

Manufacturing in Bangladesh: Growth, Stagnation and Erosion

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Abstract

Manufacturing endeavours in Bangladesh have passed through some notable changes or unchanges during the three decades after the independence. During the last three decades, GDP share of the manufacturing sector fails to show any significant changes. A number of enterprises have been closed down in this period - a part of which belonged to the public sector and the other part became sick due to problems related to infrastructure, financing, unequal competition and government's discriminatory policies. A number of enterprises established during this period were mostly export oriented like garments. This happened because policies and steps of the government and international agencies were in favour of export promotion. Growth of industrial sector now largely depends on growth of highly subsidised export oriented sector. The closure of many large-scale enterprises increased the number of unemployed workers. Although a new group of people joined the sector due to the new demand originated in the garments and EPZ factories, the total employment in the manufacturing sector shrunk. Gender composition of the working class has also been changed. Women workers have become significant part of that class, not only in formal industrial sectors but also in informal sectors. Foreign investment has never been manufacturing friendly in Bangladesh. As a whole, investment in manufacturing sector failed to pick up momentum because of various internal and external causes and constraints.

Introduction

If one follows through the history of Bangladesh, s/he could find an anarchic and frustrating scenario in manufacturing over a period of more than hundred years except for few short-lived optimistic episodes as the inevitable manifestations of

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historical turning points. In fact, Bangladesh had never been able to exploit its potentials. In this article an attempt has been made to bring the manufacturing sector in perspective. Here it began with the backdrop of Bangladesh independence when both the formation stage and destruction mode worked at the same time. The paper attempts to investigate the direction of manufacturing sector in post independence period. It goes into analyzing the role of public sector in manufacturing and its subsequent erosion. Composition of the total sector (public and private) and different trends within different subsectors and proportional share in GDP over the period are also examined. The paper looks into the industrial policies adopted over the period and identifies its priorities and incentive structure. Quantitative magnitude of foreign investment is analysed alongwith its qualitative dimension. The effects on employment and wage of the dynamics of the manufacturing sector are also discussed. In conclusion, the juxtaposition of the manufacturing sector is summed up.

Early Years of the Formation Stage of Industrial ‘Base’

The region now called Bangladesh had shown potential for industrial growth in several historical points but could not sustain. Despite constraints and weaknesses cottage industries continued to survive from extinction for thousand years, but could not expand to create a sustainable industrial base. It faced major setback at the very beginning of British colonial rule. Coercive actions against artisans, destruction of small enterprises followed by Permanent settlement in land tenure system and discriminatory trade policy practices were institutionalized as anti-industrial strategies. In the later part of British rule some industries were allowed to flourish in India, but these industries were mostly concentrated in the vicinity of the port areas like Kolkata, Madras and Mumbai. Bangladesh region continued to remain as peripheral one.¹

During Pakistan period, situation did not change much in favour of local entrepreneurship to grow. In 1947, “there were only a handful of large-scale industrial units – a few cotton textile mills with 99,000 spindles and 2,583 looms; a few sugar mills with a total capacity of 39,000 tons; one cement factory with a capacity of 100,000 tons; and a number of jute bailing presses.” and “in 1949/50, contribution of the manufacturing sector to the GDP was only about 3 per cent-large scale enterprises contributed just over half a per cent.” (Ahmad, 1978). In the late 1950s and 1960s the manufacturing units established in the then East Pakistan were mainly Jute and Cotton industries and these were mostly

¹ Major studies on economic history of Bengal share this view. See for extensive discussion on Bangladesh history compiled in three volumes published by Asiatic Society (Islam, 1993)

established by the West Pakistani business houses or by the state agencies like East Pakistan Industrial Development Corporation (EPIDC). Bangalee participation in establishing industries was not significant. State sponsored industries and private sector dominated by non-Bangalee entrepreneurship shaped the industrial sector in this region².

Land reform in 1961-62, discriminatory allocation and development policy constrained industrial potential in the then East Pakistan.³ The leading Pakistani economists Mahbub ul Haq observed the situation in the early 60s and iterated, “investment in East Pakistan fell short of its saving as a result of a compulsory transfer of savings from East to West Pakistan. Gross investment was 5 per cent.” (Haq, 1963; 103)⁴. He categorically stated that, “it appears that 4 to 5 percent of East Pakistan’s income has been transferred annually to West Pakistan and that the rate of transfer increased in the First Plan period.” (Haq, 1963, 102). Consequently, he continued narrating the situation prevailing here at that time “East Pakistan lags far behind West Pakistan in respect of most economic and social overhead facilities.... East Pakistan is predominantly a rural society, depending on agriculture for its sustenance, employment and export. It is less diversified and far more vulnerable to fluctuations than West Pakistan. Its industrialization is rudimentary, its monetization is limited, and its financial superstructure is inadequate. It has undergone a very modest structural change in the last ten years.” (Haq, 1963, 105-106)

Establishment of Pakistan Industrial Development Corporation (PIDC) in 1950 and its division for the two wings (EPIDC & WPIDC) in 1962, Pakistan Industrial Credit and Investment Corporation (PICIC) in 1957, the formation of East Pakistan Small Industries Corporation (EPSIC) in 1957 and Industrial Development Bank of Pakistan (IDBP) in 1961 were all aimed at patronizing entrepreneurs to develop state sponsored industrial sector in the then Pakistan.⁵ But the growth of East Pakistani entrepreneurs in the process remained insipid. Only a handful of local investors’ participated but that was also dependent on state support, because “on average, private Bengalee investors contributed about 24 percent of the investment in the establishment of jute mills while 19 percent came

² For vivid description of the period concerning industrial sector see Sobhan and Ahmad, 1980.

³ See for detail discussion on the impact of land reform in 1961-62, Umar(1988) and Siddiqui (1996)

⁴ In the later part of the decade Rehman Sobhan, Akhlaqur Rahman and others joined in the economic analysis of disparity.

⁵ “Between 1952 and 1958, PIDC assisted the private sector in establishing 12 jute mill companies, the first being the world’s largest, Adamjee Jute Mills. The 12 were built in East Pakistan, but the PIDC’s private sector partners were, in all cases, West Pakistanis. Eventually, all 12 were divested before liberation at prices favorable to the private investors.” (Humphrey, 1988).

from public equity and 58 per cent from public loan advance; and in fact, in some cases, the share of the Bengalee entrepreneur in the finances need to set up a jute mill was as low as 10 percent.” (Ahmad, 1977)

Jute industry had been the mainstay of the manufacturing sector but its profitability and survival always rested on explicit and implicit subsidy from the state. Export bonus scheme was a very important part of that package. It was introduced in 1959 and was gradually extended. This scheme provided significant support to the exporters of jute and jute products. Its role in making jute industry more profitable was such that “without the bonus earnings not only that there would not have been any surplus of sales value over costs but in fact there would have been considerable loss”....and “the contention that the industry was running efficiently in the 1960s to be able to make good profits is in fact a myth.” (Ahmad, 1977)

Initial Stage: Formation of Public Sector

At the time of independence Bangladesh was a predominantly agricultural country that inherited a tiny manufacturing sector, 80 percent of which owned either by Pakistani business houses or state agencies. Only 18 percent of those owned Bangalee were mostly small industries. Table-1 given below depicts more vividly the structure of ownership of industrial enterprises prior to independence in 1971.

In 1972 more than 600 large, medium and small enterprises were nationalized and 6 sector corporations were formed to manage and operate those firms. Nationalization of industries, in fact, took place due to the compulsion of the prevailing circumstances rather than as a part of planned economic decision. The

Table 1: Structure of ownership of industrial enterprises prior to independence

Ownership	Number	Value(mln taka)	Share(%)
EPIDC ownership	53	2097	34
Private Ownership(Non Bengali)	725	2885.7	47
Private Ownership(Bengali)	2253	1118.8	18
Private Ownership(Foreign)	20	36	1
Total	3051	6137	100

Source: Sobhan and Ahmad (1980).

events that followed nationalization provide evidence that there was no preparation or well-planned design to build public sector in an effective way. Apparent anarchy, bad management and wrong decisions in public sector resulted

in systematic leakage of resources and contributed to create a 'black' economy. It also helped a portion of private sector to grow⁶.

Subsequently, it was not long to reverse the process of building a strong public sector. In the beginning, private investment in industry was discouraged by imposing a ceiling of 2.5 million taka. It was, however, revised to taka 30 million in 1974 and at the end of 1975 it reached to taka 100 million. In 1976 a new industrial policy was announced where ceiling was withdrawn and different incentives for private (specially foreign and export oriented) sector investment were initiated. In March 1976, disinvestment board was formed to better coordinate and to intensify the process.

Composition and Trend in Manufacturing Sector in Post-Independence Period

BBS generally classifies the manufacturing sector activities into two broad sub-sectors by employment size of the manufacturing units. These are (i) large and medium scale establishments: 10-49 persons and 50 or more persons respectively employing during the accounting year and (ii) small scale manufacturing establishments (including cottage and handloom) employing less than 10 persons (BBS, 2000).⁷

Since the GDP accounting method has been changed in 1999, definitions of sectors were revised and sectoral shares were also changed. In 1972/73, according to old estimates, share of manufacturing was 7.90 where medium and small scale industries had 2.40 percent and 5.50 percent respectively. In 1995/96 according to the same estimates, these were 9.57, 6.27 and 3.30 per cent respectively. In the revised estimates, however, the sectoral share of manufacturing was 14.68 per cent in 2000, where large and medium industries and small industries contributed 10.51 percent and 4.17 percent respectively.

Despite the weak data base of manufacturing, the available data has been used to portray a picture of the sector. In the above Table-2 sectoral shares in both old and new estimates for different years are compiled. We find new estimates started

⁶Subsequently this private sector took advantage of selling plants in scrap value. For example, "the assets of 29 Jute mills, worth more than tk. 245 crore (according to BJMC estimate, according to alternative view it is 140 crore) have been denationalised at the face value of only 5.5 crore" (Abdullah, 1991, 28-29).

⁷BBS collects data on these different subsectors from different sources. For large and medium industry data source is annual Census of Manufacturing Industries (CMI), Bangladesh small and cottage industries corporation is the source of data on small and cottage industry, while Handloom census conducted by Handloom industry is the source for data on handloom industry. (BBS, 2000)

Table 2: Share of Manufacturing in GDP at current price by two different estimates in different period

Period	GDP Share (Old estimates)			GDP Share (New estimates)		
	large and medium	small	Total	large and medium	small	total
1972-73	2.40	5.50	7.90	-	-	-
1982-83	5.71	5.42	11.14	-	-	-
1989-90	5.09	3.64	8.74	9.26	3.84	13.10
1995-96	6.27	3.30	9.57	11.01	4.42	15.43
1998-99	6.03	2.99	9.02	11.10	4.37	15.47
1999-00	5.64	2.83	8.47	10.51	4.17	14.68

Source: BBS, 2001, 2000, 1999, 1996, and 1980

from 1989/90, and the old estimates have been reported since 1972/73. So the old estimates can only be compared. The trend of sectoral share of manufacturing from 1972/73 to 1999/00 shown in the table is not at all optimistic, rather depict frustrating picture. According to old estimates its growth rate as a proportion of GDP in the whole period has not been even 1 percent (from nearly 8 percent to less than 9 percent). From 1972/73, in ten years time, there has been a reasonable growth of GDP share from 7.90 to 11.14 percent followed by a rapid decline in the following decade, to 8.74 percent. The sectoral share, after that, never could show any significant improvement. In 1972/73, small industries apparently dominated the scene; its share was more than double as compared to the large and medium scale industries. While in the 70s, data reveals significant growth in large and medium industries, but small ones nevertheless remained the same. In the following decade, it seems from the Table 2 that small industries faced a severe blow which until now could not recuperate. Over all sectoral share of small industries, in fact, declined from 5.5 to less than 3 percent, downsized to almost half, while share of large and medium scale industries had been more than double; i.e., increased from 2.4 to more than 6 percent in the old estimate.

Change in the method of estimate only revised the data but trend remained the same. Increase in sectoral share of manufacturing as a percentage of GDP has been due to the artifacts of the methodological changes. According to the new estimate, the growth rate was 13.10 percent in 1989/90 while it reached almost 15 percent after a decade, less than 0.16 per cent increase in growth per year. Since 1995-96 it actually shows a downward trend.

Table-3 which is adapted from a study conducted in the early 90s shows proportional distribution of different scale of establishments, number of firms, employment and gross output in the period.

From the Table-3, we get a concise picture of the size, composition and performance of the manufacturing sector in early 1990s. Large industries being 1.09 percent of total number claim about 66 percent of total output and employ about 43 percent of workforce in manufacturing. In this scale of operation private sector now dominates the scene. Number of enterprises, however, is the largest in cottage level that stands nearly 71 percent, which produces only 6 percent of gross output, but employ about 31 percent of labour force in Bangladesh.

Table 3: Structure of Manufacturing Sector in Bangladesh (1991/92) by Scale of Operation (Value in million taka)

Segments	No of firms	Fixed assets	Persons engaged	Gross output
Large	5835 (1.09)	172196.26	1709236 (42.54)	308404.59 (65.69)
a) private units with 50 or more workers	5627 (1.05)	114030.56	1489606 (37.07)	285259.79 (60.76)
(b) State owned units	208 (0.04)	58164.70	219630 (5.47)	23144 (4.93)
Medium: Units with 10 to 49 workers including handlooms	33617 (6.26)	48760.31	727816 (18.11)	92469 (19.66)
Small: Non-household units with less than 10 workers including handloom	118286 (22.04)	n.a	337675 (8.40)	39603.07 (8.44)
Cottage: Household based units with less than 10 workers	379007 (70.61)	3560.56	1244096 (30.96)	28984.13 (6.17)

Source: WB - USAID, 1996

Public Sector: Policy, Crisis and Erosion

In 1982 another ‘new industrial policy’ was declared which was later revised in 1986. Afterwards the industrial policy announced in August 1991 allowed individuals to invest upto Tk.300 million without seeking permission from the government. The series of industrial policies devised since 1976, in fact, moved in a linear fashion in the sense that all subsequent policies paved the way to further liberalization of private investment, privatization, opening up sectors for investment, providing incentives for export oriented and foreign investment. In the process of denationalization, by 1992, number of enterprises under the corporations came down to 154. As a result, sector corporations were trimmed in operation and their command over production was substantially reduced.⁸

According to the latest government documents, public sector industries or State Owned Enterprises (SOEs) incur losses of TK. 525.38 crore or nearly US\$ 93.81 million while in 1993/94 it was TK. 327.34 crore taka or US\$ 58.45 million, but it was TK. 876.01 crore or US\$156.43 million in 1992/93⁹. Moreover, in terms of bank loan disbursements, SOEs have received TK. 5691 crore in June 2000 while private sector took TK. 53671 crore (GOB, 2000).

Although disinvestment/privatization strategy has been aimed at reducing losses, in effect, it virtually turned into dictating priority only to those profit-making enterprises. There are definite instances where one can find how discriminatory and motivated policy contributed to make a potential enterprise into a losing

Table 4: Phasing of the Privatization Process

Period of privatization	Number of Enterprises
1 st January 1972- 30 June 1975	120*
1 st July 1975- 30 June 1981	255
1 st July 1981- 30 June 1991	222
1 st July 1991–30 June 1996	13
1 st July 1996 – 30 June 2000	11
Total	621

*These were returned to original Bangalee owner

Source: Ministry of Industries

⁸ In 1988 USAID sponsored study on privatization observed that, “Bangladesh has privatized more public enterprises than any other country, a total of 1076, of which 609 were in the industrial sector.” (Humphrey, 1988, 1)

⁹ US dollar in current market value, June 2001.

Table 5: Production in Public sector (1993-2000)

Corporations	1993-94	2000-01
BCIC		
Urea (lakh MT)	21.85	18.56
TSP (lakh MT)	1.77	1.90
Newsprint (lakh MT)	0.47	0.25
Paper (lakh MT)	0.46	0.40
Cement (lakh MT)	1.21	1.80
BTMC		
Yarn (lakh KG)	170.88	170.08
Cloth (lakh Meter)	141.39	...
BSFIC		
Sugar (lakh MT)	2.22	0.98
Spirit (lakh MT)	31.99	28.00
BJMC		
Hessian ('000'MT)	86.42	71.71
Sacking ('000'MT)	173.75	142.13
CBC ('000'MT)	32.17	31.31
BSEC		
Bus Truck Car	606	1000
Motor Cycle	6108	7000
Diesel Engine	490	—

Source: GOB, 2000, 2001

concern.¹⁰ Command and control over production of the public sector decreased over the period due to (i) shrinking of its size by disinvestment or layoff and (ii) decrease in total factor productivity.

Failure of public sector and its continuous gobbling of public money seem to be the main official reasons (which has also been endorsed by the international agencies including the World Bank and the IMF) for dismantling it. But neither the government nor the international agencies carried out any comprehensive investigation to find out the causes for this failures and the claimants of responsibilities for it¹¹. Very few studies were carried out to assess the conditions

¹⁰ Episode of jute purchases could be a clear case in this regard to understand the conditions of BJMC. See Task Force report, vol-2, 1991. For an extensive study on a process of ruining two big capital intensive industries of the country— 'Bangladesh Machine Tools Factory' and 'The Chittagong Steel Mills', see Islam and Mujtahid, 1999.

¹¹ In a comprehensive study on manufacturing industry in Bangladesh in late 80s it was observed that, "an inference from the estimated decline in TFP and output per worker in Bangladesh is that Bangladesh's industry was more productive in the earlier years than it is in the Eighties." It emphasised on the obsolescence of technology and said, "Bangladesh installed better-practice technology of jute mills in the 1950s than India's. Today, 40 years after that, many of Bangladesh jute mills are still using the same machines, scarcely renovated." (Sahota, 1991)

Table 6: Aggregate Real Net Profit of Six Industrial Corporations in Three Different Periods (at 1984-85 prices, in million taka)

Corporations	Period 1 (1973-74 to 1982-83)	Period 2 1984-85 to 1990-91)	Period 3 (1991-92 to 1997-98)
BSFIC	27.18	-19.76	-102.49
BCIC	-18.07	-76.47	-276.5
BSEC	32.69	-19.94	-70.77
BFIDC	0.72	-2.0	- 6.59
BTMC	-5.73	-29.04	-159.69
BJMC	-71.6	-111.0	-135.24
ALL	-34.8	-258.15	-751.28

Source: S. Raihan: The Performance of the State-owned Industrial Enterprise in Bangladesh, 2000 quoted from Bhattacharya and Titumir, 2001

of post-privatized enterprises and in most cases the findings of those studies are not encouraging. It seems that the causes of continuous losses and the ‘post’ conditions do not have any bearing over the privatization initiatives. In fact, the outcome seems to be irrelevant in the decision making process.¹²

A study was carried out by the Board of Investment (BOI) under the interim government in (March) 1991. The study reported that, “out of the 290 disinvested enterprise surveyed by the BOI, 53% were closed down or out of production and that many of those in operation were doing none too well” (Sobhan, 1991). Sen (1997) observed that in a total of 205 denationalized enterprises since 1979, 112 enterprises continued their operation, 83 became closed or rearing closure and 10 were untraceable.

Growth and Performance: Winners and Losers

It is difficult to compare production and overall performance of manufacturing sector (as well as other sectors of the economy) simply because no comparable data set is easily available. In Table-7 we have compiled production index for different periods with different base-years. With 1973/74 as the base year, we find a modest rise in general index of production from 140.40 in 1985/86 to 165 in 1989/90. In that period, chemical goods placed top in sub-index. In the following

¹² Here we can reminisce the comments of Nicolas Kaldor, who in an article on public and private enterprises (1976) concluded that, “it cannot be demonstrated that private enterprise is superior to public enterprise in the majority of cases and majority of countries, there are reasons for supposing that public enterprise is inferior in terms of efficiency of operation, technical dynamism, etc in countries which are less developed economically and also less mature politically” quoted in (Imam, 1980).

decade the situation showed drastic change. Share of chemical goods in overall performance declined and Textile including Garments showed rapid rise and maintained its dominant position.

Capacity utilization in industry is both a cause and effect of industrial dynamism. In Bangladesh average rate of capacity utilization has never been a high one, although in some subsectors this rate records more than 100 percent while there are industries where rate of capacity utilization shows less than 25%. According to a survey sponsored by the World Bank and the USAID, 32 percent industries have more than 75 percent capacity utilization rate and 28 percent have below 50 percent.¹³

In the 90s the products that have shown negative growth are ones which are from the older industries. Amongst the positive growth ones high growth is seen in cement and MSRod production (see Table-9). This is quite understandable since this is the area (the real estate businesses) where most of the new investment has taken place. According to the revised estimates done by BBS, “approximately 80 percent of total investment is construction related” (World bank and ADB, 1998).

In 1989/90 the number of mills in Jute manufacturing industry was 74, that increased to 77 in early 90s but again shrunk back to 74 by the end of 1999. In the same process looms installed and kept operational reduced to 20687 from 24353 and 16236 from 21827 respectively. Number of permanent workers in these mills was 179000 in 1989/90 that has come down to 124000 in 1999. Cotton textile industry experienced similar trend. Number of cotton mills remained same in the period while working spindles, looms as well as total production of Yarn and Cloth have all declined. (GOB, 2001)

Table 7: Production index in industrial sector

Subject	1985-86 (base:1973 -74=100)	1989-90 (base:1973 -74=100)	1994-95 (base:1981 -82=100)	1998-99 (base: 1988 -89=100)
General Index	140.40	165	262	204
Food, Tobacco and Beverage	113.27	212	153	151.77
Textile (Jute and Cotton)	105.9	109	288	251.48
in this: Garments	-		14564	710.61
Paper and Paper products	155.17	169	325	69.85
Chemical goods	283.84	393	276	135.63

Source: GOB: 1986, 1990, 1996, 2000

¹³The same study found that, “Industrial sickness has probably worsened. Currently, 50 percent of Bangladesh’s formal sector industry is estimated to be ‘sick’, when industrial sickness is defined by less than 30% capacity utilization.”(Sahota, 1991)

Table 8: Capacity utilization in Industry

	0-25%	26%-50%	51%-75%	76%-100%	101%-150%
Number of enterprises	1042	5364	9187	7366	235
%	4.49	23.14	39.61	31.76	1.01

Source: World Bank & USAID, 1996

Table 9: Production trend in the Nineties

Manufacturing goods	Unit	1992/93	1999/00	% of production change (92-00)
Jute goods	'000' MT	446.00	341.86	-23.35
Yarn	Million KG	60.60	57.34	-5.38
Mill cloth	Million Meter	45.10	11.81	-73.81
Paper	'000' MT	89.70	54.98	-38.71
Petroleum products	'000' MT	1320.70	1303.91	-1.27
Fertilizer	'000' MT	2050.60	1904.02	-7.15
Cement	'000' MT	207.50	1474.95	+610.81
Sugar	'000' MT	187.50	123.43	-34.17
Readymade garments	Million dozen	36.00	66.64	+85.11
MS Rod	'000' MT	50.70	137.03	+170.28
Tea	'000' MT	49.00	51.34	+4.77
Beverage	Million dozen bottle	10.00	12.73	+27.30
Soap and detergent	'000' MT	34.00	47.71	+40.32
Leather and leather products	Million sq. meter	12.90	20.87	+61.78

Estimated from BBS, 2001

In Table-10, movements of different industries as measured by their growth rates, garments occupy the top position followed by cement. These sectors have been enjoying more than 10 percent growth. Bidi, leather, bricks show 5 to 10 percent growth rate. Negative growth rates are observed in iron, steel, textile and fertilizer production. It is interesting to find garments alongwith construction related items, i.e., bricks, cement, plumbing equipment, paint varnish, wooden furniture, in high growth domain while old industries, like jute, cotton alongwith iron steel are found in low growth trajectories.

Garments being the new and the most dynamic subsector in manufacturing, is also an export-oriented sector. This has always been remain vulnerable due to its close link with external trade and global market. This subsector had a big push in the 80s but most of the factories till todote were established in the 90s. In 1983/84

Table 10: Distribution of Four-Digit Industries by Weight and Growth Rate (1994/95- 1999/00)

Weight	Annual Compound Rate of Growth				
	>10.0%	5.0- < 10.0%	2.0-<5.0%	0-<2.0%	Negative
>5.0	Garments	—	Cotton Textile Pharmaceuticals	Tea	Jute Textiles Fertilizer
2.0-<5.0	—	Bidi Leather Tanning	Cigarettes	—	Sugar Paper
1.0-<2.0	Cement	Books & Periodicals Leather Footwear	Dyeing & Bleaching	Soap & Detergent Compressed Gas, Flour Milling	Re-rolling Fish & Seafood Silk & Synthesis
0.5-<1.0	—	Bricks	Ceramic Newspaper	—	Batteries Bakery Products Motor Vehicle Spirits Alcohol Petroleum Products Electric Lamp Ship Building Rubber Footwear Cable Wires
0.25-<0.5	Perfumes & Cosmetics	Aluminum Ware Radio & TV	Insecticides	Vegetable Oil PVC products	Electrical Appliance Matches Edible Salt Carpets & Rugs
<0.25	Electric Apparatus, Fabricated Metal Plumbing Equipment Glass Products Textile Machinery Paint & Varnishes	Motor Cycle Wooden Furniture Electrical Ind. Machinery	Electric Machinery Wood Products	Engines & Turbines	Iron & Steel Soft Drink

Source: Zaid Bakht: in Abdullah, 2000

there were 134 factories, that increased more than 5 fold in a decade and by the end of the 90s the number increased 20 times that existed in 1983/84. By the end of 1980s, there were about 3 lakh, mostly teenager and irregular workers working in garments when total numbers of factory workers were 70 lakhs. After a decade, number of garment workers rose to 15 lakhs while total number of manufacturing workers comes down to 41 lakhs. Thus the trend in garments' employment does not conform with overall trends in manufacturing employment. Without garments, manufacturing sector would have shown a dismal picture.

In export trade, until early 80s, Jute and Jute products had not only dominated the scene, it had been a one-sector show. Garments products were then only 3.89 percent of total exports. It strode to 32.45 percent by the end of 80s. In 5 years time it doubled to 65.61 percent and by 1998 it reached to 73.28 percent. In this way, export trade again turned into a one commodity activity and this time it is garments.

Table 11: Readymade Garments (RMG) Sector in Bangladesh

Year	No. of Factories	Employment (in million)	RMG export (Mil USUS\$)	RMG share in total export	Share of Knitwear in RMG export
1983-84	134	n.a.	31.57	3.89	—
1989-90	759	0.335	624.16	32.45	—
1995-96	2353	1.29	2547.13	65.61	23.49
1997-98	2726	1.50	3781.94	73.28	24.79

Source: BGMEA, quoted from Zohir (2000)

State Incentive Package

Since 1976 and onward, a formal shift of priority towards private, export oriented, and foreign investment in manufacturing sector became visible through different new policies (1978, 1982, 1986, and 1991) and incentive packages¹⁴. These include: different forms of subsidy, infrastructure support, tax exemption, financing support, repatriation facility etc. Government started establishing export-processing zone (EPZ) with the same objectives of encouraging foreign and export-oriented firms. Explicit incentive packages for export oriented industries and foreign investment alongwith incentives for foreign investors in share market prevail till today are reproduced below.

A. Incentives for Export oriented industries since 1978

- duty free import of capital machinery by 100% export oriented industries outside the EPZs.
- creation of an export promotion fund (EPF) for product development and market promotion of new items.
- exemption from payment of 50% of income tax on income derived from export.

¹⁴In 1999 industrial policy the incentive package expanded even further. See (Planning Commission, 2000)

- exemption from payment of import license fees by exporters who import raw materials exclusively for export production.
- exporters allowed to retain up to 10% of earnings for general business purposes, rising to 15-20% soon.

B. Incentives for foreign investment

- no ceiling on foreign equity participation (i.e. up to 100% foreign investment will be allowed).
- repatriation of invested capital, profit, and dividends allowed; reinvestment of repatriable dividends will be treated as new investment.
- foreign investors can obtain working capital from local banks.
- no obligation to sell shares through public issue irrespective of the amount of paid up capital.
- tax-exemption on royalties, technical knowhow and technical assistance fees.
- tax exemption on the interest on foreign loans and on capital gains from the transfer of shares.
- avoidance of double-tax agreements with a number of countries.
- no discrimination in duties and taxes/holidays for similar industries in public and private sectors and also within private sectors between local and foreign investments.

C. Incentives for foreign investors in share market

- foreigners and non-residents may invest in shares and securities both in primary and secondary markets.
- investment in unlisted securities is also allowed. such transactions need not go through a registered broker.
- there is no ceiling on investments. foreigners can own up to 100% of a company.
- capital along with gains can be repatriated without any time restriction through normal banking channels.
- capital gains tax has been abolished both for local and foreign investors.
- dividend is also repatriable. tax deduction at source on dividend income at par with locals, i.e., 10% for individuals and 15% for companies.

- there is no tax deduction on dividend income upto tk. 30,000 at the individual investors level.
- Bangladesh taka is fully convertible on the current account.
- exemption from stamp duty on transfer of shares of a listed public company.
- investment tax credit for investment in shares and debentures of a listed public company upto tk. 100,000 or 20% of the total income whichever is the less.

A study was conducted in the late 80s to examine the impact of new industrial policy of 1982, which went in line with the Structural Adjustment Policy of the World Bank and the IMF¹⁵. The study found that, (i) total factor productivity has declined in Bangladesh manufacturing in the 80s and (ii) there is little evidence for any impact of the policy of 1982 on the sector. (Sahota et al, 1991).

Foreign Investment: Nature and Direction

Governments of Bangladesh have been relentlessly working in attracting foreign investment. It has provided many facilities and incentives to accommodate foreign investors. In foreign investment scenario, Bangladesh has passed different phases that deserves attention.¹⁶ Till 1993 new foreign investment in Bangladesh had been insignificant. If we decompose the FDI till that period it is easy to find that more than 80% of that FDI has, in fact, been reinvested earning (Table-12); i.e., these investment did not add to the net inflow. Moreover, between 1977 and 1990 on the average 69.11 percent of foreign investment was in trade, while only 23.76 per cent was in industry (Reza, 1995).

In 1993/94 FDI got an impetus where, US\$407.46 million or more than 300 percent as compared to the earlier years was invested. It happened due to investment in Karnafuli Fertilizer Company (KAFCO), which alone claims about

¹⁵ For discussion on policy intervention by the World Bank and IMF in Bangladesh development from 1972 and specially for lengthy discussion on Structural Adjustment Policy in Bangladesh and its impact see Muhammad et al, 1996.

¹⁶ Like other areas, the available data of foreign investment also have problems. Board of Investment provides data on registration which does not anyway reflect real investment. As the World Bank observed, "Foreign private capital flows into Bangladesh have taken three forms: foreign direct investment (FDI), portfolio investment, and foreign currency loans (supplier's credit or loan). The balance of payments accounts of Bangladesh have failed to give a complete picture of the flows involved. This is largely due to difficulties involved in accounting for transactions that do not require any government approval. Thus liberalization of the investment regime, while making foreign investment procedures simpler has also made it difficult for Bangladesh Bank to mobilize information on capital flows." (WB, 99, p.16)

Table 12: FDI by Categories (%)

Categories	1977-82	1983	1984	1985	1986	1987	1988	1989
Cash Capital	26.67	29.5	13.41	35.42	57.7	32.4	9.5	10.8
Capital equipment	4.21	35.57	28.67	1.48	0.02	0.2		2
Reinvested earning	69.13	34.93	84.74	63.1	42.28	67.4	90.5	87.2

Source: Bangladesh bank and Reza 1985

US\$320 million in that year (CPD, 1995). Despite various supports from the government and highly subsidized supply of natural gas being the main raw material of the factory, this enterprise continued to be a burdensome liability of Bangladesh. In 1996, portfolio investment did take place that was very short-lived, and for local investors it spelled a disaster in the country, which caused a 'slaughtering of the million'. In 1996/97 the inflow of portfolio investment was US\$16 million, while outflow was US\$148 million. Total net inflow was negative, -US\$62.12 million in that year. Investment in EPZ has been steady but slow and modest. From the Table-13 below, we can see that total number of enterprises has reached to 154 in 2000 while total documented investment reached to US\$452.61 million that has provided employment of 102 thousand workers.

Since 1997, FDI took a new turn. Renewed interests of Multinational Corporations (MNCs) in gas, electricity, hybrid, telecommunication became visible, and new contracts were being signed in gas, telecommunication and electricity sectors. According to the World Bank estimates, since 1996 the annual averages of the highest capital inflows of FDI took place in gas sector (US\$134

Table 13: Number of Enterprises, Investment and Employment in EPZs

Commodities	Number of Enterprises	Total Investment (Million US Dollar)	Employment
Readymade Garments	38	115.05	52740
Electronics	10	24.03	1833
Textile	19	110.67	9098
Metals	8	13.12	540
Leather and shoes	14	44.19	6135
Plastic goods	7	9.69	891
Others	58	135.86	31151
Total (upto January, 2000)	154	452.61	102388

Source: GOB, 2001

million) followed by power sector (US\$113 million) in 5 years time. FDI in EPZ, however, has remained comparatively much lower (US\$58 million). Although telecom shows small figure (US\$17 million), FDI inflow in that item alone has shown substantial increase in the later years (WB, 1999).

These new investments clearly have significant impact on Bangladesh economy as well as its polity. It was correctly observed that, the nature of FDI “has implied little augmentation of foreign exchange reserves”. Because, “the bulk of FDI in the power sector so far is made up of imports (e.g. pre-fabricated barge mounted power plants); so are capital costs (about 85% of PSCs) of IOCs engaged in the gas sector, and much of the foreign investment and lending in the telecom sector finance imports of telecommunications equipment.” (WB, 1999)

According to the World Bank’s projection, “FDI, together with private sector borrowing in foreign currency, which has risen to an estimated US\$75 million in FY98, could give rise to a future stream of payments in foreign exchange nearly US\$600 million a year between FY01 and FY05, and over a billion dollars a year for the next five years.” (WB, 1999)

World Bank categorically stated that, “the import intensity of FDI inflows and subsequent profit repatriation and interest payments imply a worsening current account deficit associated with FDI.” According to their estimates when FDI inflow was US\$ 914 million in 1998-99, US\$ 788 million of it was spent in FDI financed imports, and in 1999-00 FDI financed import went beyond FDI inflows. In order to understand World Bank’s unusual identification of adverse effects of specific FDI in Bangladesh one has to go further to read their suggestion: “there is no discernible accumulation of foreign exchange reserves in the absence of gas exports” (WB, 1999).

Considering gas demand and supply scenarios in the country and also its present and future potential and its links with all major sectors of the economy, one could wonder whether FDI in gas sector is going to provide service or disservice to the economy. It is noteworthy that while in one case of FDI (KAFCO) Bangladesh has been supplying gas to the company at below the market price and in another case of FDI (gas contracts) it is purchasing its own gas from the MNCs at much higher price than the prevailing market price in foreign exchange. Both of these affecting the fiscal position of the country, and aboveall gas contracts directly threatening the foreign exchange reserves. This is in contrary to the dominant belief that FDI *per se* helps to increase foreign reserves of a country.

Thus the logical sequence of problems created by gas contracts can be summarized as follows: 1. increase of user price of gas to fill the budget deficit and 2. export of gas to compensate the shortage of foreign exchange reserve. The estimates above clearly show the compulsion in this direction. That is what the World Bank suggested as a rescue measure, but the institution did not anyway oppose or did not utter any cautionary words on the contracts or the nature of FDI that is going to be the cause of disaster in fiscal and BOP management of Bangladesh. In fact, if we estimate net value added from gas resources in Bangladesh and if it were used in expansion of industrial base, then the effect of present FDI will appear as anti-industrialization endeavour.

The amount of FDI described in World Bank document (WB, 1999) is generally assumed as real figure. Even Finance Minister of Bangladesh quotes WB data to speak on FDI in Bangladesh in his budget speech (GOB, 2001b). The Table-14 reproduced below shows much lower inflow of FDI including portfolio and investment in EPZ; the estimates presented here “clearly contradict the periodic claims made by the Board of Investment (BOI) about billions of dollars FDI being invested in Bangladesh during the recent times.”(CPD, 2001).

Table 14: Real Foreign Investment (in USUS\$ million)

Year	FDI		Portfolio Investment			EPZ (net inflow)	Total net inflow	
	Inflow	Outflow	Net Inflow	Inflow	Outflow Net Inflow			
1996/97	17	1	16	16	148	-132	53.88	-62.12
1997/98	273	24	249	14	11	3	68.82	320.82
1998/99	200	2	198	3	9	-6	70.61	262.61
1999/00	194.4	0.8	193.6	10.7	10.6	0.1	34.98	228.68

Source: CPD, 2001

Employment and Wages

In 1986, BBS conducted the first ever census of non-farm activities. It has provided three broad types of economic units: (a) permanent establishment (b) temporary establishments and (c) household premise based establishments. According to its final report, it recorded 531 thousand manufacturing units of which 365 thousand (68.7%) were household premise based, 1653 thousand (31.2%) had permanent establishment and the rest 0.5 thousand (0.1%) were temporary establishments. Total number of employment generated was 3.09 million where 56% was in the permanent establishments (Bakht, Bhattacharya,

91). The census also showed that in “1982/83 and 1983/84, despite increase in firm coverage the reported size of employment decreased” (ibid). Overall stagnation and declining trend in some manufacturing sub-sectors can also be traced in another data set. Labour force survey conducted periodically by Bangladesh Bureau of Statistics (BBS) provides extensive data set on employment scenario. In the Table-15 we have data from three surveys conducted between 1989 and 1995/96. According to these data set, labour force participation increased from 50.1 million to 54.6 million. Similar trend can be found in Agriculture, Forestry and Fishery combined and Construction, Trade, Hotel and Restaurants, Transport etc. Amongst the sectors where employment has decreased, manufacturing shows the highest rate of decline. Here employment decreased by nearly 50 percent. In 1989, employment in manufacturing was 7 million, it came down to 5.9 million in 1990/91, and by 1995/96 it further decreased to 4.1 million.

Table 15: Employment in different sectors

Features	(million)		
	LFS, 1989	LFS, 1990-91	LFS, 1995-96
Total	50.1	50.2	54.6
Agri, fores, Fishery	32.6	33.3	34.5
Mining	0.1	0	0.0
Manufacturing	7	5.9	4.1
Construction	0.6	0.5	1.0
Trade, Hotel, Restu	4.1	4.3	6.1
Transport, storage	1.3	1.6	2.3
Business, service	0.2	0.3	0.2
Community	1.8	1.9	5.1
Household, NAD	2.4	2.3	1.2

BBS, 1995. 1996.

Child Labour constitutes a significant part of low wage working force in Bangladesh. According to an estimate, “more than 6 million children between the ages of 5 and 14 are listed as economically active.... 20 percent of all children in this age group and 12 per cent of the labor force. Nearly two thirds of economically active children are unpaid helpers on family farms.” (WB, 96).

In Bangladesh trade union (TU) activities in manufacturing sector has been practically marginalised over the last two decades. Other than public sector enterprises very few enterprises have trade unions or any other form of bargaining agents. Public sector basic unions are usually linked with ruling government parties. According to an estimate, only 7 percent enterprises have trade unions

(WB-USAID, 1996). The enterprises with highest growth, Garments have almost no trade unions. Factories in EPZ also do not have TUs, neither do a large number of medium and small factories in the country.

The Tables 16 & 17 explicitly show that unit labour cost is the lowest in Bangladesh compared to India, Pakistan, Srilanka and Vietnam. In different sectors this is more or less true. It is important to note that, the wage rate per annum as shown in the tables below produced by the World Bank does not always reflect average wage. The Table-17 shows that, if we convert into taka, textile worker gets 3762.91 tk, Engineering worker 6283.75 tk and, Chemical worker 3744.58 and 7713.75 which might be the case for the highest paid worker.

In Bangladesh Minimum Wage is effective only for public sector industries. In other factories very low wage payments and job insecurity prevail in the absence of proper institutional support and also because of weak organizational strength of

Table 16: Unit Labour Costs and productivity (For T-shirts)

Country	Unit Labour Cost (US\$/shirt)	Wages (US\$/year)	Productivity (Shirt/Worker)
Bangladesh	0.11	290	2536
India	0.26	668	2592
Pakistan	0.43	1343	3100
Sri Lanka	0.79	570	719
Vietnam	0.20		
World Bank (1996)			

Table 17: Public sector wages

Country	Textile		Engineering		Chemicals (including fertilizer)	
	Wage (US\$/year)	VA/Worker (US\$/year)	Wage (US\$/year)	VA/Worker (US\$/year)	Wage (US\$/year)	VA/Worker (US\$/year)
Bangladesh	821	505	1371	817	1683	5959
India	1346	736	2412	5560	2879	12231
Pakistan	n.a.	n.a.	2525	3355	4165	17603
Srilanka	n.a.	n.a.	1035	n.a.	2503	n.a.

Source: WB, 1996

the workers.¹⁷ Even after this there is strong lobbying led by the World Bank against one of the world's lowest minimum wage.¹⁸

In different documents on employment and wage provided by different agencies and also the government, it is usually shown that the real wages are increasing but from the Table-18 above we can see that if we take minimum wage as a measuring stock, real wage is sharply declining.

Table 18: Minimum wage in different period (1973-2000)

Year	Recommended Wage in current price	Implemented wage in current price	Consumers' (workers') cost of living index (1969-70 = 100)	Real wage
1969-70		125	100	100
1973	150	155	168	73.80
1977	270	270	419	51.55
1985	630	560	941	47.60
1992	1500	950	1449	52.45
2000 (continued)	—	950	1973	38.52

Source: Wage Commission Report, 1992, GOB, 2001.

Conclusion

Manufacturing endeavours in Bangladesh have passed through notable changes or unchanges during the three decades after independence:

Firstly, during the last three decades GDP share of manufacturing fails to show any significant change. In fact relative contribution of manufacturing to GDP remains almost unchanged. The only perceptible change in sectoral share took place in case of overall service sector.

Secondly, a number of factories have been closed down in this period. A part of which belonged to the public sector and another part became sick due to problems related to infrastructure, financing, unequal competition and government's discriminatory policy.

¹⁷The study findings of HIID a decade ago is still relevant when it says that, "The stagnation of labor productivity and that of real wages are largely due to serious lack of technological and managerial improvements in industry" It also says that "The wage of Bangladesh worker has stayed put for years. To that extent, the frustration of workers is understandable." (Sahota, 91) But practically real wage has been declining over the years. See for discussion on Trade Union, Wages and Labour Productivity in the Manufacturing Sector, Mondal (1992)

¹⁸To see how data are being manipulated, twisted and deliberate arguments and convenient and partial information is used to oppose even minimum wage of 950 taka one can go through World Bank's document (1996)

Thirdly, a number of factories were established in this period most of which were export oriented including garments. This could happen because of necessary government policies and steps supported by international agencies in favour of export oriented industries.

Fourthly, in the early years of the 70s, State Owned Enterprises (SOEs) were predominant, now that place is taken over by the private sector.

Fifthly, till 70s the big industries played the major role and subsequently that role is deliberately downplayed. (The closure of Adamjee Jute Mills, the largest Jute Mills in the world is the latest incident in the row.)

Sixthly, those industries producing for the home market were the mainstay of the sector until mid 80s. Export oriented industries gradually replaced them and have captured the central place. Growth of industrial sector now largely depends on growth of export oriented sector which is highly subsidized in different forms.

Seventhly, due to closure of many large, medium and small scale factories the number of unemployed workers increased, on the one hand, and a new group of people joined the sector due to new demand from garments and EPZ factories on the other. But the total job loss could not have been compensated by the new job creation. As a result, the size of manufacturing work force shrunk.

Eighthly, gender composition of the working class has also been changed. In the early 70s male workers composed the vast majority of the manufacturing working class. At present, however, women workers have become significant part of that class, not only in formal industrial sectors but also in informal sectors.

Ninthly, foreign investment has never been manufacturing friendly in Bangladesh; today with relatively big investment in gas sector it appears more anti-productive.

Investment in manufacturing could not pick up gear because of various internal and external causes. But the key to all constraints can be explained by the relative weaker position of entrepreneurial class compared to rent seeking bureaucrats, politicians and bank defaulter lumpens. It is also consistent with the overwhelming dominance of international agencies representing international finance capital.

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