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Four Decades of Industrial Policies in Bangladesh: A Critical Analysis

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ABSTRACT

In a developing country (DC), like Bangladesh industrialization is an essential pre-requisite for rapid and sustainable socio-economic development. While the pace of industrialization in DCs depends on factors like resource endowments, country size, geographical location, social background, and international environment, industrial policy plays a crucial role in influencing industrial growth in any country. Rapid industrialization leads to structural transformation, diversification of the economy, technological advancement, and economic growth, growth of employments and productivity, and standard of living of the countrymen. These are the universally recognized determinants of industrialization, which are generally being considered in industrial policies. Bangladesh, an agriculturally dominated developing economy needs to have a coherent policy focusing on a balanced development of agriculture and industry for national economic development. Before independence in Bangladesh (the than East Pakistan) there was basically no policy base for economic development. There was only Karachi centered "Heavy Industrialization" policy. Generally, the overall objective of industrial policy is to provide a strategy and an institutional framework to help achieving the goal of economic development through appropriate industrialization to ensure sustainable employment opportunities and standard of living of the mass people. Keeping these in mind governments formulate industrial policies. Since independence, Bangladesh has received a number of policies regarding industrial development. Bangladesh has got its first industrial policy after liberation in the year 1973. The latest one was adopted in the year 2010. This paper critically analyzes the industrial policies of Bangladesh to investigate the policy performances and its underlying factors. A list of research articles both published and unpublished on the topic, various reports of government ministries and agencies, and relevant various web sources were analyzed decisively for the purpose. The analysis hopes to offer some thoughtful inputs to the relevant stakeholders specially policy makers, government agencies, and the others concerned for the further development of a coherent industrial policy in Bangladesh.

Industrial policy is a government-sponsored economic program in which the public and private sectors coordinate their efforts to develop new technologies and industries. Industrial policy emphasizes cooperation between

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government, banks, private enterprise, and employees to strengthen the national economy. Such Policies play an even greater role in an economically under-developed country like Bangladesh where the over-riding objective is the alleviation of poverty, which can be achieved by rapid economic growth and creation of productive employment. Developing countries are deficient in resources, have limited access to modern technologies, have rampant unemployment and under-employment, and thus suffer from horrible poverty. Industrial policy can be of great significance to these countries as means of achieving faster economic growth, creation of productive employment and alleviation of poverty (Rodrik 2004). Bangladesh emerged from the war of independence as a free nation in 1971 with a shattered economy and infrastructure. Since independence all the successive governments have been trying to develop the broken economy by formulating coherent industrial policies. They announced policies and strategies for accelerating the process of economic growth through the development of the industrial sector, but, unfortunately the desired structural change in the economy has not yet been met. This paper critically analyzes all the industrial policies of Bangladesh to investigate the policy performances and its underlying factors.

Industrial Policy Defined

The term 'industrial policy' is very comprehensive and often misleading as it covers a wide range of options and instruments falling under the domain of trade, fiscal, monetary and exchange rate policies. It may include direct regulatory policies like investment sanctioning, import licensing and exchange controls, and allocation of areas of activities for private and public investment; and indirect economic policies and instruments such as tariffs and quantitative restrictions, investment incentives, policy on foreign investment, provision of industrial finance and incentives for promoting export activity (Bayes *et al* 1996; Bhuyan 2007).

Contents of the Industrial Policy

The contents of the industrial policies are now getting wider and wider. The traditional role of industrial policy is to influence the allocation of resources to industry, i.e., the infrastructure of industry in general, such as the provision of industrial sites, roads, ports, and electric power; to regulate the internal organization of particular industries, such as industrial restructuring, consolidation of firms, and output restrictions; and to influence the growth of small and medium scale enterprises (SMEs). Industrial policies are now also directed at achieving non-economic goals as well, such as achieving regional industrial development restraining the consumption of luxury goods and measures to increase the self-sufficiency of certain goods for national security reasons (Bayes 1996, Haq 2008).

Need for an Effective Industrial Policy

Industrial policy is purported to create a stable climate for industrial growth and improve the long-term performance of the economy in terms of productivity, employment, and international competitiveness It plays a greater role in an economically under-developed country like Bangladesh where the over-riding objective is the alleviation of poverty, which can be achieved by rapid economic growth and creation of productive employment. The advanced industrialized countries, which are rich in resources and have the most modern technologies, are not much concerned with economic growth. Their main concern is to maintain the level of effective demand. Developing countries, on the other hand, are deficient in resources, have limited access to modern technologies, have extensive unemployment and under-employment, and thus suffer from miserable poverty. Industrial policy can be of great significance to these countries as a means of achieving faster economic growth, creation of productive employment and alleviation of poverty. It is here that the importance of industrial development and with that the need for an effective industrial policy comes to the forefront (Haq 2008n and Bayes 1996).

Bangladesh is the ninth most populous country in the world, but in terms of income and standard of living, it is amongst the poorest in the world. Based on the United Nations criteria of per capita income, contribution of manufacturing activity to GDP, and the rate of literacy, Bangladesh is categorized as a "least developed country" (LDC). Per capita income in the country is about $554, and nearly 80% population living on less than $2 a day. The economy is dependent mainly on agriculture, which accounts for 22% of GDP but provides employment to as much as 48.10% of the country's labor force while industrial labor force is only 14.55% (BBS 2008; Nasrullah 2012). Meanwhile, the country's population and labor force are growing rapidly each and every year, and it is impossible that the growing labor force can ever be absorbed in the agricultural sector, unless employment opportunities can be created by rapidly expanding the country's manufacturing sector. Thus, industrialization is generally believed to be the key to economic development for Bangladesh. The pace of industrialization depends on a large number of factors, such as, resource endowment, size, location, social values, and international environment etc., but experience shows that public policy is the main determinant of a country's industrial growth and development. Consequently, a coherent industrial policy is necessary (Bayes *et al.* 1996; James *et al.* 1987).

Evolution and Development of Industrial Policies in the last Four Decades

The evolution of Bangladesh's industrial policy illustrates an interesting interplay of politico-economic and ideological factors. The country inherited its industrial policy framework from Pakistan, which focused on a bureaucratic control of a largely private industrial sector with emphasis on import substitution and near exclusion of foreign investment. Around this control a complex system of licensing, exchange rationing, and quantitative restrictions on imports grew, which affected every aspect of the behavior of private sector industrial firms (Haq 2008; Bhuyan 2010). Since independence in 1971, Bangladesh has presented nine industrial policies. All the policies have been criticized by different experts from various contexts. But no one can deny that these policies were the bases that made the country to be listed among the "Next Eleven (N 11)" economies in the world along with Egypt, Indonesia, Iran, Nigeria, Philippines, South Korea, Turkey, Pakistan and Vietnam (GSB 2007). The following section tries to critically analyze the Industrial policies of last four decades.

Industrial Policies in the 1970s

In this decade the nation has got three industrial policies. The first two policies were announced by the Awami League Government.

Industrial Investment Policy (IIP) 1973

The first industrial investment policy (IIP) in Bangladesh was announced in January 1973. To expedite the investment approval procedure, an investment board was also set up in March 1973. This policy simply sounded a stage rehearsal of the commitments made in the election manifesto of Awami League in 1970. Radical pressures within the party in power to shed the left, the world wide geo-political predicaments, existence of a number of abandoned industrial units left behind by non-bengalee owners are reported to have fuelled the nationalization spree. Foreign private investment was allowed only in collaboration with the public sector and only with minority equity participation. The policy ensured a ten-year moratorium on nationalization and provided fiscal and other incentives to potential investors (GoB IP 1973).

Focus of Nationalization

The overall policy incentives were, however, clearly aimed at fostering and maintaining public enterprise in large and medium scale industry, limiting private sector activity to only small industries. Following nationalization all abandoned medium and large size industrial properties were brought under strict state controls. Small and cottage industries as well as foreign enterprises, however, were allowed to remain outside the purview of government management (Bhattacharya 1992; Bhuyan 2007; and Haq 2008).

Import Substitution (IS) Strategy

The policy, arguably, inserted a major convulsion as far as industrialization in this part of the world was concerned. But, there seemed to be no fundamental departure in terms of policies determining the degree of openness of the economy. An inward looking Import Substitution (IS) strategy was followed. The then industrial incentive packages were geared to favor IS over Export Oriented industries through an avalanche of discriminatory devices, such as, an over-valued exchange rate, higher level of tariff and non-tariff barriers, import musing systems foreign exchange rationing etc. Needless to mention perhaps, that all these policy instruments allegedly went to shelter IS industries and debilitate the export industries (Norby 1990; and Zohir 1995). The rationale behind such strategy can be adduced to the following three principal factors: it was embraced by a host of other countries of the world during the time Bangladesh emerged as an independent state, there was pervasive presence of IS industries in the economy that needed to be highly protected-a legacy of the pre-independence era and the specter of export-pessimism shook many of the then LDC's including Bangladesh.

Performance of the Policy

Though the policy was devised to respond the popular trends of that time, it failed miserably. The major hindrances were among others: (a) lack of a political commitment on the part of the then rulers to pursue with a socialistic framework of industrialization in the right earnest; (b) absence of autonomy for the nationalized sectors; (c) managerial deficiencies arising from the vacuum created by the departure of the non-bengalee owners (and also by to overthrow of bengalee owners); (d) politicization of structure of the nationalized units without much credence having been given on a commercial footing etc.; and (e) rampant corruption from the administrative as well as the labor unions.

Moreover, the public sector performed poorly, private investments from home and abroad tended to flinch. Specially, absence of an incentive structure to promote private investment; unfriendly law and order situation, fuelled by an outdated legal system, apparently detracted interests in new ventures; underdeveloped infrastructure hindered smooth flow of inputs and outputs; and fear of further nationalization continued to haunt potential investors bleak scenario leads to the incorporation of the Industrial Policy of 1974 (Haq 2008).

New Industrial Investment Policy (IIP) 1974

Since 1973, the GOB's policy shifted towards encouraging private sector activity in manufacturing, and reducing the dominant role of the public sector through disinvestment. In July 1974, the 1973 IIP was revised. Identifying the problems in the previous policy a number of steps were taken up by the then government. (Bayes 1996; Bhuyan 2007; GoB IP 1974).

Focus of Private Investment

Government mostly took steps to attract private investors, such as provisions for monetary incentives to allow more corridors to the enhancement of a moratorium for nationaliztion for up to 15 years; provisions for tax holidays for less-developed areas; fiscal and monetary incentives were expanded to stimulate private investment and for purpose of incentives (import duty rebates, tax holiday etc), the country was divided into developed areas, development areas, and priority development areas.

Beginning of Privatization

Private investors, both local and foreign, were allowed to set up enterprises along with public sector corporations except in some basic industries. However, a priority list of industries was also published in October 1974 for liberal tariffs. It was the beginning of private sector investment in Bangladesh. By and large the immediate post-independence industrial policy aimed at a public sector-led industrial development, a gradual opening of spaces for the private sector so that private investment could duly flock in.

Revised Industrial Investment Policy, December 1975

The violent overthrow of the Awami League government culminated very short lived nationalization episode. The subsequent industrial policy shifts to the 'right' marked a radical departure from the immediate past and, possibly, reflected the emerging global scenario of that period. The policy changes apparently evoked a second convulsion in the industrial sector within a short span of four years only (Bhuyan 2007, GoB IP 1975). As the development of industrial sector halted perhaps because of domestic and international stagflation and inadequate foreign exchange allocation; the industrial investment policy was further revised in December 1975.

Important Changes in the Policy

Important policy changes were initiated to improve the investment climate, few of which are: elimination of ceiling on private investment on oil, relaxation of investment sanctioning procedures, amendment of the constitution to allow denationalization, reviving the stock market, shifting from tile fixed rate system of the 1970s to a 'managed' system of floating exchange rate, and introduction of a number of export promotion measures etc. Investment approval and loan disbursement procedures were simplified and 22 sub-sectors of industries out of the total of 193 published in the Industrial Investment Schedule (IIC) were declared free sectors. No formal permission was necessary to set up these industries, provided capital machinery was imported under Wage Earners' Scheme or Non-Reparable Foreign Investment.

Private investment, both local and foreign, was permitted in an additional 10 sectors, thus reducing the reserve sector to a hard-core of 8 categories of industries. In these 10 sectors, preference was given to, joint ventures of public and private firms, though proposals for pure private investment were also to be considered. Investment in all other areas was open for the private sector. In view of the misgiving that was created in the minds of investors by reference in the previous industrial investment policy to the moratorium on nationalization, this provision was deleted from the 1975 policy. It was, however, declared that fair and just compensation would be made in case any industry would ever nationalize in special situations.

Focus on Privatization and Denationalization

The then thrust of policies lay in the development of a private sector-led growth. The period witnessed large scale denationalization of industrial enterprises, and private sector investment began to pick up with liberal credit policies and generous lending by commercial hanks and FDIs. A few steps were also taken to boost up the export sector. It is however, alleged that the reforms ushered since the late 1970 were constrained by limited scope and slow pace (Rahman and Bakht undated 1997).

Further, it is also alleged that privatization at that time took place with much fervour and in great haste. In the name of denationalization and privatization, not only enterprises were sold at knockdown prices, but they, were also sold to those with very little entrepreneurial background. The newly established private interest groups allegedly, enjoyed debt reliefs and new loans with the help of an unproductive and rent-seeking mandarins and elientalist power brokers. In some cases, such transfers of industrial units were driven more by political interests rather than being drawn by economic rationale (Bayes 1990; Rahman 1990). Liberal credit policies were, allegedly, misutilized and, on occasions, misappropriated. It is, of course, true that some of the disinvested unit; had to swallow large legacy costs, such as large and inefficient labour force and wage policy, inappropriate working environment, while having been denied of the advantages that those units reaped at the time of their public ownership.

By and large- the industrial scenario was gripped by adhocism ambivalence and devoid of any vision for industrial development. Despite all the changes towards deregulation and denationalization, the industrial regime remained mostly inward looking supported by a large number of protective devices of earlier periods. The levels of effective assistance as enjoyed by the different industries at the period tend to bear out the fact that Bangladesh had proceeded very little to expose her industries to the outside world (Bayes 1990; and Rahman 1990).

Industrial Policies in the 1980s

In this decade two policies were declared under the military ruler H M Ershad.

New Industrial Policy (NIP) 1982

The most significant policy reform in the field of industry took place in June 1982 with the New Industrial Policy (NIP) 1982 with the aim to stimulate industrial development through the private sector and to that end it made fundamental changes in the industrial policy environment and promotional instruments. The period witnessed the advent of Structural Adjustment Programs (SAP) in Bangladesh, that revamp the economy by removing various price and non-price distortions, thus, allowed resource shifts from non-tradable to tradable sectors. (Bayes 1996; Bhuyan 2007).

The NIP emphasize export oriented growth with necessitated substantial changes in the regime of trade and industrial incentive structure with prominence placed on export diversification and import liberalization; assigns the private sector be pivotal role to play in rapid industrialization of the country; down-sizes the role of tile public sector to a substantial extent by specifying its areas of existence to a limited number of restricted areas; and rationalizes the tariff structure and pursue appropriate fiscal measures.

Major Policy Changes

The major policy changes introduced under the NIP 1982 included: (a) the transfer of a large number of nationalized jute and cotton textile mills to their local owners; and (b) the grouping of industries under three lists, namely, a reserve list of 6 strategic industries for public sector investment, a concurrent list of 13 sectors where both private and public investment would be allowed, all other industries reserved for the private sector.

Project approval authority was decentralized to various agencies. In addition, an Investment Assistance Unit was set up in the Department of Industries to provide “one-stop service” facility regarding processing of projects, acquisition of land, and arrangement for power, gas etc. To promote regional development and to that end for providing preferential fiscal and monetary, incentives, various areas of the country were re-categorized into two areas: 'developed area' and `less developed area' instead of the previously existing three categories. One of the most important liberalization came in the form of "bonded warehouse" which has greatly helped to boost the RMG sector of the country. Imported materials were allowed to be admitted duty free on the condition that they are merely used in exported goods (Bhuyan 2007).

Focus on Large Scale Denationalization and Privatization

Large scale denationalization took place during the NPB era. According to a World Bank Report, Bangladesh carried out one of the largest privatization effort in the world by transferring as many as 57 enterprises belonging to the jute and textile sectors within a year (World Bank 1989; Zohir 1995). To arrest declining share of exports to GDP the government instituted new incentive scheme such as Duty Drawback System, System of Export performance Benefit (EPB) etc. As far as import liberalization was concerned major thrusts were assigned on simplification and rationalization of tariff structure (Bayes et al 1995). For attracting foreign private investment, the Foreign Private Investment Promotion and Protection Act of 1980 were drawn up. The Act permitted foreign private investment either directly or in collaboration with local investors. Besides, liberal terms and incentives were made available to foreign investment in the Chittagong Export Processing Zone (CEPZ) (Haq 2008). As a result Bangladesh received a huge amount of foreign private investment.

Revised Industrial Policy (RIP) 1986

The Revised Industrial Policy of 1986 just followed the earlier moves towards deregulation and privatization with more teeth on the on-going SAP. More export incentive instruments were made available to the exporters, more deregulation proceeded and the number of items on the 'negative' list was progressively reduced to pave ways for further import deregulation. The RIP made further relaxation and changes in which all but strategic industries of the reserve list were open for private investment. Indicative investment opportunities in the form of industrial investment schedule for sectors meant for private investment would be prepared by the Director General of Industries for large and, medium industries, and by the BSCIC for small and cottage industries. In addition, a 'priority list of industries' was prepared for implementation during the next three years. There was also a 'discouraged list of industries' covering 12 sub-sectors to warn potential investors/financial institutions against investment in such sectors for non-viability and overcapacity (Bayes et al 1996; GoB IP 1986; Bhuyan 2007). After the introduction of the RIP in 1986, no approval was required for investment if the investors imported machinery and equipment using their own resources and/or through the Secondary Exchange Market and if imported raw materials constituted less than 50% of the total requirement.

Focus on Balanced Regional Development

In keeping with the government's policy of balanced regional development and dispersal of industries across the country, the country's geographical area was divided into three categories, namely, (i) Developed Areas, where adequate infrastructure exists and sufficient industrialization has taken place; (ii) Less Developed Areas, where infrastructure has been partially developed and some industrialization has taken place; and (iii) Least Developed Areas, where neither infrastructure has been developed nor any industrialization has taken place. Reflecting the government's policy of reducing the role of the public sector in the economy and promoting private sector-led growth, the public sector corporations were intended to be converted into public limited companies in order to make up to 49% of their shares available for public subscriptions. They were also given operational autonomy in pricing, procurement etc.

Under the RIP, a large number of fiscal and other incentives were introduced or expanded in order to promote rapid industrial development of the country. The promotion of foreign private investment and export-oriented industries was given a greater emphasis and a one-stop investment service agency, Board of Investment (BOI), was setup, which commenced operations on 1 January 1989 (Haq 2008.

Industrial Policies in the 1990s

In this decade two policies were declared by the two democratically elected governments: Khaleda government in 1991 and Hasina government in 1999.

Industrial Policy 1991

The industrial policy 1991 could be marked as another 'watershed' in the history of Bangladesh's industrial process. In terms of philosophical underpinning, it appeared to be of little difference with its forerunner but in terms of depth and width some discernible differences could be noticed. The whole industrial policy was premised on the philosophy of a market-based competitive economy. A number of relatively more positive and biting policy initiatives were undertaken to pull foreign and domestic investors. The government would, however, frame rules from time to time for certain industries to protect the environment, public health and national interest, and such industries would be subjected to these rules. These industries would be treated as 'regulated industries' also envisaged a number of measures to improve the operational efficiency and economic viability of the public sector enterprises (Bhuyan 2007; GoB IP 1991).

Private Sector Investment Policy was Simplified

For private sector investment, the sanctioning procedure was further simplified. No approval was necessary to set up industries. Investment incentives, in particular for export-oriented and export-linkage industries, were expanded, simplified and made available to both local and foreign investors, without any discrimination between them. Further protection of foreign investment from nationalization, repatriation of' proceeds from sale of shares, profits and dividends, tax exemption on royalties, interest on foreign loans and capital gains from the transfer of shares etc. were assured. To assist in the establishment of export-oriented industries, more export processing zones were established.

Impact of the Policy Changes

The most perceptible changes that the policy seems to have injected are in the arena of foreign exchange and trade regimes. The changes were, apparently, consistent with a free market, neo-classical paradigm and within its fold, with an outward looking, export-led growth strategy. There was expeditious move towards liberalizing the foreign trade sector through rationalization of the tariff structure and reduction of tariff and non-tariff barriers. The early 1990s experienced the most proactive phase of trade liberalization (Haq 2008). In addition to a severe cut in non-tariff barriers, quantitative tariff barriers were also demolished.

Industrial Policy 1999

The inadequacies of the past industrial policies led to the emergence of Industrial Policy 1999 that sought to give the private sector a dominant role in accelerating the pace of industrial development. It was the first ever policy that had a true vision of industrial development, and the objectives outlined in the policy statement had a clear sense of direction.

Its major objectives were to (GoB IP 1999): (a) attract FDI in both export- and domestic market-oriented industries; (b) give the industrial sector a dominant export orientation; (c) encourage the competitive strength of import substituting industries for catering to a growing domestic market; (d) encourage a balanced industrial development and regional dispersal of industries throughout the country by introducing suitable measures and incentives; (e) develop indigenous technology and to expand production based on domestic raw materials; and (f) rehabilitate deserving sick industries.

Defining Industries

For the first time 1999 industrial policy, clearly defines large, medium, small, and cottage industries. "Large Industry" was defined by IP 1999 to include all industrial enterprises employing 100 or more workers and/or having a fixed capital investment of more than BDT 300 million. Enterprise employing between 50 and 100 workers and/or with a fixed capital investment between BDT 100 million and BDT 300 million was defined as "medium industry". "Small industry" would mean enterprises employing fewer than 50 workers excluding cottage units and/or with a fixed capital investment less than BDT 100 million. "Cottage industry" would cover household-based units operated mainly with family labour. (GoB IP 1999).

The policy also identified some service oriented activities that were declared as 'industries', such as, entertainment, hospitals and clinics, information technology-based industries, construction, and hotels. For the purpose of targeting special incentives and supportive measures, certain industrial activities were declared as "thrust sectors", such as (i) agro-based industries, (ii) artificial flower-making, (iii) computer software and ICT, (iv) electronics, (v) frozen food, (vi) floriculture, (vii) gift items, (viii) infrastructure, (ix) jute goods, (x) jewellery and diamond cutting and polishing, (xi) leather, xii) oil and gas, xiii) sericulture and silk industry, (xiv) stuffed toys, (xv) textiles, and (xvi) tourism (GoB IP 1999). Tax holiday facilities were made available for 5 or 7 years depending upon location of industrial enterprises in 'Developed' or 'Underdeveloped' areas. Confessional duties on imported capital machinery were also to be available on the basis of such area demarcation (Haq 2008).

The disposal of small and medium enterprises (SME) also constituted an important element of the 1999 industrial policy. Another concern of the policy was to ensure a process of industrialization which was environmentally sound and consistent with the country's resource endowments. The 1999 industrial policy aimed at addressing these concerns and attaining its stated objectives, building on earlier errors and gains achieved in the industrialization process (Bhuyan 2008).

Industrial Policies in the New Millennium

In the new millennium two industrial policies were declared.

Industrial Policy 2005

The eight industrial policy was announced in March 2005. The major objectives and strategies of IP 2005 are more or less similar to those of the 1999 policy, for example, it reiterates the dominant role of the private sector in industrial development in which the government will act only as a facilitator, and gives emphasis on the privatization of state-owned enterprises, export orientation of the industrial sector, raising competitiveness of industries in both domestic and international markets, and promoting industrial development by effectively utilizing the country's domestic resources.

Focus on SMEs and Women Entrepreneurs

The industrial policy 2005 incorporates certain new provisions. It has proposed for the establishment of cottage industries and SMEs in different regions of the country by giving special incentives and support measures for establishing a specialized women's bank to assist women entrepreneurs for promoting agro-based and food processing industries for establishing special economic zones in different parts of the country, and for giving emphasis on the need for carrying out pre-investment feasibility studies by the lending institutions prior to lending to industrial projects.

Focus on the Thrust Sectors

The IP 2005 has also expanded the list of the thrust sectors. The policy designates readymade garments as a thrust sector industry, which henceforth was open for foreign investment as well. Foreign investors will get special incentives if they invest in the designated thrust sectors particularly in small and medium industries. The coverage of the service sector activities, recognized as industries has also been widened. The policy has also changed the definition of the different sizes of the industry. It divides industrial enterprises into manufacturing and non-manufacturing industries. The size of manufacturing industries is defined in terms of the size of capital investment, while in the case of non-manufacturing industries; the size is measured in terms of the employment of workers.

While the IP 2005 has several elements of a good policy, the rationale behind the decision to enlarge the coverage of thrust sector industries and give new definitions to different sizes of industries was not very clear. Although a large number of industries are included in the thrust sectors, some of the important ones with high potentials, for example electrical industries, plastic products etc. are excluded. At the same time the list includes a number of industries, which do not produce standardized products, require fairly small amounts of capital, and have very small markets for their products. Inclusion of these industries may in fact detract attention from the relatively more important industries that genuinely need significant fiscal, financial and infrastructural support. Moreover, incentives for the thrust sector industries have been made conditional to their performance and contribution to the economy. This created confusion among new entrepreneurs.

Redefining Industry

The size of 'industry' has been redefined without explaining its rationale. (GoB IP 2005, Haq 2008; Bhuyan 2007). Manufacturing Industries are defined in terms of' only fixed capital (excluding land and buildings), whereas non-manufacturing industries are defined in terms of the employment of labor. Adequate information about the true size of industrial enterprises is necessary for purpose of ascertaining the presence of anti-competitive or monopoly practices in the economy. Both capital and employment of labor should be considered to measure the size of a firm, as is done in almost all industrialized countries as well as in many advanced developing Countries.

Industrial Policy 2010

The industrial policy 2010 envisages an increase in the industry sector's share in GDP to 40% by 2021 from the present 28%, and seeks to raise the proportion of the workforce employed in industry to 25% of the country's total labor force by 2021 from 16% now. A special feature of the industrial policy 2010 is that it retains all the good provisions of the 2005 policy. For example, it recognizes the dominant role of the private sector in industrial development in which the government will act only as a facilitator; it lays emphasis on both export orientated and import substituting industries and raising their competitiveness in both domestic and international markets, and it proposes to give special incentives and support measures to assist women entrepreneurs, and for promoting agro-based and food-processing industries. The other special features of IP 2005 are as follows (GoB IP 2010):

Providing Infrastructural Facilities

The policy gives priority to providing the industrial sector with adequate facilities of electricity, gas and water, and other physical infrastructure like road, rail transport and telecommunications. Agro-based, food processing, and labor-intensive industries will receive priorities in matters of getting fiscal and other incentives. Steps will be taken to raise investment in the tourism industry and raise its efficiency.

Emphasis on SMEs

The policy puts emphasis on the development of small, medium and cottage industries, including giving encouragements to women entrepreneurs, to boost economic growth through creating more jobs. It encourages the growth of SMEs in rural areas to reduce the pressure of migration to urban areas.

Promoting Balanced Development

The establishment and balanced development of industries in different geographical regions of the country is a core objective of the policy. To that end, it recommends for establishing Economic Zones, Industrial Parks, High-Tech Parks, and Private EPZs for rapid and balanced industrial development of the country. In particular, it proposes to set up separate economic zones for sectors such as textiles, ceramics and pharmaceutical ingredients. A special law will be enacted for these purposes.

Encouraging Private Sector

The policy relies on the premise that a vibrant and dynamic private sector is the key to the country's rapid industrial growth. The growth and expansion of the private sector are therefore the main objective of the policy. Public investment shall be limited only to sectors considered crucial on grounds of national security and in areas that might have a crowding-in effect on private sector investment.

Privatization of Public Sector Enterprises

The new policy encourages the privatization of public sector enterprises (PSEs) but in the event the government considers it necessary to retain certain PSEs in the public sector, these enterprises will be encouraged as complementary and competitive to private sector industries. The Policy, however, imposes a condition that, while privatizing PSEs, alternative employment of workers that are likely to become redundant after privatization should be ensured.

Promoting Public Private Partnership (PPP)

Public private partnership (PPP) is an important element in the policy. Under the policy, PPP projects like flyovers, elevated expressways, monorail, underground rail, economic zones etc will be approved under the Private Sector Infrastructure Guidelines. Funds will be arranged under PPP initiatives for developing infrastructure for industrial clusters, industrial parks, the development of labor-intensive industries, and setting up environment-friendly industries.

Protection to Local Industries

The policy will provide necessary protection to local industries from unfair competition from dumped or smuggled imports. It will formulate appropriate measures to tackle problems of sick industries and devise an exit policy for industries that have long remained sick. It will adopt appropriate measures to rehabilitate sick industries, on a case to case basis, but at the same time formulate a law to rid the nation of sick industries.

Initiatives for Sick industries

Sick industries, if found potentially viable, may be converted into public limited companies to make them efficient, competitive, and profitable. Government shall not undertake any new projects to replace sick industries without settling their liabilities. The new policy is, however, in favor of adopting appropriate reforms in the jute sector, diversifying the uses of jute, and taking measures to make jute industries profitable. It will also seek to improve the management of public sector cotton textile mills to make them efficient and profitable.

Promoting Environment Friendly Industrial Development

The new policy seeks to make the industrial sector environment-friendly and encourage industrial enterprises to adopt pollution control measures. To that end, Government will ensure that the industrialization process is environment-friendly and conforms to specific WTO agreements and standards.

Re-defining and Re-categorizing Industries

The policy has also brought an improvement over the 2005 policy by changing the classification of industry and giving a new definition of industry size. The 2010 policy classifies industry into five categories – large, medium, small, micro, and high-tech industries.

The 2010 policy has also changed the size definition of manufacturing and non-manufacturing industries. The 2005 policy defined the size of manufacturing industries in terms of the amount of fixed capital investment, and the size of non-manufacturing industries in terms of the employment of workers. The policy has also recognized micro and high-tech industries as separate categories of industry.

Industrial Policies of Bangladesh: At a Glance

A look at the above discussed industrial policies reveals certain special features that are shown in the following table at a glance.

Table 1
Industrial Policies of Bangladesh: At a Glance

Sl No	*Name of the Policy*	*Year of Formulation*	*Major Focus of the Policy*
01	Industrial Investment Policy	1973	Nationalization of all medium and large scale industries; Inward looking import substitution strategy was followed.
02	New Industrial Investment Policy	1974	Encouraging private sector activity in manufacturing; The dominant role of the public sector; and Promotion of import substitution industries.
03	Revised Investment Policy	1975	Focus on a private sector-led growth; Large scale denationalization of industrial enterprises; Private sector investment began to pick up with liberal credit policies; Generous lending by commercial hanks and FDIs; and Boosting up export sector.
04	New Industrial Policy (NIP)	1982	Stimulate industrial development through the private sector; Made fundamental changes in the industrial policy environment and promotional instruments; and Large scale denationalization followed.
05	Revised Industrial Policy (RIP)	1986	Promoted private sector led growth; More export incentive instruments were made available to the exporters, more deregulation proceeded; and For a balanced regional development the country was divided into three categories: developed, less developed and least developed areas.
06	Industrial Policy	1991	The whole industrial policy was premised on the philosophy of a market-based competitive economy; Private sector investment procedure was simplified; and Consistent with a free market paradigm and with an outward looking export oriented growth strategy was followed.
07	Industrial Policy	1999	The policy had a true vision of industrial development; Focused to attract FDI in both export- and domestic market-oriented industries; Focused to give the industrial sector a dominant export orientation; Focused to develop indigenous technology and to expand production based on domestic raw materials, and Focused to rehabilitate deserving sick industries.
08	Industrial Policy (IP 2005)	2005	Reiterates the dominant role of the private sector in industrial development where government will act only as a facilitator;

contd. table

Sl No	*Name of the Policy*	*Year of Formulation*	*Major Focus of the Policy*
			Gives emphasis on the privatization of state-owned enterprises, export orientation of the industrial sector; raising competitiveness of industries in both domestic and international markets; and Promotes industrial development by effectively utilizing the country's domestic resources.
09	Industrial Policy 2010	2011	Recognizes all the good features of IP 2005; Proposed to give special incentives and support measures to assist women entrepreneurs; Proposed to promote agro-based and food-processing industries; Emphasizes on the development of SMEs; Encourages private public partnership; and Encourages environment friendly industrial development.

Source: Industrial Policies of Bangladesh

Performances of the Industrial Policies of Bangladesh

A look at the successive industrial policies starting from the NIP 1982 to the Industrial Policy of 1999 reveals certain features common to all of them. All these policies contained the following features: expand private sector participation in manufacturing which means freeing up more and more reserve sectors for private sector investment; disinvest public enterprises under the control of public sector corporations; increase the efficiency of enterprises that are retained in the public sector; privatize the distribution of publicly produced goods such as fertilizer; liberalize the import regime by reducing FRS on imports and the level of tariff protection for domestic industries; provide incentives to exports, including exchange rate adjustment to keep Bangladesh's exports globally competitive; ensure greater reliance on market forces as a basis for allocation of resources, and in the determination of prices and distribution of public goods; privatize and deregulate financial markets; liberalize the foreign investment regime and offer attractive incentives to foreign investors. Interestingly enough, most of these reforms were put into effect in the 1970s and in the early 1980s before the enunciation of the NIP the process of privatization had already begun. Areas "reserved" for public sector investment were gradually narrowed down with a view to expanding private sector opportunities. Policy interventions to encourage both domestic and foreign investment accompanied institutional reforms and financial support for promoting private sector activity. (Haq 2008, Bhuyan 2007, Bhuyan 2010). However, the performances of the past industrial policies in Bangladesh are not satisfactory.

Causes of Underperformances of the Industrial Policies

There are different causes behind the underperformances of past industrial policies of Bangladesh. The following section tries to discuss those causes briefly:

Lack of a Clear Strategic Vision

Past industrial policies were not effective because they lacked a strategic vision and a clear direction for industrial development. The policies scarcely addressed the hard-core problems that hindered industrial activity, thus making the policy incentives meaningless. There was virtually no recognition in the policies of the supply-side constraints, both structural and policy-induced, that were the major impediments to the expansion of private sector manufacturing industries.

Structural Constraints

Major structural constraints that hindered industrial growth in Bangladesh include: limited access to credit, its high cost, and procedural complexities in obtaining credit; poor physical infrastructure; acute shortage of energy, and unreliable supply of power, gas and water; lack of skilled labor and the tendency for labor to be militant; competition from dumped and smuggled imports; pervasive corruption in bureaucracy, particularly in the administration responsible for delivery of public services; a fragile political situation; poor law and order conditions; insecurity of life and property, and growing incidences of crime and extortion at every stage starting from production to distribution and marketing. The structural impediments continue to vitiate the business climate and dissuade entrepreneurs to bring in new investment or expand the existing ones. The past industrial policies failed to address the above mentioned constraints in an appropriate way.

Bureaucratic Constraints

Various bureaucratic impediments prevented the implementation of IPs. The SAP and their industrial policy components achieved little by way of raising investment levels or achieving sustained industrial growth. In fact, as experience in tile decades of the 1980s and the 1990s shows, the reforms undertaken failed to achieve the desired expansion and structural transformation of the manufacturing sector. The stagnation of the industrial sector, given the wide range of policy supports extended by industrial policies of 1982, 1986, 1991 and 1994, appears surprising, but it can be explained by the fact that all these policies lacked a strategic vision or a clear direction for industrial development. Thus the liberalization of imports, without a sound industrial base did not help export-oriented industrialization. Instead, it hampered the growth of domestic industries (Bhuyan 2010).

Lac of Strong Political Commitment

Apart from the structural and bureaucratic constraints mentioned above, manufacturers faced a number of problems, induced by policy failures. Many entrepreneurs, in particular the foreign investors, most policy reforms are incomplete and remain only in paper due to lack of clear political commitment. In order to take full advantages of emerging global opportunities, Bangladesh needs to address the weakness in its domestic policy environment. During the early 1990s the government lowered tariffs, eliminated quantitative restrictions, and used the floating exchange rate mechanism to promote exports. The progress in these reforms was not, however, maintained, and the lack of complementary reforms to improve the position of power infrastructure, telecommunication and financial services has meant below potential benefits from increased openness (Bakht 1993; Bayes 1996).

The 2005 Industrial Policy was expected to address the afore-mentioned structural and policy-induced problems, but most of the provisions incorporated in the policy are largely peripheral in nature, which do not address the genuine problems of the industrial sector. The root causes of the problem lie in the fundamental governance issues in power infrastructure, finance, enforcement of law and order, and eradication of corruption. Without improvements in these areas the mere announcements of ambitious industrial policies from time to time with lofty objectives are unlikely to help achieve the accelerated growth of the country's manufacturing sector. (Bhuyan 2010).

Sector-specific Problems of Many Industries

Apart from addressing the broader issues centering structural and policy-related constraints, industrial policies should also address the sector-specific problems faced by many industries. A number of industries in Bangladesh have performed pretty well depicting high growth rates in the recent years while many others have shown negative growth. Each of these industries has its specific problems although problems faced in common by most of these industries are those of infrastructure, capital, and technology. It would be expected that the country's industrial policy would provide a mechanism to monitor these problems, find their solutions prevent these industries from being sick, and also create the right environment to attract domestic and foreign investment to these industries. Industrial policy 2005 does not seem to have any commitment to address these problems. But IP 2010 seems to have some commitments and directions to resolve the above problems to ensure economic growth and alleviate poverty (Bhuyan 2010).

Concluding Remarks

A poor country like Bangladesh requires some degree of industrial protection in the initial phase in order to build its industrial base. At the same time, though, there is also the need to develop export industries on the basis of comparative advantage in the world market. The industrial strategy of a developing country should therefore be one of the both promoting exports and efficient import substitution. All successive governments in the country since independence announced policies and strategies for accelerating the process of economic growth through the development of the industrial sector, but unfortunately none of' the past industrial policies pursued a strategy of balanced development and the growth of the industrial sector has remained slow.

One may attribute this slow growth to factors like energy shortage, reduced availability of bank credit, poor inflow of foreign direct investment (FDI), labor unrest, poor law and order conditions, as so on, but no less responsible were the inconsistent policies, which vitiated the overall business environment, discouraged investors, and hindered industrial activity in the country. It is the considered view of experts that in order to pave the way for strong growth and expansion of the industrial sector, industrial policies periodically announced by government, should contain appropriate measures to address the aforementioned problems (Bhuyan 2010).

Despite more than three decades of planned development efforts, Bangladesh's record of industrial growth has been frustrating. In fact, the share of manufacturing in the country's GDP has remained virtually stagnant since 1994-95. Some of the unwelcome consequences are the fall in employment, income, and government revenue and an increase in trade and balance of payments deficits. While the slow growth of the manufacturing sector may be attributed to factors like energy shortage, reduced availability of bank credit, poor inflow of Foreign Direct Investment (FDI), labor unrest, and poor law and order conditions no less responsible are the inconsistent policies, which vitiate the overall business environment, discourage investors, and hinder the country's industrial growth, an effective industrial policy is therefore needed to facilitate strong growth and expansion of the industrial sector.

The past industrial policies, specially, the New Industrial Policy of 1982 to the Industrial Policy of 2010 have contains some provisions. To name a few, the common provisions relate to expanding private sector participation in manufacturing, increasing the efficiency of public sector enterprises, liberalizing the import regime, providing incentives to exporters, liberalizing the foreign investment regime, and offering attractive incentives to foreign investors. However, these provisions achieved little by way of raising investment levels or achieving sustained industrial growth.

By quickening the tempo of policy reforms Bangladesh could expect to achieve a double digit manufacturing growth. Adequate reforms would create the climate for raising the level of investment from the present 23% to 28% within the next three to five years. With the adoption of market-friendly policies under a reformed policy environment, Bangladesh should also be able to attract sufficient foreign direct investment to finance the desired investment growth. Bangladesh, whose economy and infrastructure was shattered in 1971, has impressive achievements in the global market especially in textile and RMG sector. Bangladesh has three key attractions for the global investors and multinationals: a large base of low-cost labor, a sizeable domestic market of 164 million people, and nearly 3 billion people in the Asian region that it might have market access. Bangladesh can move into the ranks of Middle Income countries (defined as a per capita income of USD 875) by 2021, the 50th anniversary of its Independence. But this will require Bangladesh moving from a 5-6% growth route to around 7.5%. With the right policy guidelines the country can only achieve it, and only thing to see is the current policy path, is it right or wrong for the country's betterment (Islam 2008; Haq 2008; Bhuyan 2010)?

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