE SUMMARY

The report has been produced as an outcome of the ILO project "Assessing and Addressing the Effects of Trade on Employment", which has been financed by the European Union. This report has three objectives: first, to take stock of existing trade and labour-market policies and development strategies of Bangladesh. The report pays special attention to the labour market and employment strategies in the context of increasing global integration of Bangladesh's economy; second, to take stock of existing literature on trade and employment to contribute to identify the knowledge gaps in this area and to guide further research; and third, to contribute to increased understanding about the links between trade and employment and decent work in Bangladesh and to support coherent policy design to minimize the adjustment challenges related to trade liberalization.

The first chapter, *A Review of the Evolution of the Trade Policies in Bangladesh* presents an overview of the trade policy regimes in Bangladesh and depicts the changes over time of the overall trade policy environment. In doing so, the chapter reviews import and export policies and discusses the major administrative instruments that were employed to implement these policies. It also assesses the resultant developments in some of the relevant indicators. The chapter makes an attempt to identify a number of directions for improving the trade policy environment. The paper argues that the export response for all major commodities except the garment sector has been very weak due to the advantage that the sector has been receiving with MFA quotas and preferential access in foreign markets. The chapter discusses existing tariff liberalization practices in the context of rapid global integration and suggests adopting a pro-active and analytical policy regime to effectively support the growth of small enterprises and the informal sector to facilitate poverty alleviation efforts through trade. The paper suggests a number of measures to diversify the export structure and to remove policy barriers to exporting.

The second chapter on *Effects of International Trade and Foreign Direct Investment on Employment in Bangladesh: A survey of Literature* focuses on the effects of international trade and Foreign Direct Investment (FDI) on employment in the context of Bangladesh. The chapter discusses the theoretical linkages between international trade and employment and presents empirical evidence on the relationship between FDI and employment. The chapter also analyses the methodologies used in the empirical literature and identifies their drawbacks. Finally, the chapter identifies avenues for further research in the area of trade and employment.

The third chapter on *An Overview of the Labour Market in Bangladesh* deals with a number of critical factors that highlight the characteristics of the labour market in a particular socio-economic context and rules and norms. The chapter attempts to trace the inner dynamics of the labour-market scenario in Bangladesh and capture the current forces which operate within the production relations of the current market. The chapter also analyzes recent changes in the employment structure and their implication for the dynamics of the labour market. The chapter presents an analysis of the various segments of the labour market including the informal sector and women's and children's participation in the labour market. The chapter presents a broad picture of labour-market policies and practices and focuses on Bangladesh's progress towards decent work in terms of the major objectives of the Decent Work agenda. Finally, the chapter identifies some central issues for promoting employment and advancing the decent work agenda.

The fourth chapter on *Bangladesh's Development and the Millennium Development Goals (MDGs)* presents the trends in the socio-economic development of Bangladesh. In doing so, the chapter analyzes progress over time of some important development indicators and portrays Bangladesh's achievements towards socio-economic development over the decades. The chapter analyzes Bangladesh's performance towards the MDGs and identifies critical areas that need further attention to ensure the attainment of the MDGs.

The fifth and the last chapter on *Trade and Employment Policies for Jobs* presented a policy framework with an aim to support the strategies of vision 2021 to be a middle income status country by 2021. The chapter focuses on the strategies that could support the country to shift from agriculture to secondary and tertiary sectors and to increase global integration through regional and multilateral cooperation. The chapter identifies and discuss the strategies that can support creating more decent and productive jobs.

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Hasina Begum

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ACRONYMS

APTA	The Asia-Pacific Trade Agreement
BBS	Bangladesh Bureau of Statistics
BEI	Bangladesh Enterprise Institute
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CEACR	Committee of Experts on the Application of Conventions and Recommendations
CGE	Computable General Equilibrium
CMI	Census of Manufacturing Industries
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
DEDO	Duty Exemption and Drawback Offices
DIF	Data Integrity Field/ dedicated investment funds
EDF	Export Development Fund
EPB	Export Promotion Bureau
EPF	Export Promotion Fund
EPZs	Export Processing Zones
EU	European Union
EV	Equivalent Variation
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Programme
GoB	Government of Bangladesh
HS	Harmonized System
ICT	Information and Communications Technology
IDSC	Infrastructure Development Surcharge
ILO	International Labour Organization
IMF	International Monetary Fund
IPOs	Import Policy Orders

L/C	Letters of Credit
LDCs	Least Developed Country
LFS	Labour Force Survey
LFPR	The Labour Force Participation Rate
MDGs	Millennium Development Goals
MFA	Multi fibre Arrangement
MoLE	Ministry of Labour and Employment
NAMA	Non-Agricultural Market Access
OSH	Occupational Safety and Health
PTA	Preferential Trading Arrangements
QRs	Quantitative Restrictions
RER	Real Exchange Rate
RMG	Ready-made Garments
SAFTA	South Asian Free Trade Area
SAM	Social Accounting Matrix
SBWs	Special Bonded Warehouses
SD	Supplementary Duties
SFYP	Sixth Five-Year Plan
TVET	Technical and Vocational Education and Training
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
VECM	Vector Error Correction Model
WB	World Bank
WTO	World Trade Organization
XPB	Export Performance Benefit

CHAPTER- 1

A REVIEW OF THE EVOLUTION OF TRADE POLICIES IN BANGLADESH

Selim Raihan and Bazlul Haque Khondker

1. Introduction[1]

After the independence in 1971, Bangladesh followed a strategy of a highly restricted trade regime. Characterised by high tariffs and non-tariff barriers to trade, and an overvalued exchange rate system, this policy regime was the basis for the import-substitution industrialisation strategy of the government. The inward-looking approach to development was pursued with the aim of improving the balance of payments position of the country and creating a protected internal market for the domestic manufacturing industries. It was also believed that, by replacing the previously imported goods with domestic production, import-substituting industrialisation strategy would achieve the national objective of economic growth by promoting industrialisation and reducing unemployment.

Like in many other developing countries, the import-substituting trade policies pursued by Bangladesh failed to deliver the desired outcomes. Although the governing influence in the choice of import-substitution was dominated by macroeconomic concerns about the balance of payments and fiscal balance (Rahman, 1994), even after a decade of a highly protected trade regime both the internal and external balance situations of the country continued to worsen (Bhuyan and Rashid, 1993). Moreover, one serious consequence of this development strategy was that it generated a highly distorted incentive structure, resulting in widespread allocative and productive inefficiency, which not only inhibited the prospects for growth but also led to an anti-export bias thus undermining the potentials for export growth. It was against the backdrop of serious macroeconomic imbalances of the early 1980s and stagnating export performance that the policy of reforms for stabilisation and structural adjustment was undertaken along the guidelines specified by the two Bretton Woods institutions, namely the World Bank and the IMF (Mahmud, 1995). This adjustment programme put forward a wide range of policy reforms in Bangladesh which included reforms in trade policy, industrial policy, monetary and fiscal policy, exchange rate policy, privatisation of the state-owned enterprises, and promotion of foreign direct investment. The widespread recognition that outward-oriented policies had carved the East Asian 'miracle', and the world-wide turn against the import-substituting development policies also contributed to the decision over a policy reversal in the context of Bangladesh.

The trade regime registered a major shift in the early 1980s, when a moderate liberalisation was initiated. However, by the early 1990s, a large scale liberalisation programme was implemented. Since then, successive governments have shown their commitments to more liberal trade regimes. These liberalisation programmes have led to a remarkable decline in quantitative restrictions, notable opening up of trade in many restricted items, significant rationalisation and diminution of import tariffs and complete liberalisation of the foreign exchange regime. Another important element of trade policy reform was the introduction of generous promotional measures for exports. While import and exchange rate liberalisation were intended to correct the domestic incentive structure in the form of reduced protection for import-substituting sectors, export promotion schemes were undertaken to provide exporters with an environment in which the erstwhile bias against export-oriented investment could be reduced significantly. Important export incentive schemes that were made available include, inter alia, subsidised rates of interest on

[1]Benefited from Raihan and Razzaque (2007).

bank loans, duty free import of machinery and intermediate inputs, cash subsidies, and exemption from value-added and excise taxes.

This chapter presents an overview of the evolution of trade policy regimes in Bangladesh. While doing so, it deals with import and export policies and assesses the resultant developments in some of the relevant indicators. It also makes an attempt to identify a number of scopes for improving the trade policy environment.

2. A Review of Import Policies and Regimes in Bangladesh

2.1 Evolution of Import Policies and Quantitative Restrictions

Trade policy during 1972-1980 consisted significant import controls. The major administrative instruments employed to implement the import policy during this period were the foreign exchange allocation system and the Import Policy Orders (IPOs). Under the IPOs, items were specified whether their importation were allowed, prohibited or required special authorisation. With the exception of a few cases, licenses were required for all other imports. The argument behind the import-licensing system was that such a system would ensure the allocation of foreign exchange to priority areas and protect vulnerable local industries from import competition. However, the system was subject to criticism for not being sufficiently flexible to ensure its smooth functioning under changing circumstances. Moreover, it was characterised by complexity, deficiency in administration, cumbersome foreign exchange budgeting procedures, poor inter-agency coordination, rigid allocation of licenses and time-consuming procedures (Bhuyan and Rashid, 1993).

During the 1980s, a moderate import liberalisation took place. In 1984, a significant change was made in the import policy regime with the abolition of the import-licensing system, and imports were permitted against letters of credit (L/C). Since 1986, there had been significant changes in the import procedures and in the IPOs with respect to their contents and structure. Whereas, prior to 1986, the IPOs contained a lengthy Positive List of importables, in 1986 the Positive List was replaced by two lists, namely the Negative List (for banned items) and the Restricted List (for items importable on fulfilment of certain prescribed conditions). Imports of any items outside the lists were allowed. These changes might be considered as significant moves towards import liberalisation, since no restrictions were then imposed on the import of items that did not appear in the IPOs. With the aim to increase the elements of stability and certainty of trade policy, IPOs with relatively longer periods replaced the previous practice of issuing import policy annually. Since 1990, the Negative and Restricted Lists of importables had been consolidated into one list, namely the ‘Consolidated List’ (Ahmed, 2001).

The range of products subject to import ban or restriction has been curtailed substantially from as high as 752 in 1985-86 to only 26 in 2012-15. Import restrictions have been imposed on two grounds: either for trade-related reasons (i.e., to provide protection to domestic industries) or for non-trade reasons (e.g., to protect environment, public health and safety, and security). Therefore, only the trade-related restrictions should be of interest to policy reforms and liberalisation. Table 1 shows the evolution of import restrictions in Bangladesh at the HS 4-digit level, where it is found

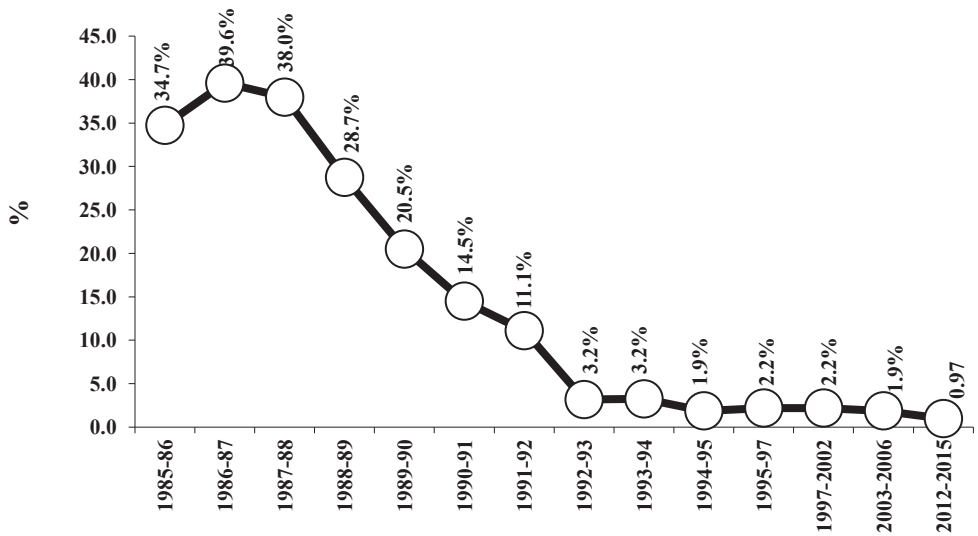
that over the past two decades the number of trade-related banned items has declined from 275 to 4. In a similar fashion, other restricted and mixed (a combination of ban and restriction) import categories fell quite rapidly. In 1987-88 about 40 percent of all import lines at the HS-4 digit level was subject to trade-related quantitative restrictions (QRs), but these restrictions had drastically been reduced to less than 1 percent in recent years (Figure 1).

Table 1: Removal of QRs at the 4-digit HS Classification Level

Year	Total	Restricted for trade reasons			Restricted for non-trade reasons
		Banned	Restricted	Mixed	
1985-86	478	275	138	16	49
1986-87	550	252	151	86	61
1987-88	529	257	133	79	60
1988-89	433	165	89	101	78
1989-90	315	135	66	52	62
1990-91	239	93	47	39	60
1991-92	193	78	34	25	56
1992-93	93	13	12	14	54
1993-94	109	7	19	14	69
1994-95	114	5	6	12	92
1995-97	120	5	6	16	93
1997-2002	122	5	6	16	95
2003-2006	63	5	8	10	40
2012-2015	26	4	6	2	14

Source: Compiled from different sources (Yilmaz and Varma, 1995; Bayes et al., 1995; Taslim, 2004), IPO (2003), IPO (2012)

Figure 1: Trade-Related Restrictions as Proportion of Total HS 4-digit Import Lines



Source: Calculated from Table 1

2.2 Reforms in the Tariff Structure

Beginning from the late 1980s the tariff regime has become increasingly liberalised. Between 1991-92 and 2011-12 the un-weighted average rate of tariff fell from 70 percent to 14.9 percent (Table 2). Much of this reduced protection was achieved through the reduction in the maximum rate. Table 2 suggests that in 1991-92 the maximum tariff rate was 350 percent, which came down to only 25 percent in 2011-2012. Bangladesh has no tariff quotas, seasonal tariffs and variable import levies (WTO, 2000). All these measures have greatly simplified the tariff regime and helped streamline customs administration procedures.

Table 2: Tariff Structure in Bangladesh

Fiscal Year	Maximum Rate (%)	Un-weighted Tariff Rate (%)
1991-92	350.0	70.0
1992-93	300.0	47.4
1993-94	300.0	36.0
1994-95	60.0	25.9
1995-96	50.0	22.3
1996-97	45.0	21.5
1997-98	42.5	20.7
1998-99	40.0	20.3
1999-00	37.5	19.5
2000-01	37.5	18.6
2001-02	37.5	17.1
2002-03	32.5	16.5
2003-04	30.0	15.6
2004-05	25.0	13.5
2005-06	25.0	15.5
2011-12	25.0	14.9

Source: BEI (2005), Bangladesh Economic Review (2004) and WTO (2012)

One important aspect of the tariff structure in Bangladesh relates to the use of import taxes which have protective effects (also known as para-tariffs) over and above the protection provided by customs duties (World Bank, 2004). These taxes have been the infrastructure development surcharge (IDSC), supplementary duties (SD), Regulatory duties. Although these taxes have been primarily imposed for generating additional revenues, in the absence of equivalent taxes on domestic production they have provide extra protection to local industries. Similarly, while the value added tax (VAT) is supposed to be trade-neutral, exemptions for specified domestic products have also resulted in its having some protective content. Some of these para-tariffs, such as the IDSC, are applied across-the-board to all or practically all imports, and can be considered as general or normally applied protective taxes which affect all or nearly all tariff lines. Others are selective protective taxes in that they are only applied to selected products, for example the 'supplementary' duties. The para-tariffs employed during the 1990s and 2000s in Bangladesh are summarised in Table 3. It appears that, despite the lowering of customs duties, the presence of para-tariffs did not significantly lower the total protection rate.

Table 3: Average Custom-duties and Para-tariffs in Bangladesh

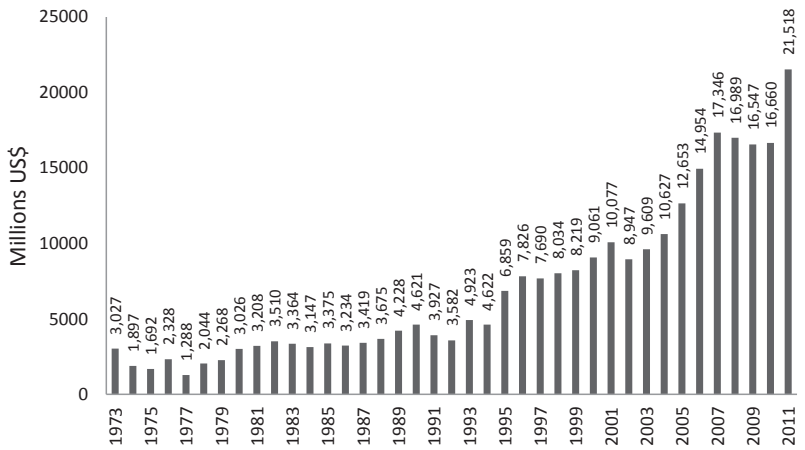
Year	All tariff lines		
	Customs Duties	Para-tariffs	Total protection rate
1991-92	70.64	2.98	73.62
1992-93	57.93	2.59	60.52
1993-94	43.47	2.43	45.90
1994-95	34.24	3.30	37.55
1995-96	28.70	3.26	31.96
1996-97	28.24	3.38	31.61
1997-98	27.27	5.88	33.15
1998-99	26.59	5.82	32.41
1999-00	22.40	6.99	29.39
2000-01	21.10	7.43	28.54
2001-02	21.02	8.41	29.43
2002-03	19.91	6.51	26.42
2003-04	18.82	10.29	29.11
2011-12	14.9	12.94	27.84

Source: World Bank (2004) and World Bank (2012)

2.3 Imports into Bangladesh

The liberal import policies led to surges in imports into Bangladesh as shown in Figure 2. In 1973 total imports were US$ 3,027 million, which rose to US$ 6,859 million in 1995, and increased further rapidly to US$ 21,518 million in 2011.

Figure 2: Trend in the Total Imports of Bangladesh (million US$)

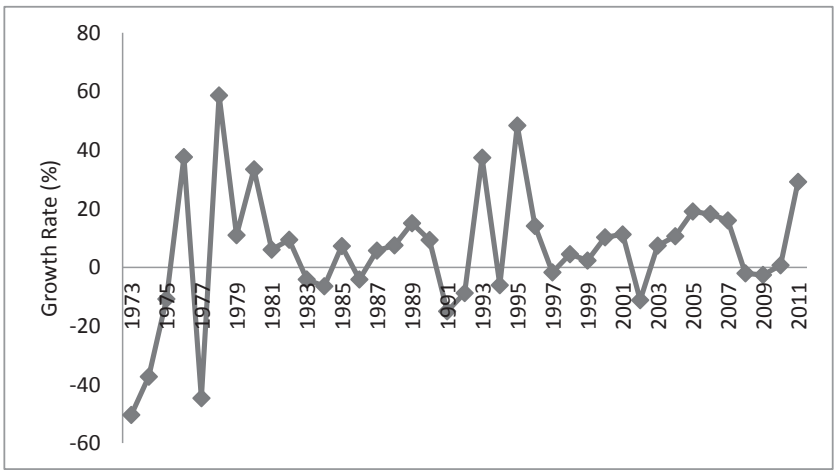


Source: WDI, World Bank

Figure 3 plots the annual growth rates in imports between 1973 and 2011. During the 1990s, imports grew at an annual average rate of 13 percent with 1995 recording a maximum of 48

percent. Since the early 1990s imports fell absolutely only once in 2002, in the aftermath of September 11 terrorist attacks in the US that slowed down global trade and investment flows in that particular year. Also, during 2008 and 2009, import registered negative growth.

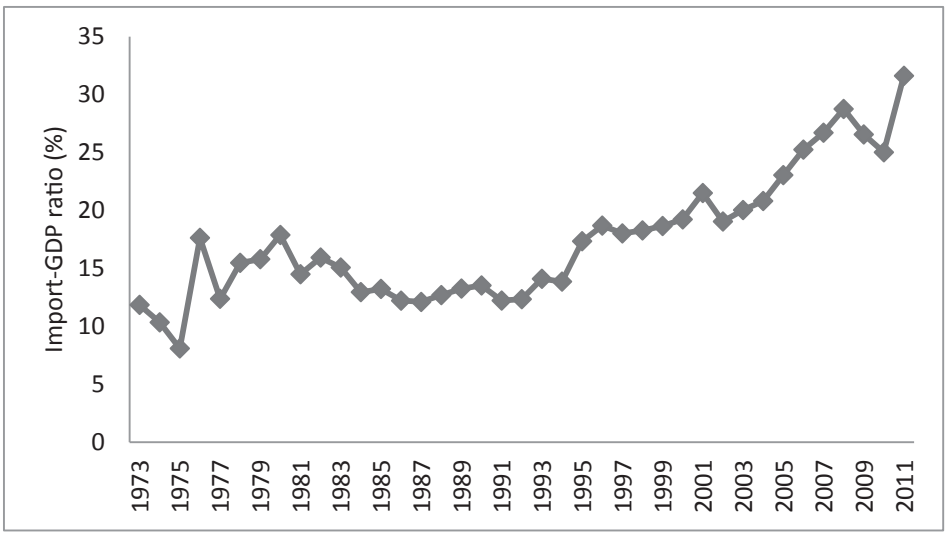
Figure 3: Import Growth



Source: WDI, World Bank

The surge in imports also resulted in rising import penetration ratio, defined as the share of total imports in GDP. Figure 4 shows that the import penetration ratio was only about 12 percent during the early 1973, which increased to more than 31 percent by 2011.

Figure 4: Trend in the Import-GDP Ratio in Bangladesh



Source: WDI, World Bank

2.4 Scope of Further Rationalisation of the Import Regime

The main problem with further tariff rationalisation is concern about the potential revenue shortfalls of the Government. Although the loss in revenue could arguably be made up either by expanding the domestic tax base or by increasing the VAT net or a combination of both, the tax administration in an LDC like Bangladesh is not as flexible as in developed countries for undertaking an increased revenue mobilisation effort within a short period of time. Also, increasing the rates of revenue generating tax measures such as VAT may be difficult given the poverty situation of the country. An alternative might be to readjust the tariffs so that the highest duty rate is reduced, but on the whole the tariff structure remains revenue-neutral. In this case, however, the average nominal protection given to the domestic import-substituting activities will not decline.

Since Bangladesh embarked on a tariff reform programme at a very fast pace, it may not be possible to carry on further liberalisation with a similar pace. Nevertheless, it would be unwise to reverse the process of liberalisation and thus the progress achieved in the previous decade. The use of para-tariffs in recent years has increased the total protection rates, which appears to be incompatible with the liberalisation measures that Bangladesh undertook earlier. It is, therefore, important to ensure the neutrality of supplementary duty and VAT by applying them to the domestic industries in a non-discriminatory fashion, which could contribute to increased government revenue on the one hand, and reduced anti-export bias on the other.

In future Bangladesh may opt for an analytical approach to tariff liberalisation. Under this approach there may be scopes to devise the tariff structure in such a way so that it has limited effects on the revenue position of the government, but contributes to lowering high rates of effective protection enjoyed by a number of sectors. Although the outcome may be diminished or unchanged nominal protection for the whole economy, the efficiency gains achieved through reduction in effective protection can be beneficial to resource allocation.

The existing practice of tariff liberalisation programme has wrongly concentrated on the nominal protection rate and the revenue implications. This is reflected in the higher import-weighted tariff rate for intermediate goods than that for final consumers' goods. Therefore, a more realistic tariff rationalisation programme can substantially benefit the domestic industry relying on imported intermediate goods. This apparent unrealistic duty structure underlines the need for using an analytical approach to tariff liberalisation measures.

However, across the board tariff reduction may not be desirable not only because of the revenue concern of the government but also because of the need for providing some support to domestic industries with significant growth and poverty alleviation effects. By adopting pro-active and analytical policy regime effective support to the growth of small and informal sector activities with significant poverty alleviation effects can be provided. In fact, policies should be devised in such a way so that trade can act as a tool for development.

Furthermore, the strategy and scope of future tariff liberalisation need to be put in the context of intended policy objective. Reduction in import tariffs is to reduce policy-induced anti-export bias, but this does not necessarily imply an improved export response. The existing level of policy bias against export is relatively low and even keeping aside the problem of potential revenue shortfall, it needs to be emphasised that while further reduction in anti-export bias through tariff-cuts is one

thing, generating export supply response is another matter. Given a weak performance of non-RMG sectors, it appears that in future policy options and/or support measures for exports would be much more difficult and involved than such simple measures as removal of quantitative restrictions and reduction of tariffs.

3. A Review of the Export Regime and the Export Policy

3.1 Evolution of the Export Policies

An important element of trade policy reform has been the use of a set of generous support and promotional measures for exports. While the import liberalisation was meant to correct the domestic incentive structure in the form of reduced protection for import-substituting sectors, export promotion schemes were undertaken to provide the exporters with an environment where the previous bias against export-oriented investment could be reduced significantly. Important export incentive schemes available in Bangladesh include, amongst others, subsidised rates of interest on bank loans, duty free import of machinery and intermediate inputs, cash subsidy, and exemption from value-added and excise taxes. Table 4 summarises some of the most important incentive schemes that have been put in place in the country. A few sectors, especially the ready-made garments (RMG), have been major beneficiaries of these reforms. Apart from supporting the main items, non-traditional sectors with high export potentials have also been identified as privileged activities, for which special facilities are offered through export policies. For example, in the Export Policy 2009-12, software and ICT products, agro products (including agro-processed goods), light engineering goods (including auto-parts and bicycles), leather goods, home textile, toiletries and ship building were identified as 'thrust sectors' and several incentives such as the provision of project loan with low interest rate on a priority basis, income tax rebate, cash support with other financial facilities, export credit under relaxed conditions and with subsidized interest rate, concessions on air freight, support for marketing, etc.

Table 4: Important Export-Incentive Schemes in Bangladesh

Scheme	Nature of Operation
Export Performance Benefit (XPB)	This scheme was in operation from mid-1970s to 1992. It allowed the exporters of non-traditional items to cash a certain proportion of their earnings (known as entitlements) at a higher exchange rate of WES. In 1992 with the unification of the exchange rate system, the XPB scheme ceased.
Bonded Warehouse	Exporters of manufactured goods are able to import raw materials and inputs without payment of duties and taxes. The raw materials and inputs are kept in the bonded warehouse. On the submission of evidence of production for exports, required amount of inputs is released from the warehouse. This facility is extended to exporters of RMG, specialized textiles such as towels and socks, leather, ceramic, printed matter and packaging materials, who are required to export at least 70 percent of their produce.
Duty Drawback	Exporters of manufactured products are given a refund of customs duties and sales taxes paid on the imported raw materials that are used in the production of goods exported. Exporters can also obtain drawbacks on the value added tax on local inputs going into production.

Scheme	Nature of Operation
Duty Free Import of Machinery	Import of machineries without payment of any duties for production in the export sectors.
Back to Back Letter of Credits (L/Cs)	It allowed the exporters to open L/Cs for the required import of raw materials against their export L/Cs in such sectors as RMG and leather goods. The system is considered to be one of the most important incentive scheme for the RMG export.
Cash Subsidy	The scheme was introduced in 1986. This facility is available mainly to exporters of textiles and clothing who choose not to use bonded warehouse or duty drawback facilities. Currently, the cash subsidy is 25 percent of the free on board export value. In recent times, cash subsidies have been offered to agro products exporters.
Interest Rate Subsidy	It allows the exporters to borrow from the banks at lower bands of interest rates of 8-10 percent against 14-16 percent of normal charge.
Tax Holiday	First introduced under the Industrial Policy of 1991-93, this incentive allows a tax holiday for exporter for 5-12 years depending on various conditions.
Income Tax Rebate	Exporters are given rebates on income tax. Recently this benefit has been increased. The advance income tax for the exporters has been reduced from 0.50 percent of export receipts to 0.25 percent.
Retention of Earnings in Foreign Currency	Exporters are now allowed to retain a portion of their export earnings in foreign currency. The entitlement varies in accordance with the local value addition in exportable. The maximum limit is 40 percent of total earnings although for low value added products such as RMG the current ceiling is only at 7.5 percent.
Export Credit Guarantee Scheme	Introduced in 1978 to insure loans in respect of export finance, it provides pre-shipment and post-shipment (and both) guarantee schemes
Special Facilities for Export Processing Zones (EPZs)	To promote exports, currently a number of EPZs are in operation. The export units located in EPZs enjoy various other incentives such as tax holiday for 10 years, duty free imports of spare parts, exemption from value added taxes and other duties.

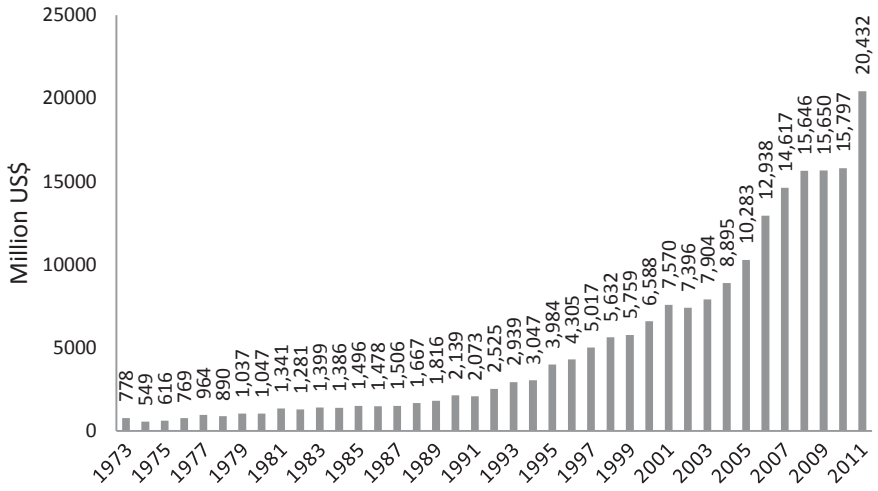
Source: Raihan and Razzaque (2007)

Apart from the incentive schemes, the Government has also provided generous institutional support to the exporters. Various institutions such as the Duty Exemption and Drawback Offices (DEDO), and the Export Promotion Bureau provide promotional, directional, and marketing assistance and particularly the activities of the latter are worth pointing out that include, amongst others, providing input to Government's trade policy, assisting DEDO, disseminating trade information, undertaking national export training programmes, organizing and participating trade fairs, and managing quota allocations for RMG units.

3.2 Trend in the Exports from Bangladesh

Extensive export-promotion measures and favourable market access in the EU and USA helped Bangladesh's exports rise remarkably during the past 20 years to so. Figure 5 shows that in 1973 total exports were only US$ 778 million, which increased to US$ 3,984 million in 1995, and further to US$ 20,432 million in 2011.

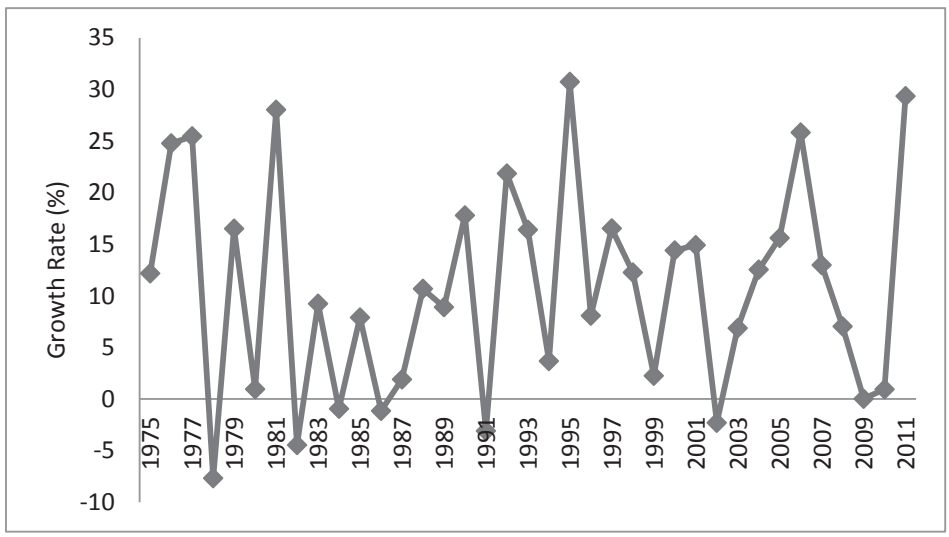
Figure 5: Trends in Exports (million US$)



Source: WDI, World Bank

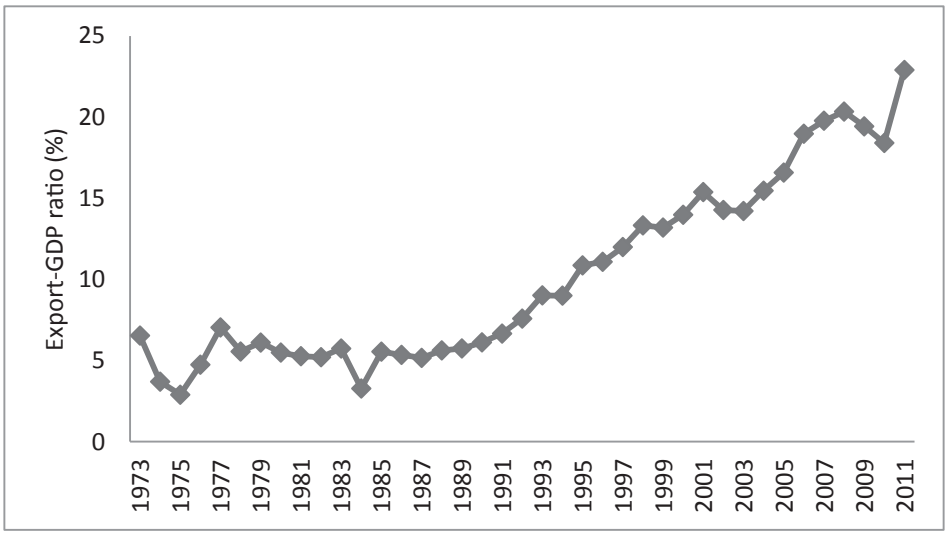
Figure 6 provides the annual export growth rates since 1975. During the 1990s, exports grew at 15 percent per annum with 1995 recording the highest growth rate of 31 percent. Exports growth rate fell significantly during 2009 and 2010, due to the global recession, and registered a spectacular growth of 30 percent in 2011.

Figure 6: Export Growth



Source: WDI, World Bank

Figure 7: Trend in the Export-GDP Ratio in Bangladesh



Source: World Bank (2006)

With the considerable rise in export earnings at a rapid pace, the export-orientation ratio, i.e. the ratio of exports to GDP, also rose significantly from around 6.5 percent in 1973 to more than 22 percent in 2011. Therefore, if one juxtaposes the trade policy regimes and export performance, liberalisation programmes may be considered to have been successful in energizing exports. However, the export growth is overwhelmingly dominated by the dynamism in the readymade garment sector alone. More than three-quarters of total export earnings are due to woven and knit-RMG products, with the relative significance of all other sectors declining. The growth of Bangladesh's RMG exports is largely attributable to international trade regime in textiles and clothing, which, until 2005, has been governed by the Multi fibre Arrangement (MFA) quotas. The quota system restricted competition in the global market by providing reserved markets for a number of developing countries including Bangladesh, where textiles and clothing items have not been traditional exports. The Duty-free access for Bangladesh's RMG products in the EU has also greatly supported the growth of the sector. Because of these factors, many analysts do not consider the policy of trade liberalisation as a reason for export success. This view is also backed by the fact that apart from RMG, export response of all other major commodities such as raw jute, jute goods, tea, leather and leather products, and frozen food and shrimps has been very weak. Therefore, while on the one hand, there are other more dominant reasons than liberalisation for Bangladesh's export success in RMG, export performance of other sectors despite the considerable policy reforms has been disappointing on the other. It is in this context it is argued that mere liberalisation of the trade regime does not necessarily guarantee export success. It also important to note that, export markets for Bangladesh have been highly concentrated with North America and the EU being the major destinations. In 11, 51 percent of the country's total exports went to the EU, while another 22 percent was destined to the USA.

It then follows from the above that despite the impressive growth record, the export base and the export markets have remained rather narrow for Bangladesh, which is a matter of great concern. Undiversified exports both in terms of product range and markets are likely to be much more vulnerable to various shocks than well-diversified exports. Despite the policy reforms and various incentives offered, it seems that Bangladesh has failed to develop a diversified export structure.

3.3 Areas for Improvement in Export-Promoting Policies

Export policies and associated incentives are formulated to provide a predictable and secure environment for the exporters. It specifies objectives, designs strategies, and sets up export targets to achieve. Given the constraints to supply response, the export policy can play a significant role in energizing export and bringing diversification into the export basket. It is important to recognise that export policies have generally correctly identified all major constraints associated with the export trade and accordingly defined their objectives and strategies, which can be summarised as: (1) to achieve institutional efficiency through restructuring export-related organisations such as the Export Promotion Bureau (EPB), and to build capacity of various export-related departments, (2) product diversification, (3) development of the product standards, production of high value products, and improvement of the design, (4) adopt new strategy to expand the markets for new products, utilisation of computer technology, use of all modern technology including e-commerce, (5) to develop required infrastructure and to some extent backward and forward linkages, (6) to create new exporters, support existing exporters, and develop business-friendly mentality, (7) to develop skilled manpower, and (8) to make trade bodies, businessmen and all concerned aware of the international trade rules and regulations. To achieve these objectives, the strategies that have usually been specified, viz: (a) to support expansion of export through the formation of product development councils, (b) support for market intelligence, (c) to provide incentive for export by expanding such institutional facilities as trading and exporting houses, (d) to establish institutions to ensure standards and quality of products, (e) to support producers in using modern techniques for product design, (f) to support exporters in gathering information about the business techniques and procedures, and (g) to arrange trade fairs of Bangladeshi products in different countries of the world and to provide support to the exporters for participating in various international fairs.

The export policy of 2009-12 also identified several products to be considered as sectors with highest priorities. Sectors with highest priority and under special development programmes were to receive various generous facilities. However, one major problem has been not having the strategies well- and narrowly defined. Lack of clear guidelines as regards implementation or ways to provide supports may result in ineffectiveness of the strategy. A policy of supporting or undertaking a programme itself cannot ensure achievement of objectives. Policy frameworks need institutions to become effective. In other words, it is institutions through which strategies are ultimately implemented. The Export Policies emphasized the need for restructuring the institutions but it was more important to specify how to achieve it. Besides, trade or export policies usually encompass a number of institutions or departments and coordination of their tasks has important implications for all eligible exporting firms' benefiting from incentives. Therefore, strategies need to be outlined in details and the roles and responsibilities of relevant institutions and departments

should be articulated. Lack of coordination and integration in the various elements of export policy strategy has always been a problem in Bangladesh. Since strategies remain too broad, it is difficult to analyse whether they ultimate work or to identify the reasons for not their well-implementation and thus lessons to be learnt for similar future exercises.

The Export Policy 2009-12 has also put due emphasis on export diversification. However, there are serious concerns among the stakeholders that previous policies have had implicit bias towards the RMG sector, and most of the non-RMG export-oriented sectors have not able to reap the benefits of different incentives and promotional measures.

It is important to note that, because of the complex import regime and a lengthy duty drawback scheme, the governance of the Duty Exemption and Drawback Office (DEDO) is weak and is inefficient in disbursing rebates. So policies should be undertaken to address the institutional weakness of DEDO so that non-RMG sectors can take advantage of this facility. Similarly, using special bonded warehouses (SBWs), 100 percent exporters and deemed exporters can import and stock inputs without paying any duty. However almost 90 percent of the users of SBWs are RMG exporters and hence its impact on the non-RMG sector is much lower than the desired level. Again, currently, there are 6 export processing zones (EPZs) in the country that receive various special facilities. But, these special zones have little impact on the diversification of exports as more than 60 percent of the EPZ units produce textile and clothing-related products. Therefore, there is a need for policies designed at raising the product-diversity of EPZs.

As already mentioned, export policies identify thrust sectors with a view to promoting the development of potential export items. However many of the thrust sectors are probably not in a position to reap the benefits of the incentives reserved for them. For example, the government set up an Export Promotion Fund (EPF) to provide support to exporters of new and non-traditional items for the purposes of product development and market diversification. But, many of the thrust sectors have been unable to exploit benefits from the scheme. The same is also true in the case of the Export Development Fund (EDF), which is intended to provide pre-shipment financing for imports of raw materials, spare parts, and packing materials necessary for exporters of non-traditional items. However, so far only the RMG sector has been the prime beneficiary of this facility. Therefore, it seems that before formulating the policies and schemes, it is important to undertake sector-specific diagnostic studies so that structural and policy constraints can be identified in order to devise most appropriate incentives.

A number of tax incentives, cash subsidies and duty concessions have characterised Bangladesh's export policy. However, the availability of different provisions makes the trade regime complex and could raise the rent seeking opportunities that do not help the growth and development of productive sectors. There is a need for careful examination of the effectiveness of some of these incentives. It is also important to harmonise the incentive structure taking into consideration of subsidies and concessions offered for their effective operation.

The responsibilities of EPB, among others, are dissemination of trade information, product development for export and organisation of trade fairs. However there have been allegations that EPB often fails to perform such roles effectively as it lacks efficiency and professionalism. Hence some institutional reforms are required to make the EPB an effective export promoting agency.

For effective export promotion, in addition to the export policies, a set of other complementary policies and programmes are critically required. Stabilities of the macroeconomic environment, effectiveness of the export promoting and supporting institutions, and smooth functioning of the financial markets are necessities. Furthermore, the quality of governance should be improved through promoting transparency and accountability, and by reducing the extent of corruption. The government should also take effective role in technology diffusion and in providing appropriate physical infrastructural facilities.

Stakeholder consultation envisages that main constraints to higher volume and more diversified exports relate to domestic policies. Continued growth of Bangladeshi products during recession tends to suggest that the world demand is not a major constraint for Bangladesh. This is perhaps because Bangladesh is still a small player in the world market. Nevertheless, trade policies of partner countries can reduce access to Bangladeshi exports. These constraints to market access would need to be analyzed and resolved through proper dialogue with the authorities of concerned countries at multilateral, regional and bilateral levels. It would therefore appear that the main constraints to higher volume and more diversified exports relate to domestic policies. Therefore, much of the policy attention will need to focus on production incentives, quality and cost competitiveness, and diversification of our export basket.

4. Conclusion

This paper has presented an overview of the evolution of import and export policies that depict the overtime changes in the overall trade policy environment in Bangladesh. The review of these policies suggests that the policy environment has undergone significant changes over the last two decades. Trade policies have evolved with the aim of developing a more open, market-oriented and private sector-led economy.

It appears that Bangladesh has been able to reduce its protection for the domestic sectors quite significantly by undertaking substantial reductions in quantitative restrictions, drastic opening up of trade in many restricted items, and significant rationalisation and diminution of import tariffs. Another important element of trade policy reform was the introduction of generous promotional measures for exports. While import liberalisation were intended to correct the domestic incentive structure in the form of reduced protection for import-substituting sectors, export promotion schemes were undertaken to provide exporters with an environment in which the previous bias against export-oriented investment could be reduced significantly. The reform measures and export incentives have witnessed an impressive export performance.

However, one important concern is that the export growth has been overwhelmingly dominated by the garment sector alone, which grew taking advantage of the MFA quotas and preferential access in foreign markets. Export response of all other major commodities has been very weak. Therefore it is not clear to what extent the policy of liberalisation benefited the export sector. The government has introduced a number of incentives for export-oriented sectors. However, the RMG sector appears to be the prime beneficiary of these incentives, and for the non-RMG sectors such schemes have been proved to be less effective. Therefore, task of export diversification remains a critical challenge for Bangladesh.

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CHAPTER-2

EFFECT OF INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT ON EMPLOYMENT IN BANGLADESH: A SURVEY OF LITERATURE

Mahfuz Kabir

1. Introduction*

The relationship between international trade and employment has been an issue of significant interest for long, both in the theoretical and empirical literature. There are a number of channels through which international trade can exert influence on labor market, and thus employment directly and indirectly. Trade liberalization can have both positive and negative effects on employment creation and the net employment effects, whether positive or negative, would hinge on country-specific characteristics of labor and product markets. However, efficiency gains emanating from trade liberalization can create positive overall employment effects, either number of employment or wages earned or both (Raihan, 2008). Traditional Heckscher-Ohlin model suggests that trade liberalization by a labor-abundant country will increase the demand for labor. This is because, if a developing country gradually integrates with the world economy, it will experience a steady transformation into more labor-intensive outputs, thereby leading to a rightward shift in its national labor demand curve. Under the assumption of a fairly elastic supply of labor in the domestic market, trade would lead to an increase in overall employment (Jenkins and Sen, 2006). In other words, trade liberalization increases the possibility of employment creation.

The policymakers put together increased efforts to attract more FDI from the belief that it has several positive effects that include productivity gains, technology diffusion/transfers, the introduction of new processes, enhanced managerial skills, and know-how in the domestic market, training of employee, increased international production networks, and more access to markets (Alfaro et al., 2004). Thus, FDI would enhance employment opportunities in the domestic market. In recent decade, Bangladesh witnessed some large growth of FDI, although the net FDI remained less than two percent of GDP. Now the question remains at empirical level whether and to what extent increased FDI has its impact on employment in the country.

The present survey of literature focuses on the effect of international trade and FDI on employment in the context of Bangladesh. Thus, the chapter has been organized as follows. Following this brief prelude, Section 2 discusses the theoretical linkage between international trade and employment, and its empirical evidence. Section 3 presents empirical evidence on the relationship between FDI and employment. Section 4 presents the methodologies used in the empirical literature and identifies their drawbacks. Finally, avenues of further research have been identified in Section 5.

2. Trade and Employment

At the empirical level, the impact of trade openness and employment is inconclusive in the context of developing countries. Papageorgiou et al. (1990) revealed that eight out of nine in developing countries experienced higher employment in the manufacturing sector during liberalization period. Ernst (2005) found trade liberalization to be employment-reducing in Argentina and Brazil, while it was productivity and employment enhancing in manufacturing sector in Mexico during second half of the 1990s. Fu and Balasubramanyam (2005) found a positive and significant impact of exports

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on employment in China. Rama (1994) found a negative effect of trade liberalization on employment in Uruguay in the late 1970s and early 1980s. Carneiro and Arbache (2003) observed limited impact of trade liberalization on labor market in Brazil.

The literature focusing on effect of trade on employment in the context of Bangladesh is limited. This literature can be divided into two broad categories: ex ante and ex post studies.

2.1 Ex Ante Studies

The studies on trade effects of employment are mostly ex ante type, i.e., the potential impact of trade liberalization of Bangladesh or exogenous shock on the country's employment. One multi-country study adopted econometric model while the others used Computable General Equilibrium (CGE) model to comprehend the ex ante effect of trade on quantity and quality of employment.

Mujeri and Khondker (1998) conducted several tariff liberalization simulations by adopting a CGE model to examine their ex ante macroeconomic and labor market effects. They examined three scenarios to understand the distributional outcomes of tariff reforms:

(i) TM: Reducing nominal tariff rates as of fiscal year 1996-97 without making any adjustments in domestic indirect or direct tax rates.(ii) TM1: Reducing nominal tariff rates along with adjusting value-added tax rate of manufacturing sector to maintain neutrality of government revenue. (iii) TM2: Reducing nominal tariff rates along with introducing lower value-added tax rate for manufacturing, construction, miscellaneous service sector and trade to continuing neutrality of government revenue.

Table 1: Equivalent Variations under Different Simulations

Sl	Household Groups	TM	TM1	TM2
1.	Professional	1.419	1.561	1.568
2.	Services	2.110	1.572	1.584
3.	Agricultural Laborer	0.641	0.370	0.396
4.	Small Farm	0.709	0.448	0.479
5.	Large Farm	2.640	1.875	1.966
6.	Skilled Worker	0.566	0.389	0.395
7.	Semi-skilled Worker	0.175	0.107	0.116
8.	Unskilled Worker	0.687	0.490	0.560

Source: Mujeri and Khondker (1998).

The study observed that in all the simulations, Equivalent Variation (EV) or welfare would be positive for all household groups although it would be larger for the high-income household groups, such as professional, services, and large farm, compared to low-income household groups such as agricultural laborer, semi-skilled and unskilled workers.[1] In all the scenarios, workers of manufacturing sector (groups 6 to 8 in Table 1) would be the losers due to decline in manufacturing GDP. Conversely, rural agricultural workers would turn out to be gainers.

[1] The household groups were classified according to the Social Accounting Matrix 1992-93.

Fontana (2004) investigated the effects of trade on women vary by socio-economic characteristics, sector and country by adopting a gendered social accounting matrix (SAM) and CGE model. By examining the scenario of removal all tariffs, the study revealed that employment in the RMG sector would increase by about 37 percent for both women and men, but the absolute increase would be higher for women than for men due to their significantly high benchmark share. The study also observed that the increase in market employment would be the highest for women with primary and secondary education (about 3 percent), and less significant for the highly skilled (about 2 percent). Since tariff removal would lead to a significant growth of the most female-intensive sector (RMG), the economy-wide demand for female labor would rise at a higher pace than the demand for male labor. As a result, wage rate of female laborer would increase both in absolute amount and relative to men (see, Table 2).

Table 2: Effects of Tariff Abolition on Employment (% Changes from Base)

	Female					Total Male
	No Education	Primary Education	Secondary Education	Post Education	Total	
Employment						
All market sectors, of which:	**1.4**	**3.1**	**3.4**	**2.2**	**2.1**	**0.3**
Grains	-1.7	-2.0	-1.9	-1.7	-1.8	-1.4
Commercial crops	1.7	0.0	1.5	1.7	1.6	2.0
Livestock and horticulture	0.2	-0.1	0.0	0.2	0.1	0.5
Fishing	0.6	0.3	0.3	0.6	0.5	0.8
Food processing	-2.8	-3.1	-3.0	-2.8	-2.9	-2.6
Garments	36.8	36.4	36.5	36.8	36.6	37.1
Other textiles	10.5	10.2	10.2	10.5	10.4	10.7
Other manufacturing	-13.0	-13.3	-13.2	-13.0	-13.1	-12.9
Infrastructure	0.2	-0.1	-	0.2	0.2	0.4
Trade	0.5	0.2	0.2	0.5	0.4	0.7
Transport	0.7	0.4	-	0.7	0.6	0.9
Public services	0.2	-0.1	-0.1	0.2	0.1	0.3
Financial services	-	-0.1	0.0	0.2	0.1	0.3
Domestic services	0.0	-0.4	-0.3	-0.1	-0.1	0.1
All social reproduction	**-0.2**	**-0.4**	**-0.4**	**-0.2**	**-0.3**	**-0.1**
All leisure	**-0.3**	**-0.5**	**-0.5**	**-0.4**	**-0.4**	**-0.3**
Hourly wages						
Absolute	1.8	2.9	2.5	1.7		
Relative to males*	0.9	1.8	1.4	0.5		

* Difference between the absolute percentage change for females and the absolute percentage change for males. A positive value indicates that the female/male wage gap has narrowed. Source: Fontana (2004)

Raihan and Razzaque (2007a) adopted Bangladesh dynamic CGE model by linking the global model (GTAP model) with the Bangladesh CGE model (the dynamic model) with the aim to explore the effect of global agricultural trade liberalization under WTO on the Bangladesh

economy. The simulation results revealed that for full and partial liberalization, demand for agricultural labor, both skilled and unskilled, would fall in the short and long run. Liberalization would foster relocation of both skilled and unskilled labor from most of the agricultural sub-sectors to the manufacturing sub-sectors given the expansion of the industrial sectors.

Raihan and Razzaque (2007b) undertook another simulation by adopting Bangladesh dynamic CGE model to comprehend macroeconomic, trade and welfare effects on the Bangladesh economy out of the LDCs duty free quota free market access in the developed and developing countries.

The results clearly revealed that demand for agricultural labor would decrease for most of the sub-sectors excluding rice and paddy. Demand for labor in textiles and RMG would increase significantly while labor demand in service sector would either increase or remain unchanged.

Raihan (2008) carried out an analysis of the impact of different trade liberalization scenarios on the allocation of labor across different sectors within a CGE framework for Bangladesh. The 2005 SAM for Bangladesh was used for the base year data on which simulation exercises were conducted under both full employment unemployment assumptions. Labor was divided into four categories: agricultural unskilled labor (LAgUnsk), agricultural skilled labor (LAgSk), non-agricultural skilled labor (LNAgUnsk) and non-agricultural unskilled labor (LNAgSk). Three scenarios have been created in this study: (i) Full liberalization: Tariffs on all imports are reduced to zero; (ii) Partial liberalization: Tariffs on all imports are reduced by 50 percent; and (iii) Rationalized liberalization: Tariff rates are rationalized in a way that conform to the tariff reforms steps undertaken in the country. Under the 'full employment' assumptions, the study revealed that the liberalization scenario would lead to contraction of the ‘paddy’, ‘livestock’ and ‘poultry’ sub-sectors in agriculture and that would lead to decline in demand for both skilled and unskilled labor in these sectors. Conversely, labor demand would increase in all other agricultural sub-sectors, of which ‘shrimp’ and ‘other crops’ would witness the largest increase. ‘Other industries’ and ‘food’ would experience the most significant decrease in labor demand under all the scenarios. However, manufacturing, such as woven RMG, knit RMG and other textiles would witness high rise in labor demand. Education and health, and private service would also experience decline in labor demand under all three scenarios (Table 3).

In Raihan (2008), under the ‘unemployment' assumption, the Bangladesh CGE model was used for simulating different liberalization scenarios by assuming that labor factors were not fully employed in the economy. This was a reasonable assumption for Bangladesh economy due to its labor abundance. Under this assumption, labor released from the shrinking sectors would not be fully absorbed in the expanding sectors, leading to partial realization of the potential of trade liberalization. Thus, the assumption of unemployment in the Bangladesh CGE model would lead to different simulation outcomes compared to those under a ‘full employment’ model. In the unemployment model, the outcomes would be almost similar. The only difference was that the export-oriented sectors would expand less significantly compared to full employment model, and the potential growth in labor demand in these sectors would turn out to be less considerable (Table 4).

2.2 Ex Post Studies

Developing countries in Asia would be more likely to specialize in labor-intensive manufactures as labor supply is abundant compared to land. If we can take Bangladesh as a labor abundant country, it would be reasonable to expect that trade liberalization will increase the demand for labor, especially in the formal sector (Winters 1999). CUTS (1999) revealed that Bangladesh's huge export response to trade liberalization had mainly focused on ready-made garments (RMG) and shrimp farming. It did not increase the demand for rural unskilled male labor as 80 percent of the workers in RMG were female.

Using an econometric analysis, Jenkins (2005) revealed that export growth created job opportunities for some 802,205 people in Bangladesh during 1990-97, while import penetration led to employment contraction of 57,296 laborers. The net effect was, however, positive- international trade resulted in new 744,909 jobs in the country.

Jenkins and Sen (2006) argued that the impact of trade on manufacturing employment can be decomposed into three elements[2]:

(i) *Scale effect*: This is impact on output due to international trade. Increased exports of home country have a positive effect on output, which leads to increase employment. However, greater import penetration decreases output and therefore contracts employment opportunities. Trade exerts influence on employment via the overall size of the manufacturing sector.

[2] According to this study, the level of manufacturing employment (L) in an economy is equal to the level of manufacturing output (Q) times the weighted average employment coefficient for the manufacturing sector such that

$L = Q. \sum w_i(L_i/Q_i)$

wherewidenotes the share of the branch's output in overall manufacturing output (Qi/Q).

Table 3: Percentage Changes in Labor Demand (full employment)

	Full Liberalization			Full Liberalization			Rationalized Liberalization		
	LAgUnsk	LAgSkL NAgUnsk	LNAgSk	LAgUnsk	LAgSkL NAgUnsk	LNAgSk	LAgUnsk	LAgSkL NAgUnsk	LNAgSk
Paddy	-2.24	-2.55		-1.03	-1.15		-0.52	-0.65	
Grains	1.98	1.66		0.95	0.83		0.70	0.56	
Other Crops	3.73	3.41		1.68	1.55		0.69	0.55	
Livestock	-0.95	-1.25		-0.37	-0.50		-0.16	-0.30	
Poultry	-0.60	-0.90		-0.31	-0.44		0.02	-0.11	
Shrimp	4.09	3.77		1.71	1.59		1.40	1.27	
Other Fish	0.37	0.06		0.12	0.00		0.27	0.13	
Rice Mill		-2.38	-2.11		-1.08	-0.94		-0.68	-0.62
Grain Mill		-0.41	-0.14		-0.12	0.02		-0.10	-0.03
Food		-5.06	-4.80		-2.27	-2.14		-0.98	-0.91
Mill Cloth		-1.44	-1.17		-0.66	-0.52		-0.20	-0.13
Woven RMG		25.35	25.69		11.17	11.33		5.44	5.51
Knit RMG		44.64	45.04		19.83	20.00		9.03	9.11
Other Textile		24.62	24.96		11.03	11.18		5.38	5.46
Other Industry		-6.56	-6.31		-3.17	-3.03		-1.31	-1.24
Urban Construction		-1.43	-1.16		-0.65	-0.52		-0.30	-0.23
Rural Construction		-0.65	-0.38		-0.26	-0.12		-0.19	-0.12
Public Construction		-2.13	-1.87		-0.97	-0.83		-0.44	-0.37
Utility		-0.73	-0.46		-0.28	-0.14		-0.12	-0.05
Trade		-1.78	-1.51		-0.72	-0.58		-0.43	-0.36
Transport		-1.93	-1.66		-0.85	-0.71		-0.41	-0.35
Housing									
Education& Health		-0.85	-0.58		-0.47	-0.33		-0.21	-0.14
Public Administration		0.28	0.56			0.14			0.07
Private Service		-1.93	-1.67		-0.85	-0.71		-0.41	-0.34

Source: Raihan (2008).

Table 4: Percentage Changes in Labor Demand (unemployment model)

	Full Liberalization			Full Liberalization			Rationalized Liberalization		
	LAgUnsk	LAgSkL NAgUnsk	LNAgSk	LAgUnsk	LAgSkL NAgUnsk	LNAgSk	LAgUnsk	LAgSkL NAgUnsk	LNAgSk
Paddy	-1.84	-2.09		-0.84	-0.94		-0.43	-0.53	
Grains	1.72	1.44		0.83	0.72		0.61	0.49	
Other Crops	3.39	3.10		1.53	1.41		0.63	0.50	
Livestock	-0.78	-1.03		-0.30	-0.41		-0.13	-0.25	
Poultry	-0.52	-0.78		-0.27	-0.38		0.02	-0.10	
Shrimp	3.72	3.43		1.56	1.45		1.27	1.16	
Other Fish	0.34	0.05		0.11	0.00		0.25	0.12	
Rice Mill		-1.95	-1.73		-0.89	-0.77		-0.56	-0.51
Grain Mill		-0.36	-0.12		-0.10	0.02		-0.09	-0.03
Food		-4.60	-4.37		-2.07	-1.95		-0.89	-0.83
Mill Cloth		-1.18	-0.96		-0.54	-0.43		-0.16	-0.11
Woven RMG		22.05	22.35		9.72	9.86		4.73	4.79
Knit RMG		40.62	40.99		18.05	18.20		8.22	8.29
Other Textile		22.40	22.71		10.04	10.17		4.90	4.97
Other Industry		-5.38	-5.17		-2.60	-2.48		-1.07	-1.02
Urban Construction		-1.24	-1.01		-0.57	-0.45		-0.26	-0.20
Rural Construction		-0.59	-0.35		-0.24	-0.11		-0.17	-0.11
Public Construction		-1.75	-1.53		-0.80	-0.68		-0.36	-0.30
Utility		-0.64	-0.40		-0.24	-0.12		-0.10	-0.04
Trade		-1.62	-1.37		-0.66	-0.53		-0.39	-0.33
Transport		-1.76	-1.51		-0.77	-0.65		-0.37	-0.32
Housing		0.00	0.00		0.00	0.00		0.00	0.00
Education & Health		-0.74	-0.50		-0.41	-0.29		-0.18	-0.12
Public Administration		0.25	0.51		0.00	0.13		0.00	0.06
Private Service		-1.76	-1.52		-0.77	-0.65		-0.37	-0.31

Source: Raihan (2008).

(ii) *Composition effect*: Trade impacts on the shares of different industries within the manufacturing sector in overall manufacturing output by expanding the output of exportable and contracting output of import-competing industries. An increase in the share of labor-intensive industries in aggregate output would raise the overall level of manufacturing employment.

(iii) *Process effect*: Trade can effect employment by changing labor coefficients within industries by bringing in change within a sector which affects the quantity and type of labor required to produce output. According to Stolper-Samuelson theorem, as the economy opens up, such changes takes place due to a shift in relative factor prices brought about by changes in relative factor demand.

The study segregated total employment effect into scale, composition and productivity effects. It observed that scale and composition effects were positive (annual 5.2 and 3.8 percent) in 1990s, while productivity effect was negative (annual -5.1 percent). However, Bangladesh demonstrated an impressive performance- increasing annually at 9.1 percent in the growth of overall manufacturing employment. The study observed that Bangladesh experienced a notable increase in the growth of manufacturing employment from late-1980s. This was led by exports growth of labor-intensive manufacturing industries, and to a much lesser extent by the growth of domestic demand. However, the net effect of trade on employment turned out to be significantly positive, in spite of increased import penetration in the 1990s. Furthermore, the overall growth in employment opportunities was remarkable even though productivity growth partly offset employment effect (Table 5).

Table 5: Changes in Manufacturing Employment (in '000')

	Total Employment Effect	Domestic Demand	Productivity Growth	Export Growth	Import penetration	Net Employment Growth from Trade
1975-1980	55	3	18	60	-26	34
1980-1985	56	75	-49	51	-21	30
1985-1990	559	277	27	247	8	255
1990-1997	864	435	-316	802	-57	745

Source: Jenkins and Sen (2006)

To understand the indirect impact of international trade on employment via changes in the efficiency of labor use, the study estimates constant output labor demand equation at the industry level by including variables that capture trade orientation, and using 3-digit ISIC industry level panel data. The results indicated that the first difference of import-penetration ratio[3] had a

[3] Jenkins and Sen (2006) described the methodology of calculating employment effect of export growth and import penetration as follows. Employment is calculated as

$L_{it}=l_{it}\ (D_{it}+X_{it}+M_{it})$ (1)

where L_{it} is employment in industry i at time t and $l_{it} = (L_{it}/Q_{it})$. Changes in employment between t = 0 and t = 1 has been decomposed using the equation:

$\Delta L_i=l_{i1}\ (1-m_{i0})\Delta D_i+l_{i1}\ \Delta X_i+l_{i1}\ (m_{i0}-m_{i1})\Delta D_{i1}+(\Delta l_i)\ Q_{i0}$ (2)

where $m_{it} = (M_{it}/D_{it})$. The first term on the right-hand side of Equation (2) measures the impact of changes in domestic demand on employment, the second the effect of changes in exports (or export growth), the third the impact of changes in import penetration and the final term indicates the effect of productivity changes.

contractionary effect on employment, although the coefficient turns out to be very low (-0.5 percent) and significant at 10 percent level. Conversely, export-output ratio has a positive incremental impact on employment (2.5 percent), which is significant at 1 percent level.

Raihan (2008) examined the employment effect of trade liberalization by undertaking sectoral analysis. In doing so, the study disaggregated data on output, employment, total wage and sectoral export and import. It estimated labor demand functions for each industry by incorporating an augmented trade liberalization measure into the function to comprehend the impact of trade liberalization on demand for labor in each of the sectors for the period of 1978-2000 based on Census of Manufacturing Industries (CMI) database.

Sectoral export-output ratio and sectoral import-output ratio were used in this analysis as the imperfect proxy of trade liberalization. Firstly, industries were classified into two groups: (i) industries in which the labor demand functions were cointegrated when the labor demand function was augmented with the sectoral export-output ratio and (ii) industries in which labor demand functions were cointegrated when the import-output ratio was added.

Table 6: Industry-Level Impact of Trade Openness on Employment (Export/Output as a Regressor)

2-digit ISIC Code	Industry which are Cointegrated with Export-Output Ratio	Impact On the Employment
02	Beverage Industry	Positive Significant
05	Wearing Apparel	Positive Significant
14	Petroleum Refining	Positive Significant
15	Miscellaneous petroleum Products	Positive Significant
17	Plastic Products	Positive Significant
07	Footwear except Rubber	Positive Significant
10	Paper and its product	Negative Significant
04	Textile Industry	Negative Significant
03	Tobacco manufacturing	Negative Insignificant
11	Printing and Publishing	Negative Insignificant
21	Iron and Steel Basic Industries	Negative Insignificant
24	Non-Electrical Machinery	Negative Insignificant
26	Transport Machinery	Negative Insignificant
06	Leather and its product	Positive Insignificant
09	Furniture Manufacturing	Positive Insignificant
12	Drugs and Pharmaceuticals and other Chemicals	Positive Insignificant
13	Industrial Chemicals	Positive Insignificant
16	Rubber Products	Positive Insignificant
18	Pottery and Chinaware	Positive Insignificant
19	Glass and its Products	Positive Insignificant
20	Non-Metallic Mineral Products	Positive Insignificant
23	Fabricated Metal Products	Positive Insignificant
08	Wood and Cork Products	Positive Insignificant
27	Scientific, Precision, etc.+ Photographic, Optical Goods	Positive Insignificant

Source: Raihan (2008)

Trade openness, as defined by sectoral export-output ratio, was found to be employment-enhancing for beverage industry, wearing apparel, petroleum refining, miscellaneous petroleum products, plastic products, and footwear except rubber. Conversely, decreased demand for labor was observed in the textile and paper industry. No significant effect on employment was observed for the rest of the industries due to trade liberalization (Table 6).

Table 7: Industry-Level Impact of Trade Openness on Employment (Import/Output as a Regressor)

2-digit ISIC Code	Industry which are Co integrated with Import-Output Ratio	Impact On the Employment
06	Leather and its Products	Positive Significant
12	Drugs and Pharmaceuticals and other Chemicals	Negative significant
15	Miscellaneous petroleum Products	Negative significant
24	Non-Electrical Machinery	Negative significant
25	Electrical Machinery	Negative significant
02	Beverage Industry	Negative Insignificant
01	Food Manufacturing	Negative Insignificant
10	Paper and its Product	Negative Insignificant
11	Printing and Publishing	Negative Insignificant
14	Petroleum Refining	Negative Insignificant
19	Glass and its Products	Negative Insignificant
20	Non-Metallic Mineral Products	Negative Insignificant
22	Non-Ferrous Metal Industry	Negative Insignificant
23	Fabricated Metal Products	Negative Insignificant
05	Wearing Apparel	Negative Insignificant
13	Industrial Chemicals	Positive Insignificant
16	Rubber Products	Positive Insignificant
17	Plastic Products	Positive Insignificant
18	Pottery and Chinaware	Positive Insignificant
21	Iron and Steel Basic Industries	Positive Insignificant
03	Tobacco manufacturing	Positive Insignificant
09	Furniture Manufacturing	Positive Insignificant

Source: Raihan (2008)

Conversely, leather and its products experienced positive and statistically significant impact of trade openness on the employment when import-output ratio was considered to be the indicator of openness. Labor demand significantly contracted in drugs and pharmaceuticals and other chemicals, miscellaneous petroleum products, nonelectrical machinery, and electrical machinery manufacturing industries. The rest manufacturing industries witnessed insignificant impact on labor demand (Table 7).

3. FDI and Employment

In the Bangladesh context, the study on the relationship between FDI and employment is very limited. Rahman et al. (2006) conducted the only quantitative study to understand the impact of FDI on per capita employment growth (PFDI).The study undertook a vector error correction model (VECM) that takes per capita GDP (PGDP), export (PEXP), remittance (PREM), real exchange rate (RER) and PFDI into account. The estimate indicated that real FDI unleashed positive influences on employment growth in Bangladesh in the short-run. However, the long-run effect was either nonexistent or meager as evident from coefficient of the error-correction term RESIDL(1).

Table 8: Estimates of VECM with Per Capita Employment Growth as Dependent Variable

Variable	Coefficient	t-Statistic
PGDP(1)	0.404	0.239
PFDI(1)	0.033	0.895
PREM(1)	0.068	0.982
PEXP(1)	0.072	0.888
DRER(1)	-0.037	-0.837
Constant	1.758	0.842
RESIDL(1)	1.298	0.771
df = 23, DW = 2.003, R^2= 0.4		

Source: Rahman et al. (2006).

4. Methodological Aspects and Limitations

Most of the *ex ante* studies on the impact of trade on employment are based on CGE modeling. These exercises have increasingly become popular in assessing effects of trade policy reforms including Preferential Trading Arrangements (PTA). A typical drawback of CGE modeling is that it is heavily based on large number of system equations.

Therefore, the simulation outcomes hinge largely on three essential factors:

a) functional forms used to describe the behavior of the model

b) database used to describe the initial equilibrium; and

c) behavioral parameters or elasticities used in the functional forms

When trade elasticities considered to be used in a model, a general trend is to favor high elasticities since the elasticities are lower over the short run and higher over the long run. Large welfare gains and effects cannot be observed in the long run since the assumption of CGE models used in the literature discussed above are fixed endowments of labor, capital and land.

One important limitation to the contemporary use of trade policy CGE models is that their results are supported on very incomplete data sets, particularly protection (tariff and subsidy) data. In

addition, aggregation of sectors and aggregate elasticity values for sectors rather than using separate elasticity values for each of the products can easily produce underestimated or overestimated effects for highly traded items with low individual elasticity and vice versa.

The main drawback of Mujeri and Khondker (1998) is that it calculates only the EV of various professional and worker groups as well as increase/decrease in their wages (factor returns) due to trade liberalization, which demonstrate the quality of employment. It, however, does not work out the quantitative aspect of employment, such as labor demand for various sectors of the economy.

Raihan and Razzaque (2007a, 2007b), and Raihan (2008) used a dynamic CGE model which is constructed as a linkage between GTAP model with the Bangladesh CGE model. Thus, it retained the usual properties of GTAP model, such as perfect competition and constant returns to scale and includes explicit treatment of international trade and transport margins, a "global" bank designed to mediate between world savings and investment, and a relatively sophisticated consumer demand system designed to capture differential price and income responsiveness across countries. Such many assumptions of GTAP model may hinder more realistic possible outcomes. In reality, markets are hardly found to be perfectly competitive; new trade theory is based on increasing returns to scale and imperfect competition. The input mix, use of factor proportions and the share of aggregate government expenditure in regional income may vary across regions. Investment decision and the share of domestic investment in the total can also vary according to the region's investment regime. Furthermore, the input-output (I-O) table of some region used in the model is older and that of some region are newer (Kabir, 2010). Such assumptions of GTAP model hinder more pragmatic outcomes in other studies that adopt this model, e.g, Mlachila and Yang (2004) and Hossain and Selim (2007).

In Fontana (2004), the Bangladesh CGE model did not examine whether gains in female employment from greater trade openness would be sustained over time. It used a single period static model and assumed labor endowments and production technology to be fixed. However the model could be made dynamic by considering in the model a sequence of equilibria wherein in each period the skill level of the female labor force is updated, which would enable to comprehend potential positive long-term effect of trade expansion on educated female workforce. Furthermore, it failed to establish decisively whether increase in female employment and earnings translate into welfare gains for women because it did not consider the nature of production relations and the unequal distribution of power and resources between men and women of different strata. Finally, it disregarded the process required to move from the initial to the final equilibrium state by ignoring adjustment costs. For instance, female laborers who became unemployed due to shock in import-substitute industries may not get job in newly created opportunities elsewhere in the short run, or not at all, if adequate training and assistance is not provided or there are severe constraints to their physical mobility.

Ex post studies concentrate on estimating the impact of trade liberalization on labor demand in traded sectors. Jenkins and Sen (2006) adopted a panel data econometric model that used a pooled data of 19 year period from 1983-1997 in 3-digit ISIC data. However, it does not mention what estimation method they used. There are number of econometric method that can be adopted in this type of sample: fixed effect and random effect, adjusted for heteroskedasticity, serial correlation and contemporaneous correlation, and Prais-Winsten panels-corrected standard error

estimator. Raihan (2008) also did not mention about the estimation method for 22 years dataset for 2-digit ISIC product code according to industries. Even it is not specifically mentioned in the chapter whether the estimates of labor demand due to trade liberalization are short or long run.

5. Avenue of Further Research

Keeping in mind the above discussions, future studies should remain in the following direction.

- Labor productivity deserves significant attention in future research on trade liberalization on employment. As increased integration with the world economy is expected to create upward pressure on wage of Bangladeshi workers according to the factor-price equalization theorem. Increase in wage would, however, result in significant contraction of exports of RMG products in the world market due to its high price elasticity of demand (see Panagariyaet al., 2001 and Razzaque, 2004 for details). Therefore, this negative impact should be offset by higher labor productivity in this predominant export sector. Currently, study on labor productivity on export sector is sparse.
- Employment issues of promising export industries that have significant value addition, e.g., leather/shoe and shipbuilding industries, etc., should draw proper attention in future studies. Both of the industries have been given the highest priority in Export Policy 2009-12. Issues related to labor safety and standard of the later and its backward linkage industries should be studied.
- It is important to understand the changes in labor demand of various sectors of the economy due to general trade liberalization under different scenarios along with changes in wages in these sectors.
- In examining the impact of regionalism, such as FTA, future studies should adopt regional CGE model that involves sectoral labor demand and wage in each of the member countries.
- Econometric studies that involve estimating changes in labor demand due to trade openness can involve labor demand both in short and long run in various industries, agriculture and service. Such estimation should involve robust time series estimators such as Fully Modified Phillips-Hansen OLS and Autoregressive Distributed Lag model. Panel data estimators should be adopted based on diagnostic outcomes, such as problems of unequal error variance, serial correlation, and cross-sectional dependence.
- Zohir (1998) and Kabeer (2000) suggest that increasing female employment has the potential to change families' attitudes towards considering daughters as assets, which can result in educating girls. It in turn can change the composition of future in terms of education (Fontana, 2004). Thus, qualitative investigations can capture the impact of female employment on export sector on future supply of labor force.
- Rahman et al. (2006) did not uncover the channels and industries/sectors through which FDI raised employment. Such a study should be detailed in nature by including panels of industries/sectors, no matter whether sample period is small or not. This is important for monitoring quality of employment in these industries as well as introducing appropriate policy by the government towards these sectors/industries.

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CHAPTER-3

AN OVERVIEW OF THE LABOUR MARKET IN BANGLADESH

Hasina Begum

1. Introduction

Bangladesh has made remarkable progress in various socio economic and development indicators over the past few decades though it is still included among the LDCs as the 8th populous country in the world. The country has enhanced its economic capacity by raising the size of the GDP (approximately now US$ 110 billion) and raising the income per capita from a meager US$ 198 in 1991 to US$ 772 in 2012 (Table: 1). This was possible due to a sustained economic growth in the 1990s and 2012s with an annual growth rate exceeding 6 percent in the last few years and a rapid improvement in various human development indicators like higher life expectancy, child survival and girls' education.

Bangladesh has experienced significant change in demography and labour force during the past two decades (Table: 1). The population growth rate of Bangladesh was 2.18 percent during 1981 to 1991 which was declined to 1.55 percent during 1991 to 2001 and 1.34 from 1991 to 2011 period. While population growth rate has been declining, percentage of working age (15-65 years) population has been increasing, in contrast. This has been confirmed by the recent growth of labour force which is of 3.39 percent during the year 2006-10. During the period, the labour force increased from 49.5 million to 56.7 million people. Every year on an average about 1.8 million people enter into the labour market. In contrast, job opportunity has increased at a lower rate. Given the present demographic trend, labor force growth is unlikely to shrink off during the coming decade.

Table 1: Selected Development Indicators 1991 – 2010

Indicators	**1991**	**2001**	**2010**
Population (millions)	111.5	130.0	149.8
Population growth rate (annual)	2.18	1.15	1.34[a]
GDP per capita (US $)	198	362	772[a]
GDP growth rate (Average annual %)*	3.73	5.39	5.82
Total fertility rate	3.67	2.56	2.11
Infant mortality (per 1000 live birth)	87	56	35
Labour force participation rate	na	54.9	59.3[b]
Unemployment rate	1.9	3.3	4.6[b]
Underemployment rate	na	31.9	20.31[b]

Data Source: Bangladesh Bureau of Statistics, Adopted from: DWCP, 2012-2016

Notes: a= data for FY2011-12;b= data for 2010 * average annual growth rate in the decade ending in FY1990, FY2000 and FY2010 respectively.

2. Labour Market Situation and Employment Structure

Labour market in Bangladesh operates under different socio-economic norms and therefore different segments of the market are not very distinctive from each other and not mutually exclusive. Self employed workers and unpaid family labour exists in a large segment of the market which still remains non-monetized. It is difficult to determine wage for the unpaid family labourers as family labour is often considered as contribution to the "collective wellbeing" (Saha, 2003). A large number of workers are engaged in low-productive job in the informal sector both in rural and urban settings. In the informal sector, people are compelled to work which needs low skill or even no skill. This creates a "low skill- low wage -low productivity" trap. There exists customary practice in the labour market which varies from one place to another and from establishments to establishments. Employers- workers relationship appears to be blurred at some points as often employers work in their own enterprises as an employee (Saha, 2003). Some activities compelled workers to work in hazardous working condition with no social protection or occupational safety. Female labour force are often victim of deprivation and low wage as they have less access to skill and less bargaining power (Rahman, 2003). While informal sector employment is somewhat precarious, formal sector workers are covered under legal provisions related to recruitment, working condition, wage structure, tenure of services etc. However, enforcement of these laws/rules remains as a challenge and workers are often victim of no/limited enforcement of the law. Employment relationship is informal in many formal enterprises. For example; many RMG enterprises and shrimp processing factories do not offer appointment letters to the workers even though they operate under a formal business operating system. International labour migration has rapidly gained prominence as one of the main employment generating sectors and the largest source of foreign exchange earnings in Bangladesh (Khan 2003). Every year millions of men and women move across borders to seek employment abroad. More than seven million Bangladeshi are currently working abroad of which the majority are low skilled/unskilled workers.

Labour market in Bangladesh could be characterized by (i) high rate of labour force growth, (ii) low rates of employment growth, (iii) increasing youth labour force (iv) predominance of employment in agriculture followed by manufacturing sector, (v) existence of high underemployment, (vi) dominant (while decreasing) rural share in employment, (vii) increasing share of women employment, (viii) wage gap between rural and urban and wage disparities between male and female workers, (x) dominant share of informal sector in employment (xi) increasing overseas employment and (xi) incidence of child labour.

2.1 Labour Force Participation Rate

The labour force participation rate (LFPR) in Bangladesh increased from 48.8 percent in 1990-91 to 58.5 percent in 2005-06 to 59.3 percent in 2010. It is notable that there is a decreasing trend in male LFPR from 87.4 percent in 2002-03 to 82.5 percent in 2010 while the female LFPR shows a sharp and steady increasing trend from 14.1 percent in 1990-91 to 26.1 percent in 2002-03 to 36 per cent in 2010. LFPR is higher in rural (60.0) than in urban areas (57.3 percent). Women participation is significantly lower (36.0 percent) than that of men's (82.5 percent) in 2010 (Table-2).

Table-2: Labour Force Participation Rate (15 years and over) in Bangladesh

Year	Bangladesh			Urban			Rural		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1990-91	79.6	14.1	48.8	76.2	12.7	48.3	80.0	14.4	49.0
1995-96	87.0	15.8	52.0	82.0	20.0	51.7	88.6	14.5	52.1
1999-00	84.0	23.9	54.9	83.7	26.5	55.8	84.0	23.1	54.6
2002-03	87.4	26.1	57.3	85.1	27.4	56.8	88.1	25.6	57.5
2005-06	86.8	29.2	58.5	83.2	27.4	55.7	88.0	29.8	59.4
2010	82.5	36.0	59.3	80.2	34.5	57.3	83.3	36.4	60.0

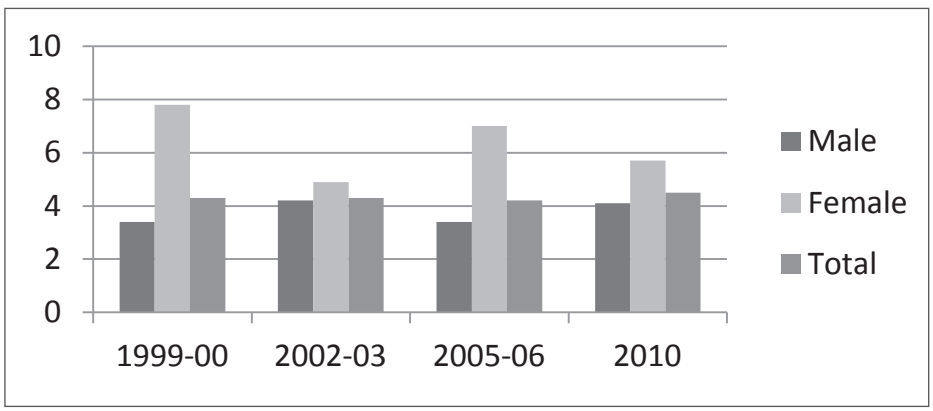
Source: BBS, Labour Force Survey of respective years

The labour force participation rate has progressively increased and stood at 59.3% in 2010 against 48.8% in 1990-91. The rural-urban variation in the labor force growth is also significant. Between 2006 and 2010, the rural labor force grew by 3.48 percent against 3.10 percent increase in urban labour force (BBS, 2010).

2.2 Unemployment Rate

The number of people out of work in Bangladesh climbed to 2.5 Million in 2010 from 2.1 million in 2005-06 and from 1.7 million in 1999-2000 (BBS, 2010). Bangladesh's open unemployment rate is 4.5 percent, which does not reflect a very large jobs deficit. The low rate is a reflection of the definition used. In Bangladesh, where there exists a vast informal sector, The labor force can be engaged in some work—even for few hours and at low wages or even in their own family business. Thus the unemployment rate, which is estimated as per ILO definition[1] does not give a real picture of the labor market.

Figure 1: Unemployment Rate in Bangladesh



Source: BBS, Labour Force Survey of respective years

[1] As per ILO definition, person who worked less than 15 hours in a week can be termed as unemployed

There are large disparities in open unemployment by region, age, sex and education levels. Open unemployment in rural area is lower (4.0 percent) than that in urban regions (6.5 percent). By age, the largest proportion of unemployed is those between age group 15 to 19 (10.6 per cent) followed by age group 20 to 24 (7.1 per cent) and 25-29 (5.4 per cent) (BBS, 2010). There exist sex differentials in unemployment rate. Unemployment rate was 4.1 percent in 2010 for the male while 5.7 per cent for the female (Figure:1). This indicates that the unemployment rate is much higher within the female labour force compared to the male, although this gap is gradually narrowing. In analyzing the female unemployment, it should be considered that both in rural and in urban area often women are engaged in domestic work instead of spending time in income generating activities (World Bank, 1996).

Table-3: Unemployment Rate Among Labour Force by Level of Education and Sex

Level of education	Male	Female	Total
No education	3.4	3.6	3.4
Class I-V	3.1	4.3	3.3
Class VI-VIII	3.8	4.3	3.9
Class IX-X	5.7	5.2	5.6
SSC/HSC & equivalent	7	11.7	7.8
Degree & above	8.1	17.4	9.5
Others	8.9	15.7	9.6
Total	4.2	4.9	4.3

Source: BBS, Labour Force Survey, 2010

The unemployment rate increases with the education levels of the labour force (Table:3). This may happen because; the more educated the workers, the less they compromise with the wage. Another reason might be smaller share of the formal sector as more educated workers have higher reservation to work in the informal sector (Rahman, 2003 and Saha 2003).

2.3 Underemployment Rate

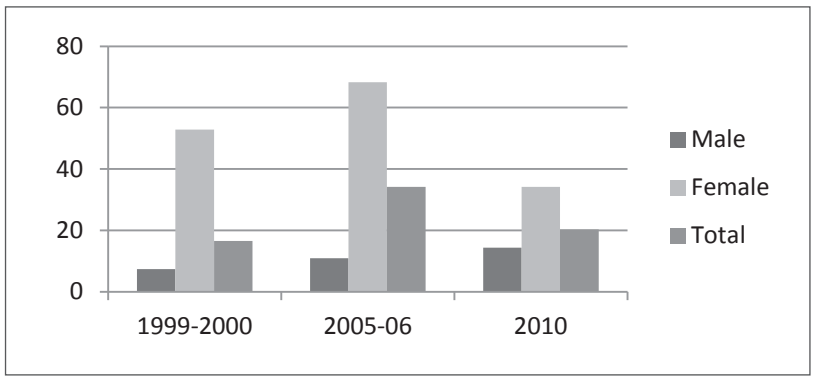
A large segment of the employed population works less than 35 hours a week. This group of people is considered as underemployed[2]. The rate of underemployment has increased from 16.6 percent in 1999-2000 to 24.5 percent in 2005-06 and to 20.31 percent in 2010. Male underemployment rate has increased from 7.4 percent in 1999-2000 to 10.9 percent in 2005-06 to 14.40 percent in 2010 compared to female underemployment rate which increased from 52.8 percent in 1999-2000 to 68.3 percent in 2005-06 and stood at 34.15 percent in 2010 (Figure:2).

The high underemployment rate indicates that a large proportion of the total labour force remains engaged in marginal and low productivity occupations. In order to maintain a sustained economic

[2] As per ILO definition a person who worked less than 35 hours in the reference week termed as underemployment

growth in this overpopulated country absorptive capacity of the labour market should be increased. A serious commitment to increase the human resources development (training and skill) is essential for employment generation of the newly entrants.

Figure 2: Underemployment Rate in Bangladesh



Source: BBS, Labour Force Survey of respective years

2.4 Rural Urban Composition of Employment

In Bangladesh, rural labour force consists of 76.6 per cent than that of the urban area (23.4 per cent). There has been a shift if the rural labour force to urban area. The share of rural employment has increased from 57.5 to 60.0 per cent from 2002-03 to 2010 period. In case of unemployed population, 33.4 per cent resides in urban area while 66.6 per cent live in rural area. In case of male- female composition, 0.5 million male unemployed reside in the urban area while 1.1 million lives in rural area (BBS, 2010). About 43.4 Million working population are still engaged in the rural sector which is three times higher than the urban labour force (13.3 million).

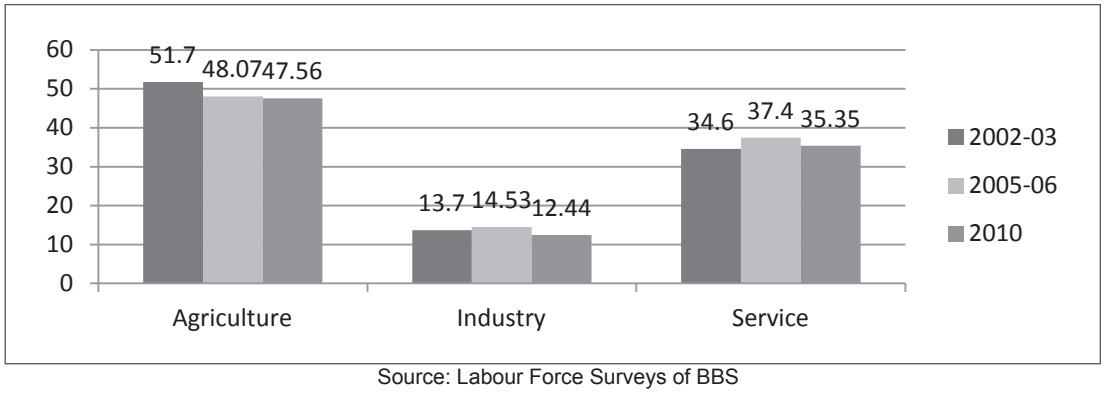
Between 1991 and 2000, the rural labour force grew by 1.6 percent annually while the growth of urban labour force was recorded as 2.8 percent. Between 2005-06 and 2010 the trend become reverse and the growth rate stood 3.48 per cent for rural labour force while 3.10 per cent for urban labour force (BBS, 2010).

2.5 Sectoral Share of Employment

Agriculture continues to remain the main activity to absorb the vast majority of the labour force. However, with the rise of the trade-GDP ratio which was 29.9 in 2000 and 48.35 in 2012 (CPD, 2011), there has been a shift in the labour market towards export oriented economy. The share of the economy as well as the share of the employment in the agricultural sector has been decreasing. In 2000, agricultural sector employment accounted for almost half of the employment-51.7 percent of the labour force, while in 2005-06 it was 48.07 percent and in 2010 it was equal to 47.56 percent of the labour force. Within the non-agricultural sector, trade, hotel and restaurants account for the largest share of employment (35.35 percent) in 2010 followed by the manufacturing industry (12.44 percent) which signifies the rise of non-farm activities during this

period. The share of the manufacturing sector in total employment was 13.07 per cent in 2002-03, which rose to 14.5 per cent in 2005-06 and declined to 12.44 per cent in 2010. Service sector employment has also shown a rising tendency but its contribution to total employment is much lower than its contribution to country's GDP[3]. During the early 2000s, when liberalisation of some services sectors occurred, like telecommunication and financial intermediaries, the employment share of the service sector grew substantially, reaching 37.4 per cent by 2005-06 but again declined to 35.35 Per cent in 2010 (BBS, 2010).

Figure 3: Shift in the Structure of Employment (% employed workforce)



Source: Labour Force Surveys of BBS

2.6 Formal- Informal Divide

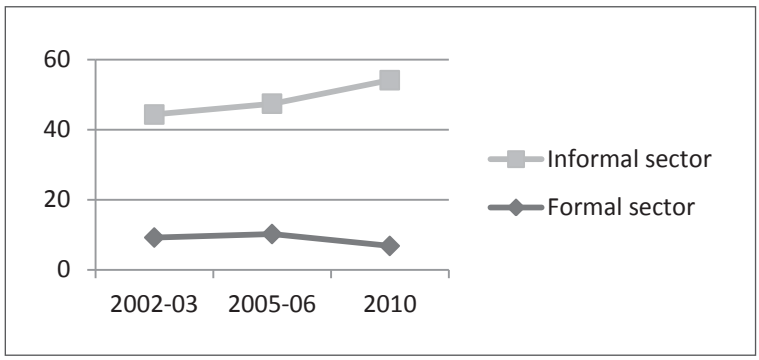
A significant aspect of the labor market in Bangladesh is the formal- informal divide. This has significant consequences on decent employment. The formal labour market is characterized by formal employment relationship which is protected by labour laws while the informal employment is defined in enterprises where work takes place in an informal settings and the employment relationship is informal that have no/limited regulatory, and social protection coverage. Informal sector workers are mainly engaged in numerous business activities, small production and services, engineering workshops, sales and retail trade, recycling, petty trading, street vending, transport and retail trade and numerous other occupations. Informal activities are also linked to formal sector through the supply chain and through subcontracting. Share of informal sector employment has been increasing over the years in Bangladesh. 2010 data shows that the vast majority of 47.3 million (87.5 percent in informal sector against 12.5 percent in formal sector) of the total employed labor was engaged in informal activities while it was 35.1 million in 2002-03 and 37.2 million 2005-06 (Figure: 4). In terms of male –female composition 92.3 percent of the female labor were employed in the informal sector while the share was 85.5 percent for male labor. While the informal sector remains as the most dominant and important segment where labour absorption takes place, workers of this sector suffer from poor working conditions. Wages are low and protections are largely absent. The low wage structure creates a 'low wage - low skill' trap which

[3] During 1980-81 to 2009-10 period service sector contributed around 50 per cent of Bangladesh's GDP (Raihan, 2013)

does not promote productivity and competitiveness in the longer term.

With the increased global integration of the economy, formal sector activities have increased. However, this expansion was confined to a limited number of sectors such as garments manufacturing, food processing, construction, jute industries, pharmaceuticals etc. Thus the employment effects of the expansion remain small in the formal sector.

Figure- 4: Employment by Informal/Formal Sectors, 2002-03, 2005-06 and 2010 (in million)



Source: Labour Force Surveys

2.7 Employment and Wage

The Labour Force data shows that in 2010, the day labourers were 19.7 while the employee status was 17.4 per cent. The corresponding figure was 8.6 million and 6.6 million respectively in 2005-06. Data shows that the number of employees has gone up over the years yet have not emerged as a major segment. Share of self employed people has increased significantly from 19.8 million in 2002-03 to 22 million in 2010 (Table: 4).

Table- 4: Shift in Status of Employment 2002-03 to 2010 (in million)

Employment status	2002-03	2005-06	2010
Self employed	19.8	19.9	22.0
Employer	0.2	0.1	0.1
Employee	6.1	6.6	9.4
Unpaid family helper	8.1	10.3	11.8
Day labourers	8.9	8.6	10.6
Household aid	1.2	1.9	1.4
Total	44.3	47.4	54.1

Source: Labour Force Surveys

Wage is significantly lower in the agriculture sector which is reported to be weekly income of the highest 38.5% labourers was between taka 501-1000 followed by income group 1001-1500 (29.8 percent). The highest percentage of monthly paid salaried workers (21.2 per cent) were in the income group Tk 1000-12,499 followed by income group Tk. 8000-8999 (11 percent). There exists no sectoral/universal minimum wage (BBS, 2010).

Table 5: Real Wage from Bangladesh Labour Force Survey Data 1996 to 2006[4]

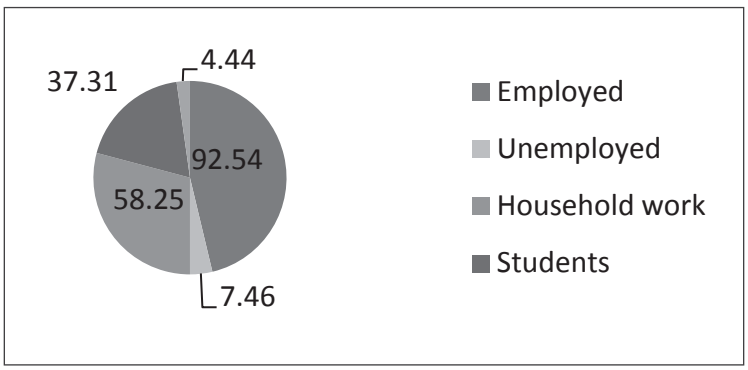
Year	Urban		Rural		Urban & Rural	
	Tk./day	Change (%) over previous survey	Tk./day	Change (%) over previous survey	Tk./day	Change (%) over previous survey
1996	57.0	-	41.0	-	43.0	-
2000	64.4	12.98	47.5	18.29	49.1	14.12 (in 4 years)
2006	64.6	0.31	54.8	15.37	56.6	14.96 (in 6 years)

Source: Labour Force Surveys

2.8 Youth Employment

The potential demographic challenge of the country is that youth (15 – 35 years) and the economically active dominate the age pyramid, 62.7 and 59.3 per cent respectively. During 2000 to 2010, 6.4 million youth have joined the labour force. In 2010, percentage of youth labour force was 53.24 and rest 46.76 per cent were outside the purview of the labour force.

Figure 5: Youth Labor Force by work, 2010



Source: Labour Force Surveys

Among the youth labour force, 92.54 percent was employed while 7.46 percent was unemployed. The incidence of unemployment is higher among the youth compared to the national unemployment rate. The rate of unemployment is higher for female (8.5 per cent) compared to male youth labour force (6.83 per cent). However, the gap between the female and male unemployment rate is less compare to the national trend.

[4]Adopted from Rahman, 2009

Table 6: Youth Labor Force by Sex, 2010

Youth Labour force	Male	Female	Total
Total	69.5	38.22	53.24
Employed	93.17	91.5	92.54
Unemployed	6.83	8.5	7.46
Not in labor force	30.5	61.78	46.76
Household work	1.46	74.78	58.25
Students	94.55	20.65	37.31
Others	3.99	4.56	4.44

Source: BBS, Labour Force Survey 2010

The youth who are not in the labour force are either engaged in household work or are full time students. There exists interesting contrast between male and female who are not in the labour force. Only 1.46 percent of male youth are engaged in household work against 74.78 percent of female. On the other hand only 20.56 percent female are students in contrast to 94.55 percent male.

2.9 Gender Dimension of the Labour Market

Only approximately 36 per cent of labour force are women in Bangladesh. The growth rate of the female labour force (8.69 per cent) is much higher than that of men (1.40 per cent). Women labour force growth rate is higher (8.74) in urban area then in urban area (8.52 percent). The increasing trend in the entry of women into the labour force is mainly due to the ready- made garment sector, which employs approximately 3.8 million workers, of which an estimated 80 per cent are women. A large number of women labour force are engaged in informal sector and often are low paid compare to their male co-workers.

Table 7: Women's Inequality as Reflected in Key Labour Force Characteristics

Labour force characteristics (%)	Total	Male	Female
Unemployment rate	4.5	4.1	5.8
Underemployment rate	20.31	14.40	34.15
Labour force participation rate	59.2	82.51	35.98
Male-female labour composition in the total unpaid family labour	21.8	7.01	56.3
Male-female labour composition of the formal sector employment	12.5	14.6	7.7
Male-female labour composition of the informal sector employment	87.5	85.5	92.3
Male-female labour composition of the agricultural sector employment	47.57	40.18	64.84
Male-female labour composition of the manufacturing sector employment	12.46	12.75	11.77

Source: Labour Force Survey, 2010

There exists, however, significant gender difference in terms of status of employment (See Figure 1 and Table: 7). For example, the unemployment rate is nearly double that of the rate for men, the underemployment rate for women exceeds the rate for men. The labour force participation rate of women is only about one-third of men, and the formal sector and the manufacturing industries are clearly male-dominated. The majority of the poor women work as unpaid family workers or for daily wages in agriculture or in family enterprises. Women employment is still not encouraged in many segment of the society. Study revealed that that employing men is much preferable for jobs as employers believes that they have more experience and higher productivity compare to women (Rushidan 2005). However, women employment in RMG sector may have great motivational effects but they still remain peripheral in their contribution to women's economic activities (Saha 2002). Alongside the gender discrimination that persists in the country, a recent ILO study conducted on five industrial sectors suggests that workplace violence including sexual harassment against women and girls in the workplace is also likely to be common in Bangladesh. The study found that 38 % of the respondent, 3 in every 10 female workers became victim of sexual harassment or other kind of violence at workplace (Barkat et al, 2011).

2.10 Overseas Employment and Migrant Workers

Together with export revenues, migrant worker remittances constitute a key driver of the economy. More than 10 million Bangladeshi are currently working abroad, the majority as unskilled workers. These migrants are temporary workers who intend to live and work in the destination countries for a limited number of years and then to come back to home after earning, Saving and remitting a substantial portion of their income abroad (Khan, 2002). During the decade of 2001-2010, about 4.2 million people migrated overseas from Bangladesh in search of work in various skill categories. The percentage of less skilled category increased from 38 per cent in 2008 to 79 percent in 2010, while the percentage of skilled categories declined in the same period from 45 percent to 19 percent (ILO, 2012). Remittance flow to Bangladesh has increased more than five-times between 1999-2000 and 2001-10 period with an increase from 1.9 billion USD to 12.1 billion USD (Economic Review, 2012). Currently women migrant workers constitute about 5% of the total annual outflow - this figure is much higher than the 1% in 2004. Presently women migrant workers are mostly confined to specific occupations, such as housekeeping, cleaner and garment workers. National legislation prohibits women who are under 25 years of age from migrating overseas for work. The restrictions on female labour migration push the process underground and contribute to flows of undocumented migration (Blanchet, 2009)

The contribution of remittances to the national economy is widely recognized, but the rights and welfare of the migrant workers are often ignored. Bangladeshi expatriate workers face numerous disadvantages. More than half of them are unskilled, leaving them vulnerable to low wages, poor benefits, and a lack of mobility in the destination country. Media reports suggest that migrants are often exploited in their countries of destination, facing poor working conditions, breaches of contract by their employers, and other forms of abuse. The sponsorship system often prevents workers from working for employers in the destination country other than the one that recruited them initially, making them especially vulnerable in the event of retrenchment. The average costs of labour migration for individual migrants from Bangladesh are higher than neighboring countries.

The high costs result from high recruitment fees by the recruiting agencies, weak Government enforcement capacity regarding recruitment (ILO, 2009).

2.11 Child Labour

The last conducted national child labour surveys conducted by BBS i.e. of 1995-96 and 2002-2003 suggest that Bangladesh has experienced drop of child labor incidence both in terms of the aggregate volume and in percentage points as the child labor has reduced in the span of two child labour surveys of 1995-96 and 2002-2003. From the level of 18.3 percentage points of the respective age group (5 to 14 years) with a corresponding aggregate of roughly 6 million, it has come down to 14.2 percentage points with an aggregate difference of 5 million (khan 2009).

Overall, the working children were largely engaged in agriculture and forestry (52.72%), followed by manufacturing (14.58%) and trading (14.21%). On gender segregation of child labour, more boy children (77.41 percent) were at work than girl children (22.59). The BBS 2005 survey on hazardous child labour captured the incidence of the hazardous forms of child labour. It revealed that there are 1.3 million children involved in hazardous work, out of which 91 percent of them are boys. A large proportion of children's work is hidden and unlikely to be captured in the official figures. This includes child domestic work and the commercial sexual exploitation of children. Child domestic workers are extremely vulnerable to physical, sexual, and verbal abuse, and they typically lack opportunities for education (Save the Children, 2011).

In Bangladesh, children are engaged in labour market due to number of reasons. It is widely believed that the larger the household the greater the potential of labor supply. The number of the children determines the income potential of child labor and in turn it influences the fertility behavior of the household. Children are considered as a production input which ultimately can benefit the consumption level of an entire family as the private and immediate return of child labor is high. Child labour also acts as a risk management strategy of household. To minimize the impact of adult unemployment and underemployment, economic loss due to natural calamity like river erosion, flood, low crop production or other economic shocks parents send children to workplace. Though Compulsory Primary Education Act, 1990 has made primary education free for all children but poor families are still constrained by the direct and indirect costs (uniform, exam fee, books, opportunity costs adjusted with future unemployment and perception of risk of unemployment). Financial return from education is a long term gain. On the other hand private and immediate return of child labor is high. The vast informal sector demands for low skill and low wage worker which creates demand for employing children. Informal economy is not covered by the regulations; therefore children can easily get employment opportunity. Role of perception is another important factor that affects economic behavior of the household. Cultural and social expectation viewed child labor as a right way of socialization means to introduce child with roles and responsibilities towards family. Hence, child labor is often seen as an apprenticeship arrangement to enhance future productivity.

The Labour Act 2006 defines minimum ages for light, regular, and hazardous work (ages 12, 14, and 18 respectively), but these types of work are not clearly defined. Recently the government has adopted a list of Hazardous Child Labour which identifies 38 occupations that are hazardous

for the children. The Government has weak institutional capacity to enforce the law. Also, weak governance has been a problem in the monitoring process. The monitoring system addresses only the formal sectors, whereas the vast majority of child labour is in the informal economy. It is suggested in many research that the incidence of child labour will fall if those children can go to school (ILO, UNICEF, WB, 2011). Simultaneously mainstreaming of the elimination of child labour into other sectoral plans and strategies is important to reduce the incidence of the child labour.

3. Labour Regulations and Policies in Bangladesh

A study (WB & BEI, 2003) finds that labour laws (or "labour market rigidity") do not feature anywhere among the top seven constraints to business operation and growth in Bangladesh as because labour laws apply to a small segment of the economy and the labour market is very flexible in the vast informal sector. Even in the formal segment of the economy, the labour market is rather flexible due to weak enforcement of the laws.

The main law governing labour issues in Bangladesh is the Labour Act, 2006 and the Industrial Relations Ordinance 1969. The 2006 Labour Act consolidated dozens of previous laws related to labour. Nonetheless, it is inconsistent with ILO conventions in number of ways. It does not apply to many categories of workers, such as domestic workers, managerial and administrative employees, agricultural establishments with less than ten workers, and businesses without hired labour. The 2006 Labor Act seeks, inter alia, to protect and promote rights of the workers. Although legal provisions exist to uphold the fundamental principles and to protect rights at work, their implementation and enforcement remain challenging. To address a number of weaknesses in the current Labour Act, 2006 the Government has initiated labour law reform through a tripartite consultative process.

An important feature of weak industrial relation system concerns representation and the voice of women workers. In fact, women workers are vulnerable in all industries including the RMG sector and the informal sector. With respect to industrial relations and social dialogue, for example, numerous problems exist: unions are fragmented, labour institutions weak, and employer-worker relations remain confrontational (ILO, 2010). Significant legal restrictions exist with regards to Freedom of Association and Collective Bargaining, particularly in Export Processing Zones (EPZs), and this has been highlighted in the ILO reports of the committee of experts on conventions and recommendations

The Government has adopted a labour policy in 2010. The Labour Policy 2010 focuses on different aspects of employment protection. The Government has also a Child Labour Elimination Policy in 2010 which was followed by formulation of a National Plan of action to implement the child labour policy. A technical and vocational education and training (TVET) policy was adopted on 2011. Another new policy on occupational safety and health (OSH) is under development. Minimum wages are specified at different levels for different sectors. They are very low, and they are revised very infrequently (most recently in 1985, 1994, and 2006 and 2010) however, no mechanism is in place to adjust them in line with changes in the cost of living, and the process of adjusting them is politically charged. The Government has insufficient institutional capacity to enforce labour laws and policies, Labour inspection mechanisms in Bangladesh are extremely weak, with 55 inspectors covering the entire country for where there are 24,229 registered

factories, three million shops and establishments, and two ports (DIF, 2010). The country's eight Labour Courts have insufficient capacity to process their caseloads in an effective and timely manner.

4. Ratification and Implementation of the International Labour Standards

Bangladesh has so far ratified 33 ILO Conventions of which 7 (except Convention 138 related to the Minimum Age) are fundamental. While legal provisions exist to maintain the fundamental principles of the labour standards and to protect worker's rights, the implementation of the laws is weak. Majority of the workers are engaged in the informal sectors where legal protection is non-existent. A number of non-compliance issues with international labour standards in law and in practice have been brought to the attention of ILO supervisory bodies which are mentioned in Committee of Experts (CEACR) reports.

5. Towards Decent Work

5.1 Social Protection

Adequate social protection is a defining feature of decent work. Social protection interventions assist individuals, households and communities to better manage the income risks that leave people vulnerable. In Bangladesh, regular public sector employees are well covered in terms of social security and social protection, while regular formal private sector employees are partially covered. Bangladesh Labour Act, 2006 embodies the legal and regulatory framework of social security and social protection in the private sector. Informal sector employees and irregular employees in the formal sector (both public and private) are totally excluded from any kind of social security and social protection benefits (Mondal, 2011). This makes a compelling case for reshaping the existing social protection system to include these vulnerable workers.

5.2 Working Condition and Occupational Safety and Health Issues

Occupational safety and health, violence against women at work place, and non-discrimination of minorities and vulnerable peoples remain areas of concern. Though not a priority in most work places, given their growth and visibility, the construction, ready-made garment, and ship recycling sectors are often singled out with respect to working conditions and OSH. The labour laws in Bangladesh have been framed which requires employers to undertake corrective measures on occupational safety and health. However, lack of awareness, training, non-compliances of the OSH standards by the employers could not fully ensure safety and health to the workers as intended by the laws. Work-related deaths and injuries are common in Bangladesh. The Labour Act 2006 provides the opportunity for workers, their families, and trade unions to file court cases for compensation in the event of work-related accidents and diseases. Knowledge about occupational diseases and the capacity to pursue legal recourse is very limited. The labour Court system is weak and penalty is very small therefore the perpetrators remain unpunished in most of

the cases. Recent incidents in RMG factories brought this issue in light and call for urgent actions to improve the occupational safety and health situation.

Table 8: Recent Industrial Accidents Affecting Workers in the RMG Sector[5]

Name of Factory	Type of Event	Date	Number of casualties
Tazreen Fashions Ltd	Fire	24 Nov 2012	112
Smart Export Garments	Fire	26 Jan 2013	8
Rana Plaza (housed 5 garment factories)	Building Collapse	24 Apr 2013	1,127 (not all RMG workers)

5.3 Freedom of Association and Rights at Work

Freedom of association and collective bargaining are recognized in the ILO conventions and in the national law. But the application of the principles and provisions of the law is the main challenge. Due to restrictive policies and mindset of the employers, unionization in the private sector is very low. Growth of trade unions is hampered by certain inherent weaknesses in the law and the registration process (Hosain, 2013). The trade union movement is widely perceived to be weak in Bangladesh. It is confined mainly to state-owned enterprises, with little presence in the private sector. According to Ministry of Labour and Employment data, the trade unions had 2.2 million workers in June 2009. This amounts to about 4% of the country's labour force. Over the past five years, MoLE data show that the number of registered trade union members increased by only 1.8%, far less than the increase in the size of the labour force. The number of registered trade unions increased by a larger amount (5.3%), indicating an increasing fragmentation in the trade union movement.

6. Major Challenges Over the Medium Term: Views of Stakeholders

Review of employment creation experience in Bangladesh suggests that employment growth has been able to keep pace with the growth in labor force resulting in low open unemployment. Employment has grown faster in manufacturing and services relative to agriculture leading to a fall in employment share of agriculture. However, all these good news have to be interpreted with caution and in the proper context of the employment challenge in Bangladesh. There are many concerns relating to the employment challenges in Bangladesh.

- Most importantly, the average productivity of labor remains very low. This is mainly because much of the labor force is employed in low productivity, low income employment. The ability to create higher productivity jobs at a pace that exceeds the growth in the supply of labour depends on profitability and investment. Over the longer term on average Bangladesh has achieved fairly rapid growth in private investment. Yet total and private investments rates

[5] News paper reports

have stagnated in the past few years despite a healthy savings rate. This is a serious constraint to the expansion of high income jobs and must be tackled upfront.

- The success in RMG based export-oriented manufacturing that spurred the expansion of the manufacturing sector with commensurate increases in the number of higher-earning jobs has not transferred to other manufacturing exports. This is partly because of the substantial anti-export bias of trade policies and also because of constraints in infrastructure. Furthermore, the tax policies favor private investment in real estate as against investment in manufacturing, infrastructure and other productive sectors. These incentives problems emerging from inappropriate trade and tax policies will need to be addressed to create higher income jobs.
- Trade policy also constrains the transformation of agriculture from a primarily peasant economy type sector to a more modern commercial sector. Over 60 percent of the agricultural GDP comes from crops, which is dominated by food grain. Export ban on food grain aimed at keeping food prices low for domestic consumption limits the profitability of the crop sector. Diversification to higher value crops, horticulture, livestock and fisheries is adversely affected by inadequacies of rural infrastructure, marketing, technology, quality control and private investment. The ability to diversify agriculture will play an important role in raising real wages and incomes of people who remain engaged in agriculture.
- In order to increase more number of decent jobs in export sectors attention may need to focus on following areas:
    - Expansion of services export from Bangladesh.
    - Skills development- more specifically of mid-level management
    - Testing facilities supporting various types of exportable need to be developed to meet compliance issues.
    - Conducive environment must be ensured for private sector involvement in policy and strategy development.
- The quality and productivity of labor force is another challenge. The education level of the work force is deplorably low - 40% of the workforce has no education; some 23% have undertaken only up to primary education; and less than 4% have tertiary education. Converting this workforce into a quality workforce will require huge investment in human capital as well as reforms of related policies, programs and institutions.
- Skill development should be an integral part of all discussions related to trade and employment. Government should diversified skill training programme. For example, instead of focusing only on traditional manufacturing related training, skill training could be provided on agricultural extension service facilities.
- There are serious concerns about employment standards and safety of workers posing a threat to export markets owing to lack of compliance with the national and international labour standards.

7. Conclusion

Bangladesh labour market is successfully making transition from low productivity agriculture sector work to more productive non-farm work in both rural and urban areas. This process has to be continued and accelerated, with support from the government, so that a larger proportion of labour is employed in more productive and better paid jobs. Measures to expand employment opportunities will include strengthened vocational and technical training to satisfy market demand, improved access of the vulnerable groups to skills and market opportunities, job creation, sound policies including employment-friendly policies, and effective implementation of the policies.

Achieving sound employment growth in Bangladesh is a crucial policy issue for Bangladesh. This may be accompanied by increasing and persisting income inequality, polarization between good jobs and bad jobs. Also there is a larger question of providing job security to the workers employed in the organized sector and protection of the vast informal labour force. Hence, labour market policies should focus on social protection, insurence and job security issues.

Unemployment among young people is relatively high. This suggests the need for employment generation for the youth at a faster rate to offer young workers good employment opportunity. A large majority of the unemployed youth are educated but are deprived of employment opportunities. This happens largely due to mismatch between supply and demand of the skill in the labour market. In order take advantage of its “demographic dividend”, Bangladesh needs to create jobs for the youth at a rapid rate, which will come mostly through rapid expansion of productive and skill intensive formal and informal sector activities.

There are major challenges in the education system that must be met to provide the foundation required for a more productive labour force. The greatest problem is the poor quality of education at all levels which results in low achievement and completion rate. Poverty and child labour affect learning and completion rate of children from poor families.

Labour market policies should be essentially linked with poverty alleviation policies. Opportunity of productive employment is the key way to achieve a better quality of life. For better outcomes of the labour markets focus should be given to- higher investment, inclusive growth and productive and decent employment. The government should also increase its role both in the formal and informal labour market.

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CHAPTER-4

BANGLADESH'S DEVELOPMENT AND THE MILLENIUM DEVELOPMENT GOALS (MDGs)

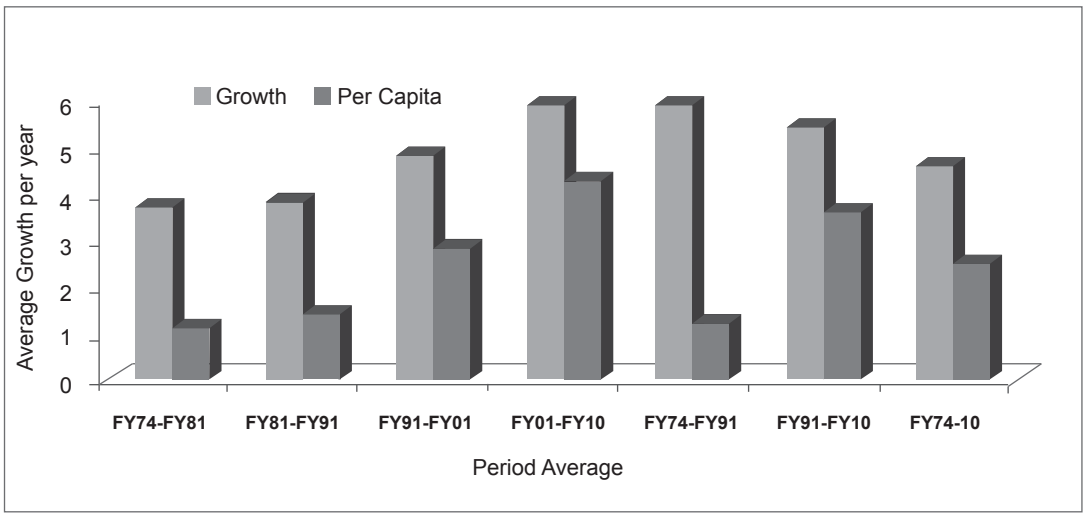
Bazlul Haque Khondker and Hasina Begum

1. Country Context

1.1 Broader Socio-economic Context and Development[1]

Bangladesh's past growth experience tells a remarkably encouraging story. The long-term trend in GDP and per capita GDP growth rates by decades is shown in Figure 1. Bangladesh has continued to improve its rate of growth steadily over the past 40 years after independence in 1971. There are two distinct growth phases. In phase 1 (FY1974 - FY1991), the growth rate expansion was subdued, below 4 percent per annum in aggregate terms and only 1.2 percent in per capita terms. The growth rate expanded significantly in Phase 2 (FY1991 - FY2010), shooting up to over 5 percent per annum on a 10 year average, but importantly exceeding the 6 percent mark for a number of years during FY01 - FY10. The expansion of growth did face a break in the wake of the global food, fuel and financial crisis of 2008-10, but this slowdown was fairly moderate by global standards and speaks well of the cautious macroeconomic management by policymakers over a long period.

Figure 1: Bangladesh Long-term Growth Trend FY 1974-FY 2010

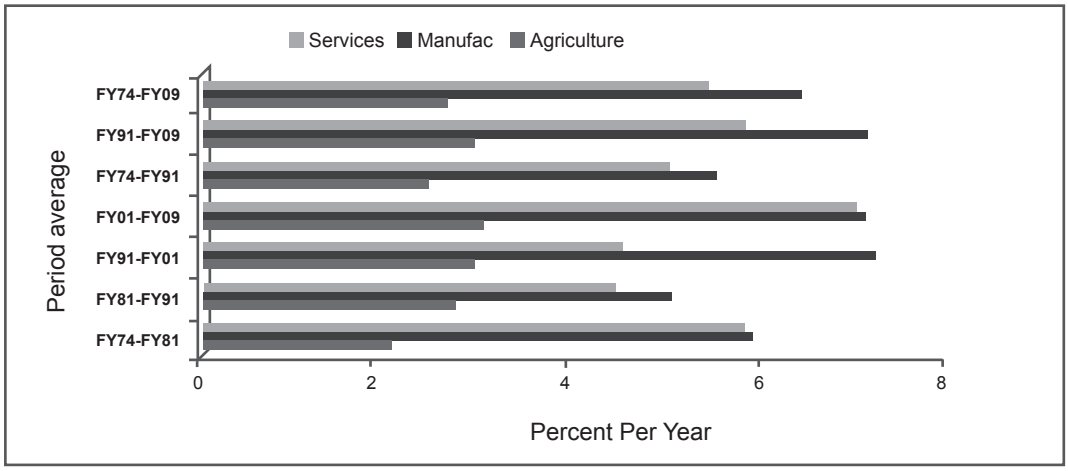


Source: Bangladesh Bureau of Statistics.

The changes in the sectoral growth rate suggest that Bangladesh economy underwent significant structural change over the last 40 years. The growth dynamism in Bangladesh is largely provided by modern manufacturing and services sectors. Figure 2 shows the relative growth rates of the three major sectors. Over the longer term agriculture grew below 3 percent on average. Manufacturing and services both grew faster than overall GDP. On the whole, manufacturing grew the fastest (6.4 percent per year) while services sector grew at (5.4 percent annually). These relative performance ranking did not change between Phase 1 and Phase 2. Instead all sectors including agriculture grew faster in Phase 2 relative to Phase 1.

[1] The report draws from the Sixth Five Year plan document; and first implementation review of the Sixth Five Year Plan etc. One of the authors, Dr. Khondker, has contributed to these documents.

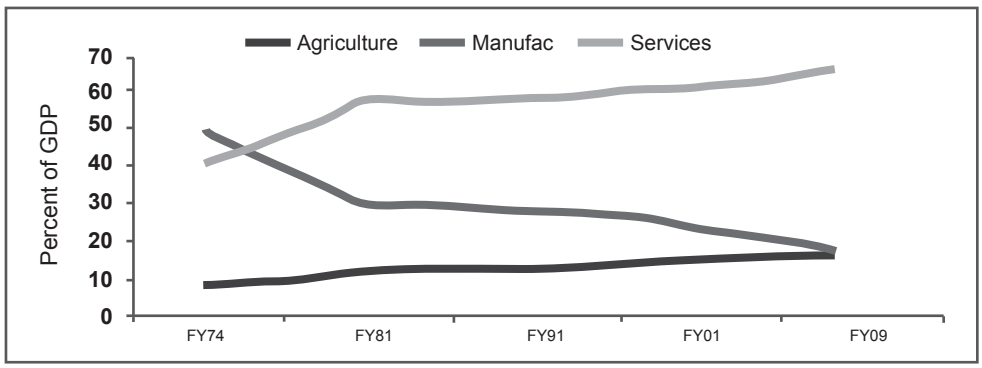
Figure 2: Sectoral Growth Rates FY 1974-FY 2009



Source: Bangladesh Bureau of Statistics and Worlds Bank World Development Indicators

It is also important to note that the relative weights of the changes in the sectoral composition of GDP were heavily influenced by the initial starting point (Figure 3). Therefore, although the manufacturing sector registered stronger growth performance, its relative share in GDP did not increase substantially, mainly reflecting its low initial base. However, services sector's share in GDP increased both due to a good growth performance and higher initial weight in the composition of GDP. In contrast, the slow growing agriculture substantially lost ground due to low growth and also owing to its heavy initial weight.

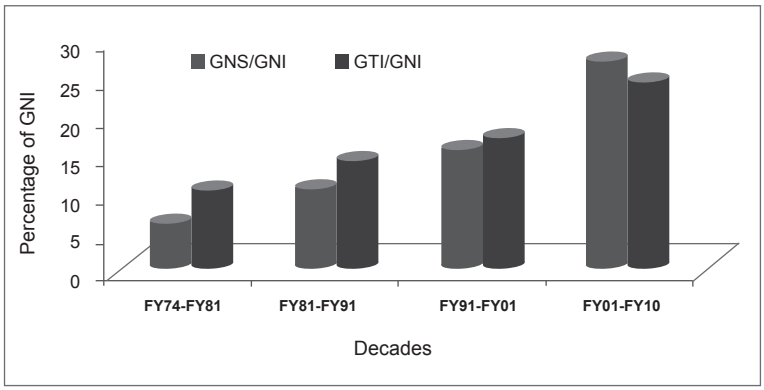
Figure 3: Structure of the Bangladesh Economy, FY 1974-FY 2009



Source: Bangladesh Bureau of Statistics

In both phases growth was largely fuelled by the expansion of investment, mostly from the private sector, and financed by national saving (Figure 4) and by an expanding labour force, particularly expanding women labour force. Contribution of total factor productivity- usually spurred by combination of technology with labour and capital- was very limited. While the domestic saving rate has been on a rising trend, the rapid growth in the national saving rate since 2000 has been fuelled by the huge expansion in remittances.

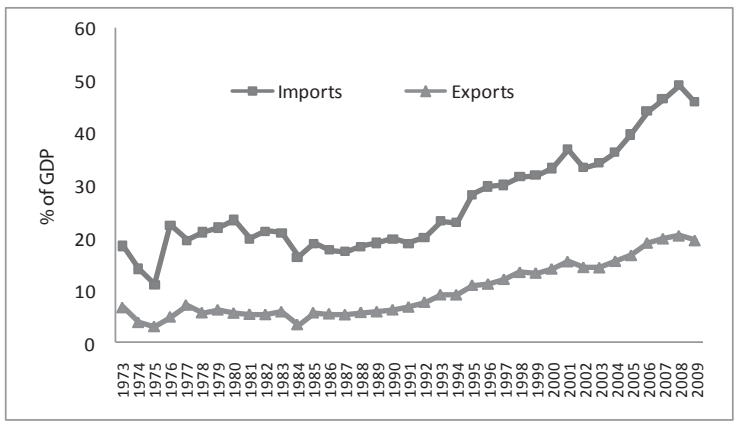
Figure 4: Average Trend in National Savings and Investment, FY1974-FY2009



Source: Bangladesh Bureau of Statistics and World Bank

Significant outward orientation of the economy took place over the last four decades. The liberalization of trade regime resulted in rising import penetration ratio, defined as the share of total imports in GDP, which rose from 11.7 percent in 1973 to 26.6 percent in 2009 (Figure 5). With the considerable rise in export earnings at a rapid pace, the export-orientation ratio, i.e. the ratio of exports to GDP, also rose significantly from around 6.5 percent to 19.4 percent during the same period.

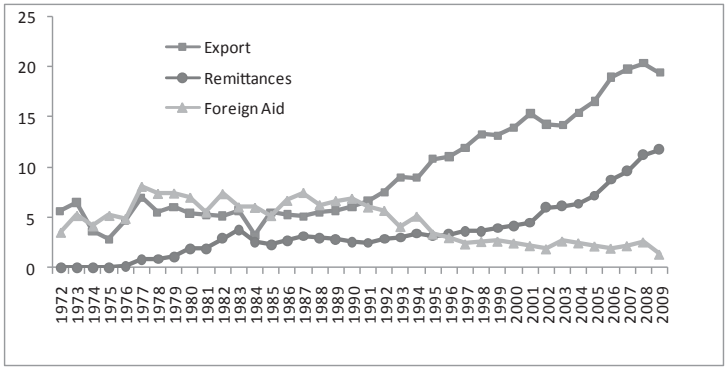
Figure 5: Trends in Exports and Imports as % of GDP



Source: World Development Indicators

Bangladesh economy has evolved from an aid dependent economy to a trade dependent economy over the last two decades. Since 2000, Bangladesh has found itself with a strong export sector and an appreciably large flow of official remittances which has significantly reduced the demand for foreign aid to finance the trade deficit and balance of payments. Figure 6 shows that the total amount of official remittances as a percentage of GDP and exports as percentage of GDP increased at rapid pace over the past two decades while the share of foreign aid in GDP declined significantly during the same period.

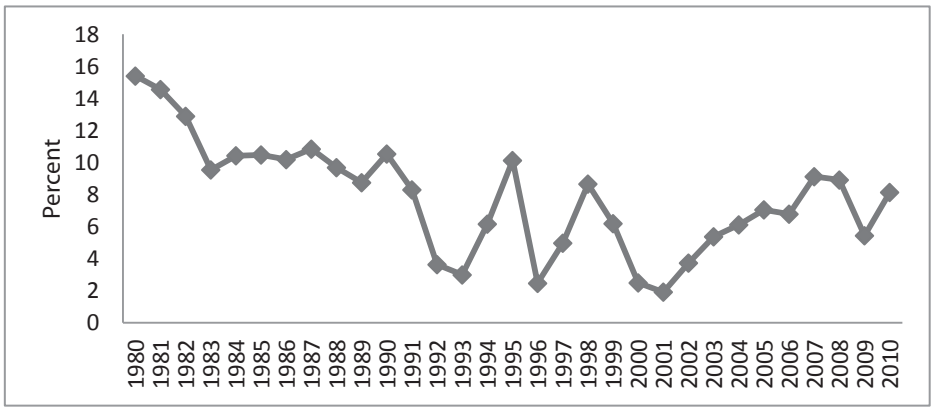
Figure 6: Trend in Foreign Aid, Remittance and Export as % of GDP



Source: World Development Indicators

Bangladesh experienced high rate of inflation during early 1970s because of several domestic and international factors. Excessive money supply in a war torn economy together with fuel and food price shock resulted in an average inflation rate of 48 percent during 1972-1974 (Hossain, 2002). During 1980s, the inflation rate gradually declined, and during 1990s, except few years the average inflation rate was on the declining trend (Figure 7). However, since early 2000s the inflation rate began to rise. The impact of food price hike in 2007 and 2008 is clearly visible in the high rate of inflation in those years.

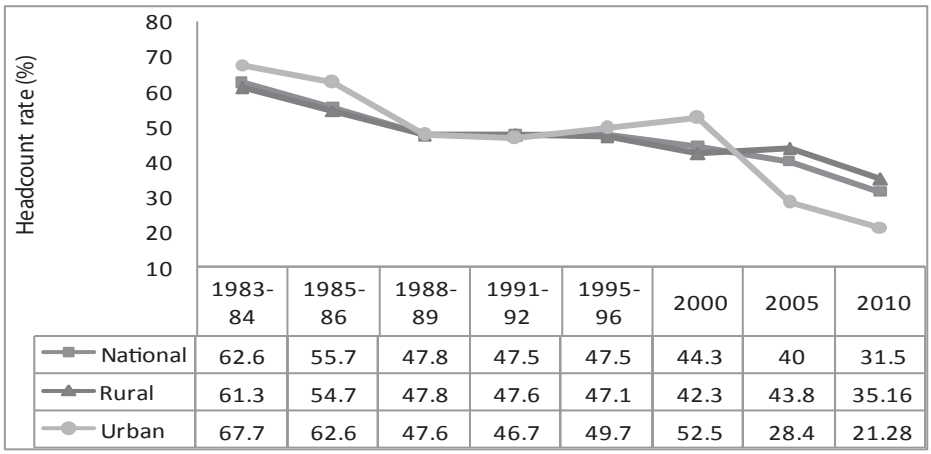
Figure 7: Trend in Inflation Rate



Source: IMF

Bangladesh has been successful in achieving significant reduction in poverty over the last three decades. Figure 8 shows that considerable decline in poverty occurred from 1983-84 to 2010. National poverty headcount declined from 62.6 percent in 1983-84 to 31.5 percent in 2010. The reduction in urban poverty is more prominent than that of the rural poverty.

Figure 8: Trend in Headcount Poverty



	1983-84	1985-86	1988-89	1991-92	1995-96	2000	2005	2010
National	62.6	55.7	47.8	47.5	47.5	44.3	40	31.5
Rural	61.3	54.7	47.8	47.6	47.1	42.3	43.8	35.16
Urban	67.7	62.6	47.6	46.7	49.7	52.5	28.4	21.28

Source: Bangladesh Bureau of Statistics

Despite the fall in poverty, there is a considerable concern in Bangladesh about the growing income inequality. Income inequality as measured by the Gini coefficient for the distribution of income has risen substantially during the 1980s and the 1990s. More recent data shows a further increase in the income Gini coefficient from 0.451 in 2000 to 0.458 in 2010 due to an increase in rural income inequality (Table 1).

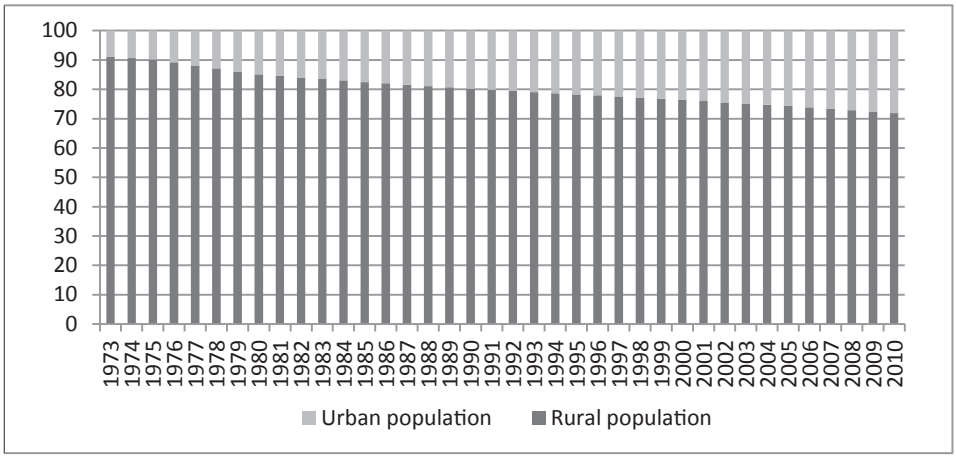
Table 1: Gini Index of Per Capita Income

	2000	2005	2010
National	0.451	0.467	0.458
Urban	0.497	0.497	0.452
Rural	0.393	0.428	0.431

Source: Bangladesh Bureau of Statistics

With economic growth and structural transformation of the economy, the percent of total population living in the rural area declined and that in the urban area increased. It is shown in Figure 9 that in 1973, the share of urban population was less than 10 percent of the total population which increased to around 28 percent by 2010.

Figure 9: Percent Share of Rural and Urban Population in Total Population



Source: World Development Indicators

2. The Millennium Development Goals (MDGs): Bangladesh Report Card*

2.1 The MDGs: Achievements and Challenges

Bangladesh has made significant progress towards attaining MDGs by 2015. Progress achieved by Bangladesh during 1990-2011 period is consistent with or even higher that the pace of annual progress required for achieving the MDGs by 2015. Progress at the aggregate level suggests that the country is 'on track' in halving the proportion of people living below the poverty line and suffering from hunger. The recent Household Income and Expenditure Survey 2010 suggest that the incidence of poverty has been declining at an annual rate of 2.46 percent in Bangladesh during 1992 to 2010 against the MDGs target of 2.12 percent. Bangladesh has already met one of the indicators of target-1 by bringing down the Poverty Gap Ratio to 6.5, against 2015 target of 8.0. If this trend continues, the MDG target of halving the population living under the poverty line would be achieved well before 2015. Success areas include: attainment of the goals of sanitation, child mortality, primary enrolment, gender parity, immunization coverage, rolling back malaria and controlling tuberculosis, and improved drinking water supply and sanitation. Noteworthy achievement has been made in primary education with net enrollment rate of 98.7 per cent against 60.5 per cent in 1990. Similarly, progress has been made in the area of equitable access to the primary enrollment with girl's enrolment of 99.4 percent while boy's enrolment of 97.2 percent. Bangladesh has made considerable progress (44 per 1,000 live births in 2011 from 146 in 1990) in reducing under five child survival over the last several decades. The target of infant mortality rate is also on track. The Millennium Countdown Report- Countdown to 2015 (UNICEF, 2008) places Bangladesh among only 16 countries in the world those are on track to achieve MDG 4 on child mortality (MDGs progress Report, 2011). There has been a significant improvement in sanitation (increased to 62.7 percent in 2009 from 39 percent in 1990) and in tree coverage (with density of 10 per cent and above) of land area which was 9 percent in 1990 has increased to 19.33 percent in 2011.

* Benefitted from Bangladesh MDG Progress Report

Table 2: MDGs Attainment in Bangladesh

Goal	*Target*	*Base Year 1990/1991*	*Current status*	*Target*	*Status of progress*
MDG1 Eradicate extreme poverty & hunger	1.1 proportion of population below national upper poverty line (%)	56.7 (1992)	31.5 (HEIS, 2010)	29.0	On track
	1.5 Employment to Population ratio (%)	48.5	59.3 (LFS, 2010)	100	Need Attention
	1.8 Prevalence of underweight under-5 children (%)	66.0	36.4 (BDHS, 2011)	33.0	On track
MDG2 Achieve universal primary education	2.1 Net enrollment in primary education (%)	60.5	98.7 (DPE, 2011)	100	On track
	2.2 Primary education completion rate (%)	43.0	79.5	100	Need attention
	2.3 Adult literacy rate (%)	37.2	59.82 (BBS, 2010)	100	Need attention
MDG3 Eliminate gender disparities	3.1a ratio of girls to boys in primary education	0.83	1.02	1.0	Goal met
	3.2 Share of women in wage employment in non-agri sector (%)	19.1	19.87 (LFS, 2010)	50.0	Need attention
	3.3 Proportion of seats held by women in national parliament %	12.7	20.0	33.0	Need attention
MDG4 Reduce child mortality	4.1 Under-five mortality rate (per 1000 live births)	146	44 (SVRS, 2011)	48	Goal met
	4.2 infant mortality rate (per 1000 live births)	92	35 (SVRS, 2011)	31	On track
MDG5 Improve maternal health	5.1 Maternal mortality rate per 100,000 live births	574	194 (BDHS, 2011)	143	On track
	5.2 Proportion of births attended by skilled health personnel (%)	5.0	31.7% (BDHS, 2011)	50.0	Need attention
	5.5a Antenatal care coverage (at least one visit) (%)	27.5 (1993)	67.7 (BDHS, 2011)	100	Need attention
MDG 6 Combat HIV/AIDS, malaria and other disease	6.1 HIV prevalence among population (%)	.0005	.01 (9^{th} SS, 2011)	Halting	On track
	6.6a Prevalence of Malaria per 100,000 population	776.9 (2008)	270.84 (MIS NMCP, 2012)	0.6	on track
	6.9a prevalence of TB per 100,000 population	493	411 (GTBR, 2011)	320	On track
MDG 7 Ensure environmental sustainability	7.1 proportion of land area covered by forest , % of tree coverage	9.0	19.42 (DOF, 2012)	20.0	Need attention
	7.8 Proportion of population using improved drinking water sources	78	98.2 (SVRS, 2011)	100	On track
	7.9 Proportion of population using an improved sanitation facilities	39	63.6 (SVRS, 2011)	100	Need attention

Source: Compiled from MDGs Progress Report, 2013

2.2 Off-Track MDGs

While the MDGs track record demonstrates Bangladesh's achievement in achieving the goal of poverty reduction within the target timeframe, challenges remain in attaining some targets of some goals such as eradicating extreme poverty and hunger (MDG 1), achieving universal primary education (MDG 2), improving maternal mortality (MDG 5), and attaining environmental sustainability (MDG 7) which are still formidable (Table-2). Challenges remain in the areas of child malnutrition, school drop-out and health expenditure. Rich- poor divide thus inequality has been increasing. In terms of employment, the country has shown limited capacity (59.0 per cent employment rate) to ensure employment opportunities for the citizens. Bangladesh's open unemployment rate is 4.6 percent while the rate of underemployment is 20.31 percent (LFS, 2010) reveals that employment creation is one of the critical areas to look at. Unemployment is especially acute among the young people between 15 and 24 years of age. While Bangladesh has demonstrated its capacity in achieving the goal of poverty eradication within the target timeframe, attaining food security and nutritional wellbeing still remains a huge challenge (MDGs progress report, 2013).

An off-track MDG (MDG 2) is the primary school completion rate. The persistence of high drop-out rates in primary schools is the clearest expression of this phenomenon (DPE, 2009) High drop-out rate is associated with the incidence of child labour in the country. Children forced out of school and into labour force to help their families can not avail the opportunity to acquire the knowledge and skills needed for gainful future employment, thereby perpetuating the cycle of poverty (ILO, UNICEF, WB, 2011). Increase in the primary school completion rate remains as a major challenge for the country which needs multi-focused intervention in a coordinated and holistic manner on a number of factors including teacher quality, offsetting the direct and opportunity cost of schooling, increasing share of education in government budget and increasing coverage and improving quality of adolescent and adult literacy programmes.

MDGs attainment is off-track in achieving the target of maternal health (MDG 5). Bangladesh is on track to achieve the target of reducing maternal mortality ratio but the target of universal access to reproductive health needs more attention (MDG Progress report, 2013).

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CHAPTER-5

TRADE AND EMPLOYMENT POLICIES FOR JOBS

Bazlul Haque Khondker, Hasina Begum, Muhammad Imam Hussain
Syed Ali Bin Hassan, Moksud Belal Siddiqui and Md. Amir Hossain

1. A Policy Framework for Creating Good Jobs

1.1 Targets

Vision 2021 seeks to help Bangladesh attain middle income status by 2021. It accordingly sets ambitious growth targets of reaching 8% growth by 2015 (end of the SFYP) and 10% by 2021. The associated structural change targets are to increase the industrial sector's GDP share from 17 percent in 2009 to 40 percent by 2021 and its employment share is to expand from 12 percent to 25 percent over the same period. The implied targets are (for details please see Annex 1):

- Achieve an average GDP growth of 7.3 percent per year over the Plan period (i.e. 2011-15)
- Raise the share of industrial sector in GDP to 40 percent by 2021[2].
- Increase the employment share of industrial sector to 25 percent by 2021.

The main strategic implications of these targets are that much of the additional growth will come from the manufacturing sector (which is the dominant industrial activity) along with commensurate productivity increases in agriculture, manufacturing and services. Within services, the structure will change with an increase in the share of formal services. As noted earlier, the employment challenge in Bangladesh is to create high productivity, high earnings good jobs. This calls for changing the structure of employment by withdrawing labour from low productivity agriculture and informal jobs (also known as disguised unemployment) to higher productivity jobs in manufacturing and formal services. This is admittedly a long-term process, but the SFYP will make concerted efforts to bring about this change in the structure of growth and employment.

1.2 Links with Trade Policy

'Acceleration of economic growth and reduction of poverty – two principal goals of the Perspective Plan – will come about through the dynamism and inter-linkages among the three broad sectors of the economy: agriculture, industry, and services. A vibrant and highly productive agricultural sector is a prerequisite for the kind of growth acceleration envisaged in the Perspective Plan. Provision of food security is also a constitutional obligation. However, attainment of long term growth targets is premised on a productive and competitive manufacturing sector growing at or near double digits during the 2010-21 decade[3]. Consequently, the broad industrial sector will continue to account for a much larger share of GDP, approaching 37% by 2021, compensating for the secular decline in the share of agricultural sector, which falls to 15%. This trend is consistent with the stylized facts of structural change in the process of development. For Bangladesh to reach middle income threshold by 2021, industrial expansion must accompany concomitantly with highly productive farm and non-farm agriculture. Accelerated pace of industrialization will be necessary to address the increasingly diminishing capacity of agriculture to absorb the incremental labour

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[1] Parts of this chapter were prepared by participants in the ETE project's technical training activity.

[2] The industrial sector is defined by Bangladesh Bureau of Statistics to include construction. Under this definition, manufacturing accounts for 70 percent of industrial GDP and 80 percent of employment.

[3] Vision 2021 stipulates middle income status for Bangladesh by 2021, reaching annual GDP growth rate of 10% by that year and averaging 9.2% for the period 2011-21. Fulfilment of this vision requires superior double digit performance for manufacturing taking its share in GDP to 27 percent by 2021, and that of industry to 37 percent.

force, strengthen backward and forward linkages with agriculture and services sectors, cater to the growing domestic demand for industrial goods, and take advantage of emerging opportunities in the global market.

Manufacturing Exports: Within the manufacturing sector, the main driver will be the export markets. At the same time, growing domestic demand from higher income generation will also provide impetus to import substitute production. It is projected that the share of exports in relation to GDP will rise to about 25% of GDP by 2021 reflecting a leading role of the export sector in the economy[4]. 'The target with regard to the external sector is to ensure strengthened global integration of the Bangladesh economy by building necessary trade-related supply side capacities. This will be realized through raising the competitiveness of Bangladesh's exports, ensuring a larger share for the country in the global trade in goods and services, and by encouraging both product and market diversification. This will be done by renewing efforts at moving up market and by raising the efficacy of trade facilitation measures. Bangladesh's strong performance in the global labour services market will be continued and further consolidated (GoB 2, 2012: Page 5)'. Based on the recent performance, export sector under the Sixth and Seventh Plan period is projected to grow by 12-15% per annum in US dollar terms. The projection entails an increase in the share of exports in relation to GDP to rise to about 25% of GDP by 2021 reflecting a leading role that export sector in coming decade. The overarching goal here will be to ensure that trade-GDP ratio rises to nearly 60% of GDP with export of goods and remittance earnings approaching 40 % 2021.

Strengthened Global Integration: The target is to ensure strengthened global integration of the Bangladesh economy by building necessary trade-related supply side capacities. This will be realized through raising the competitiveness of Bangladesh's exports, ensuring a larger share for the country in the global trade in goods and services, and by encouraging both product and market diversification. This will be done by renewing efforts at moving up market and by raising the efficacy of trade facilitation measures. Bangladesh's strong performance in the global labour services market will be continued and further consolidated. Some of the important measures envisaged in the Perspective Plan include:

(a) Export diversification, involving product and market diversification;

(b) Seizing opportunities in export markets created by eroding competitiveness of China in low cost labor intensive products;

(c) Restructuring export production by seizing opportunities from globalized production chains and forging intra-industry linkages in a globalized economy; and

(d) Working on market access issues in multilateral, bilateral and regional fora.

(e) Close monitoring and supervision of the activities and practices of recruitment agencies;

(f) Moving to technology-based system of effective practices for remitting money;

(g) Training workers in the vocations and skills that have a high future demand in global markets; and

[4] Low-cost labour with growing skills gives Bangladesh potential competitive advantage in most labor-intensive activities which will continue to drive manufacturing growth for at least another decade.

(h) Making the Overseas Employment Policy more comprehensive so that it covers multiple aspects of migration, including workers' and employers' documentation, employment contracts, their implementation, and settlement of workers welfare.

Multilateralism: Addressing the multilateral trading regime will mean coping with the challenges of asymmetric and inequitable trading rules that are prejudicial to the trading interests and performance of LDCs, including Bangladesh. Strategic actions to be pursued during the Perspective Plan will include (a) support negotiations for reduction and elimination of export and domestic subsidies and in favour of agricultural trade liberalization; (b) mainstreaming trade in the country's national development agenda, and should particularly incorporate Aid for Trade; (c) enhance Duty-Free Quota-Free access under provisions of NAMA; (d) as Bangladesh approaches middle income status, more effort should be focused on enhancing competitiveness of Bangladesh's exports; (e) regarding trade in services, try to secure "permanent, non-reciprocal, special priority", notwithstanding any provisions of the GATS; (f) negotiate for establishing simple, transparent, and preferential Rules of Origin; and (g) consolidate and expand capacity for trade negotiations.

Regional cooperation: In recent years, proposals for sub-regional cooperation between Bangladesh, India, Nepal and Bhutan have been gaining ground. Bangladesh, India, Nepal, Bhutan and Myanmar are endowed with rich complementary resources that offer significant opportunities for cooperation in several sectors. The framework for cooperation stipulates huge gains for Bangladesh in several areas, including trade and trade facilitation, regional transport, energy trade, water management, FDI and joint ventures, cooperation on road and railway projects. Long-term strategies for strengthening regional cooperation include (a) more vigorous efforts in multiple forums to make SAFTA, APTA and BIMSTEC more effective organizations, (b) forging effective cooperation in trade, cross-border investment and all the other areas of mutually beneficial activities, (c) initiatives to resolve cross-border issues and undertake joint projects, such as production and distribution of electricity, gas, coal, fertilizer and other products, all on a win-win basis, and (d) participation in the grand Asian Highway and Asian Railway Systems that generate win-win outcomes.

1.3 Links with Employment Policy and Decent Work

With GDP growth of 6% per annum, total employment per annum will be around 1.5 million which is short of the total net labour force growth of 1.8 million per annum. Added to this is the backlog of already unemployed persons. A vast number of workers- 21.31 percent of the labour force- remain underemployed (LFS, 2010). One major source of employment growth is overseas employment and it makes a substantial contribution to the domestic economy in the form of remittances.

Job quality is a major concern. Informal employment is high and rising. Between 2006 and 2010, the share of "precarious" workers (i.e. those in irregular paid work, daily work and domestic work) rose 3 percentage points to 23 percent. The share of informal economy workers grew from 79% to 87.5% of the labour force in the same period (LFS, 2010). Child labour including its hazardous form has declined in recent years. The gender wage gap is improving though the progress is slow.

Female participation in the labour market has been rising. Female unemployment rate has fallen significantly but still remains higher than men's. Social security schemes are limited in both quality and coverage and mostly cover the formal sector employees. Labour market moved from low productivity agriculture sector work to high productivity non-farm work in both rural and urban areas.

1.4 Strategies for Employment Generation: Views of Stakeholders

Despite significant progress in poverty reduction over the last decade, poverty is still pervasive in Bangladesh. Employment generation, especially decent employment, has been considered the most effective means of improving the living condition of the poor people. The stakeholder consultations provided some important insights into the issue of employment generation over the medium and long term.

Implementation of an effective employment strategy will require policy actions on both the demand and supply sides of the labor market. On the demand side, much of the reforms concern policies to improve incentives for private investment and to remove the growth constraints primarily in areas relating to infrastructure and finance Specific policies will be required at the macroeconomic as well as sectoral levels. Some of specific strategies relating to demand side are:

- Raising agricultural productivity by withdrawing surplus labor from agriculture to manufacturing and services. Rising marginal productivity in turn will support the growth of real wages in agriculture. The process should continue until productivity and real wages in agriculture are better aligned with real wages and productivity elsewhere in the economy.
- Channeling private sector savings into manufacturing and services activities by removing the incentives problems emerging from inappropriate trade and tax policies.
- Bangladesh should continue to focus on the policy framework for implementing an export-oriented manufacturing strategy with special attention to export diversification. Higher demand for Bangladeshi products during the time of global recession tends to suggest that the main constraints to higher volume and more diversified exports relate to domestic policies. Thus, much of the policy attention will need to focus on production incentives, quality and cost competitiveness, and diversification of our export basket.
- From the supply side perspective in order to reap the benefit of the demographic dividend skill development should be an integral part of all strategies related to trade and employment. An important requirement is to substantially upgrade the capacity to deliver technical and vocational education and skills training. This is a major deficiency that has not received much attention in the past and goes beyond public investment. In this context supply of technical skills through formal vocational institutions needs adequate attention.
- A number of specialized public vocational training institutes have been set up throughout Bangladesh to train special skills. More recently, there is a significant growth in skill-enhancing institutions in the private sector. The public institutions provide relatively longer-term diploma programs. Available evidence suggests that public vocational training institutions suffer from a host of problems including low quality and mis-match between skills demanded in the market and the skills supplied by the training institutions.

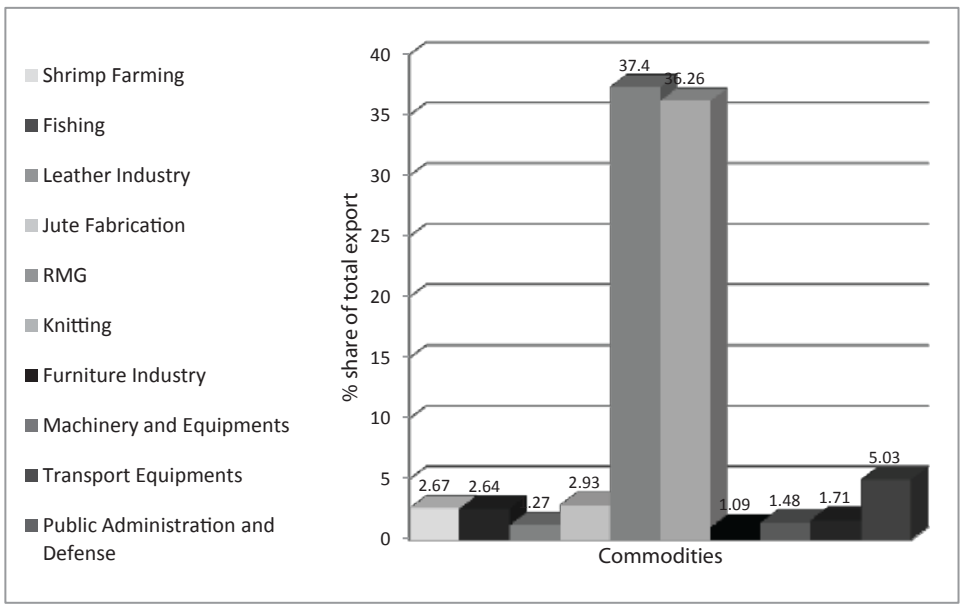
- The private sector institutions are in a better position since they have to face the market test of relevance. Much of these private institutions provide short training programs in a range of skills, especially computer skills, English language skills and secretarial skills.
- There is an important need for the government to overhaul the public vocational training institutions with a view to increasing their quality and making them relevant to the market.

1.5 Trade and Employment Linkages

Based on Bangladesh's Social Accounting Matrix (SAM) from 2007, we see from Figure 1 that the major ten items which are exported to the rest of the world comprise RMG (readymade garments), knitting, public administration and defence, jute fabrication, shrimp farming, fishing, transport equipments, machinery and equipments, leather industry and furniture industry respectively by 37.40%, 36.26%, 5.03%, 2.93%, 2.67%, 2.64%, 1.71%, 1.48%, 1.27%, and 1.09%.

We see from table 1 that the highest value addition of 11.63% of unskilled labour goes to the paddy cultivation activity. The second highest 9.72% of value addition by unskilled labour goes to the land transport activity. The comparatively higher value addition of 18.91% and 8.12% of skilled labour go to the retail trade and public administration and defence activities respectively. The comparatively higher value addition of 17.93% and 9.45% of capital go to the housing service and public administration and land transport activities respectively. The comparatively higher value addition of 51.22% and 10.64% of land go to the paddy cultivation and fruit cultivation activities respectively.

Figure 1: Export of SAM Sector Commodities to the Rest of the World



Source: Bangladesh social accounting matrix, 2007

Table 1: Value Added by Different Factors in Different Activities

Percentage share of different factors' value addition in different activities				
SAM Sectors	**VA Labour Unskilled**	**VA Labour Skilled**	**VA Capital**	**VA Land**
Paddy Cultivation	11.63	3.48	0.00	51.22
Other Grain Cultivation	0.28	0.09	0.00	2.22
Jute Cultivation	0.68	0.19	0.00	2.63
Potato Cultivation	0.81	0.24	0.00	6.28
Vegetable Cultivation	1.21	0.35	0.00	8.43
Pulses Cultivation	0.84	0.24	0.00	7.35
Fruit Cultivation	0.18	0.05	0.00	10.64
Other Crop Cultivation	0.34	0.10	0.00	3.25
Fishing	1.98	3.29	4.04	0.00
Rice Millling	3.46	2.39	3.74	0.00
Knitting	3.74	3.86	3.13	0.00
Rural Building	5.59	2.72	7.47	0.00
Wholesale Trade	4.72	7.06	4.18	0.00
Retail Trade	5.98	18.91	8.22	0.00
Land Transport	9.72	6.59	9.45	0.00
Housing Service	0.00	0.00	17.93	0.00
Health Service	0.23	4.05	2.79	0.00
Education Service	0.49	8.08	1.05	0.00
Public Administration and Defense	0.84	8.12	1.31	0.00
Other Services	24.76	5.55	2.71	0.00

Source: Bangladesh social accounting matrix, 2007

Table 2: Backward and Forward Linkages of Bangladesh SAM 2007

SAM Sector Activities	Backward Linkage	SAM Sector Commodities	Forward Linkage
Paddy Cultivation	12.05	Paddy Cultivation	40.14
Tea Cultivation	12.51	Tea Cultivation	4.07
Other Crop Cultivation	12.64	Other Crop Cultivation	4.63
Shrimp Farming	13.57	Shrimp Farming	10.81
Rice Millling	12.9	Rice Millling	47.04
Fish Process	14.28	Fish Process	1.85
Salt Refining	12.34	Salt Refining	1.53
Food Process	10.58	Food Process	16.10
Baling	12.37	Baling	1.04
Jute Fabrication	12.78	Jute Fabrication	1.02
Petroleum R	3.81	Petroleum R	16.83
Basic Metal M	12.36	Basic Metal M	7.83
Wholesale Trade	10.01	Wholesale Trade	22.85
Retail Trade	10.35	Retail Trade	39.90
Land Transport	10.61	Land Transport	31.96
Housing Service	10.59	Housing Service	30.06
Hotel and Restaurant	12.35	Hotel and Restaurant	7.16
Other Services	11.13	Other Services	32.51

Source: Bangladesh social accounting matrix, 2007

The backward linkage is the total column sum of the inverse matrix of (I-A) where I is the Identity matrix and A is the coefficient matrix derived from the SAM. The value of backward linkage of any activity tells us about the degree of integration of that activity across and with the rest of the economy; it shows which activity how much contributes to the overall economic growth due to an exogenous shock in the final demand. We see from table 2 that the activities fish process, shrimp farming, rice milling, jute fabrication, other crop cultivation, tea cultivation have the comparatively higher values of backward linkages. So for the robust growth of the Bangladeshi economy these sectors should be given more incentive considering their importance.

The forward linkage is the total row sum of the inverse matrix of (I-A) where I is the Identity matrix and A is the coefficient matrix derived from the SAM. The forward linkage of a commodity tells us about the importance of that commodity for the rest of the economy in terms of intermediate demand or marketing. Through this, the potential bottlenecks can be checked in the process of expansion or high growth. We see in table 2 that the commodities rice milling, paddy cultivation, retail trade, land transport, housing service, wholesale trade have the comparatively higher values of forward linkage respectively in lower amount. So, in the process of expansion or for high growth of Bangladesh economy potential bottlenecks in these sectors should be solved immediately.

For maximizing the impact of trade on employment, the Bangladesh government should consider trade policies that lead to the expansion of economic sectors with important backward linkages. The government could also give more incentives to these economic sectors. For job-rich growth, the government should consider trade policies that solve potential bottlenecks in the supply of commodities with important forward linkages to economic sectors with high value added and employment content. By taking these economic linkages into account, the Bangladesh government may increase exports, output and employment in Bangladesh simultaneously. Further, this will require the government to augment its trade diplomacy and bilateral as well as multilateral discussions.

1.6 Trade and Employment: Views from Stakeholders

The UN system focuses on inclusive economic growth thus employment remains at the heart of all UN discussions. However, a discussion on trade and employment links is still missing. MDGs encompass both trade and employment (separately though) but there is limited/ little understanding on how to make the link between these two domains.

Skill development should be an integral part of all discussions related to trade and employment. Skill development should be a prime focus for the government and the development partners. Government should diversified skill training programme. For example, instead of focusing only on traditional manufacturing related training, skill training could be provided on agricultural extension service facilities. Furthermore, several studies have identified that skill mismatch and skill gap situation are even worse in mid level management and higher positions in RMG, pharmaceuticals, leather etc. Therefore, focus should be given to the access to quality higher education with specialized training.

A time bound sector specific national Action Plan on labour and employment could be formulated. The Action Plan should clearly spell out which agency will do what. A results-based monitoring and evaluation framework should be developed. A coordinating body should be there to oversee and review the implementation of the plan, monitoring the progress and to identify the gaps. Development partners can play a strong role by supporting and facilitating the process.

Monitoring remains as a major challenge mainly due to the absence of adequate and quality data. Bangladesh Bureau of Statistics (BBS) is understaffed. Therefore, initiatives should be taken to strengthen the capacity of the BBS. BBS could work in collaboration with private institutions to conduct surveys (labour force survey, manufacturing sector survey, household expenditure and income survey etc.) after regular interval. BBS can also work in collaboration with General Economics Division. A mechanism could be developed for better coordination among General Economics Division, Bangladesh Bureau of Statistics Ministry of Labour and Employment and Ministry of Commerce.

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ANNEX 1: KEY MACROECONOMIC INDICATORS LONGER TERM PERSPECTIVE

Table A3: Key Macroeconomic Indicators

	Benchmark FY10	Target FY15	Target FY21
Real GDP Growth (%)	6.1	8.0	10.0
CPI inflation (%)	7.5	6.0	5.2
As per cent of GDP			
Gross Investment (%)	24.4	32.5	38.0
Gross National Savings (%)	30.0	32.1	39.1
Total government revenue (%)	10.9	14.6	20.0
Total government expenditure (%)	14.6	19.6	25.0
Exports (billion US$)	16.2	38.8	82.0
Imports (billion US$)	21.4	52.8	110.5
Remittances (billion US$)	10.9	17.8	38.5
Unemployment rate (%)	30.0	20.0	15.0
Poverty (head count, %)	31.5	22.5	13.5

Source: SFYP and Perspective Plan projections

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