67968

WHY HAS THE RESPONSE OF PRIVATE INVESTORS TO INDUSTRIAL POLICIES BEEN SO SLUGGISH ?

October 1989

A Report prepared for HIID

by

A.S.M.QUASEM

42E,Indira Road,Dhaka 1215

I. INTRODUCTION :

In recent years, we have witnessed what can be called a sluggish response of the private investors to liberal incentives given in the New Industrial Policy of 1982 and the Revised Industrial Policy of 1986.

Recently, HIID had undertaken two surveys to find out the impact of the industrial policies and the industrialists' view as to whether private investment had really been sluggish during the current five year plan and, if so, the reasons why private investors have not responded to the incentives. While the results of the first study has been published by HIID, the survey for the second study is still in progress.

In the meanwhile, HIID wanted the reaction and comments of at least one industrial entrepreneur to the findings of the first study concluded by HIID and invited the writer of this paper to give his reactions and comments on the same.

II. THE PRIVATE INVESTMENT SCENARIO :

A major emphasis was laid on the expanded role of the private sector in the Third Five Year Plan. Investment outlay in private sector during this period was envisaged at Taka 136 billion at constant real term prices of 1984-85.

Actual private sector investments over the first four years of the Third Plan are estimated by the Planning Commission at about Taka 80 billion and that too, at current prices. When adjusted for inflation, the extent of real private investment at 1984-85 prices will not be over Taka 70 billion indicating realization of less than 50% of the Third Plan investment target for the private sector.

Actual private investments in relation to plan targets have so far been the worst one under the current mid term plan as compared to the previous plans. About 87% of the investment target for the private sector was achieved during the first plan period (1973-78). The achievement was equivalent to Taka 4.36 billion at 1972-73 prices against planned allocation of Taka 5.03 billion. The planned target for the private sector of Taka 6.00 billion under the subsequent Two Year Plan (1978-80) was substantially over fulfilled when actual private sector investment in real terms of the order of Taka 9.57 billion was achieved. During the Second Five Year Plan period (1980-85), about 82% of the investment target of the private sector was realized when a real term investment of Taka 49.69 billion was achieved against planned target of Taka 61.00 billion.

One interesting feature of the private sector investment activities during the first three years of the current Third Five Year Plan as revealed in the interim report of the Planning Commission was the clear preference of the private investors in trading and other service sector operations. While achievements in the agriculture, manufacturing and physical planning and housing sectors were merely 31.41%, 21.84% and 30.24% respectively, the private investment in trade and other services registered an overwhelming 148.10% achievement. Clearly, the private investors were reluctant to tie up their capital in long term investments in industries specially when they had alternate and more lucrative avenues of investment in trading where capital tie up period was low, return was quick and high, quick assets could be liquidated at short notices and worries about consequences arising out of labour problems, law and order situation or hartals and other usual hassles relating to operations of industrial enterprises were practically non-existent. The grounds for being attracted to trading further proliferated with free flow of aids, loans and grants and inclusion of essential commodities like sugar, salt, milk powders and edible oils in the private sector imports list which turned the trading environment into a paradise for the quick profit seekers.

III. PROBLEMS :

A. FINANCIAL PROBLEMS :

1. Procedural complexities and delays in obtaining credit has remained as a major problem. However, the problems faced in this area by the established companies/entrepreneurs is nothing compared to the ordeal a new entrepreneur has to face in front of the lending institutions. The Banks are unusually reluctant to finance a new entrepreneur unless he has someone influential

enough to put in a word of recommendation for him. Even then, their sense of [illegible]ing their finance is overwhelming and beyond normal banking norms. The story is the same when someone including an established businessman approaches the banks to finance a new product having good marketing potential. The banks normally are not interested in financing a product which is not tested in the Bangladesh market.

Board of Investment has been set up to streamline sanctioning procedures. The policy decision in this regard created a lot of optimism in the private sector. I had the occasion of going through the application form introduced by BOI for obtaining their sanction. The form is exactly the same as was used by the then Department of Industries and requires the same supporting documents which an entrepreneur found difficult to produce. No attempts have been made to examine and rationalize even the application form. It is a classic case of old wine in a new bottle.

2. High rate of interest for the industrial sector can be identified as another major impediment towards growth of industries. The difference in the rate of interest meant for financing trading and industries is not big enough

considering, on the one hand, quick return and high rate of profit in the trading sector and on the other, the burden of accumulated interest in the long gestation period an industry has to undergo for its project implementation and before it can establish its products in the market. The interest rates for industrial financing has to be made much more lucrative to attract the traders to consider investment in industrial sector. A big incentive is required here for them to divert their capital in this sector where return is slow and there are many more additional hassles and headaches to take care of.

B. LABOUR PROBLEM :

1. Political influence among workers coupled with low productivity and lack of skilled manpower are dominant problems in this area. Manhandling to the extent of even killing of company officials by the workers under political patronage is a clear and significant deterrent to private investment climate. The workers by themselves are not militant. Political instigators make them so. Thus we find militant workers mostly in organized industrial areas where labour politics flourish. Political instigators can work there better. There are however instances that if one can keep their

workers beyond the political influence which is mostly from outside, the factories will keep their wheels running even during the frequently called Hartal days. Dangers arise in such circumstances also when picketers from outside come to raid the factory and forcefully take the workers away from their work place.

2. Lack of skilled manpower and low productivity of workers are also problems of moderate magnitude specific to certain types of industries.

3. Another aspect which deters investors to come forward in the industrial field is the frequent government interference in determining the wage packet of the industrial workers. Wages is an important factor of cost of production and until the private industries are allowed to operate within their own wage plans, investment in this sector will not be forth coming. This factor specially scares the foreign investors for which foreign investment in the past years had been very megre.

C. UNCERTAINTIES IN AND LACK OF PROPER FINANCIAL INCENTIVES:

1. Financial incentives given by the government for industrial investment are mostly not adequate and they are also frequently changed. In certain

cases, after announcement of the incentive plan, measures are taken by executing agencies which negate the incentives previously announced. To cite an example, to facilitate the garments manufacturers to save losses incurred in the process of reconverting Taka into dollars for payment of their back to back liabilities, the government allowed them to keep their export proceeds in dollar accounts. This financial incentive given by the government was instantly negated by Bangladesh Bank's decision to enhance the LC opening commission. In mid 1980s, the XPL scheme was replaced by the XPB scheme whereby the Bangladesh Bank took control over fixing of WES premium which previously used to be controlled by the market demand and supply mechanism. Though the financial incentive of export performance entitlement still remains at 70%, the net benefit derived by an exporter has now been reduced to Taka 0.58 per dollar in place of Taka 4.00 per dollar which an exporter used to earn when the XPL price used to be determined by market conditions. On the face of it, the incentive is still there at 70% but in effect the benefit has now been reduced to practically nothing. These duplicities of the policy makers deter the flow of private investment as investors apprehend that frequent changes in the incentive plans or in their operational procedures will seriously jeopardize the profitability of their investments.

D. MANAGEMENT PROBLEMS :

I would also rate this as a major problem area where a lot can be done by the government. R&D institutions and other institutions to train and turn out good managers is practically non-existent. Organizations like Management Development Centre should be expanded and broad based. Quality of training imparted should also be reviewed and improved so that larger outputs of well trained managers of various levels can be turned out at the shortest possible time. Institute of Business Management must increase their capabilities in taking more students at the masters level. IBA as well as other colleges should also introduce BBA courses at the graduation level.

E. MARKETING PROBLEMS :

I consider lack of expertise in marketing as a major problem for the small and medium industries. Industries located in and around Dhaka and Chittagong do not face any infra-structural constraints. Middlemen in the marketing chain tend to take away a big chunk of sales proceeds unless effective control is exercised on them for which, again, the industries must have adequate marketing expertise. Local competition is a common economic phenomenon and only the fittest will survive. The government however, should come forward with adequate subsidies to fight against unfair competition against smuggling.

F. RAW MATERIAL PROBLEM :

The problems relating to raw materials really lies in the anomaly in the tariff rates applicable to the goods imported in their finished forms and those applicable to the raw materials required to produce them. There are instances where difference in unit cost of production due to this factor alone is more than the conversion cost of the product. This problem becomes all the more dominant when these finished products are smuggled into our economy. Smuggling can not be stopped entirely by depending upon the law enforcing agencies. If we can identify these industrial products that are smuggled into the country and take effective measures to reduce import duties on raw materials to produce them, then these goods will no longer remain attractive for smuggling and the smuggling of these products will automatically stop. Unless these anomalies are identified and removed, it will not be possible to set up industries to produce a large number of products of this category. Today, many of the industries are "sick" due to this problem.

Other problem areas like lack of indigenous raw materials, low quality of domestic raw materials, high prices of raw materials etc are reasonably predictable problems and can be tackled by importing raw materials which in genuine cases are allowed by the government.

G. PROBLEMS CONNECTED WITH MACHINERY :

There is no major problem in this area excepting that the rate of import duty should be eliminated or at least reduced to minimum to induce entrepreneurs to invest in industries. The recent government decision to promote sub-contracting through BSCIC is likely to proliferate and improve repair facilities in the country by a considerable extent. This decision will open up a substantially big market to the small wayside workshops and the flow of business in turn will help develop manpower, technology and marketing skills in this basic industry.

H. PROBLEMS OF PROPER TECHNOLOGY :

Information about proper technology is not readily available. Extension services for dissemination of information about new processes, raw materials and new products are also lacking. Organizations like Industrial Advisory Centre of Bangladesh should be sufficiently strengthened to provide industrial consultancy and extension services. BCSIR should be revitalized and should be converted into a "Technology Centre" where an entrepreneur can get all necessary information and updates on various technology of production of a particular product.

I. PROBLEMS OF POWER :

Rates of electricity is high in our country. This, however, can not be identified as a major problem as in most labour intensive industries, the cost of electricity is a nominal part of the total cost of production. Disruptions in power supply is a problem as loss of production on this account is considerable. The industries, however, are now allowed to generate their own power and cost of such generation is almost half of PDB selling rates. The import duties on these generators are also nominal. There are instances of textile mills generating their own electricity out of gas generators at a cost of less than Taka 1.00 per KWH against PDB rate of Taka 2.10 per KWH.

J. GENERAL PROBLEMS :

1. Quick and easy profit in trading : Bangladesh can be termed as a trader's paradise. Influx of aids, loans and grants help trading grow. Import policy is quite liberal and smart traders having good connections with the relevant authorities take advantage of both commodity and project aids in either importing essential commodities which ensure very high and sure return and also act as indentors in supplying project equipment against project aids, loans and grants. As mentioned earlier, attractions in trading are many. Quick profit and rent seekers will not turn towards industrial investment unless the industrial scenario is made to offer more attractions to them in the form of assured and handsome return on investment, stable industrial environment, non-interfering labour policy, stoppage of political interference in the industrial labour-management relations, social recognition for their contribution in the national economy and towards employment creation etc.

2. There is another class of traders who mostly operate from places like Moulavi Bazaar in Dhaka or [illegible]ganj in Chittagong. Members of this group had traditionally been in trade for generations and possess large investible surplus which they normally invest in properties and real estates. Investment in industries is scary to them as industries to them mean labour trouble and blocked capital. A forum may be created by the government to invite these traders, educate them in the art of setting up of industries, offer them package proposals of small but profitable industrial investments and arrange training programmes for them in industrial management. Means of tapping these funds may be devised by organizations like Investment Corporation of Bangladesh to make this money available to the industrial sector and in the money market.

3. Lack of ideas and knowledge about how to set up industries is quite a problem. People tend to jump into the same industry pioneered by a smart entrepreneur until the investment in the sector is over saturated. This had been happening for over two decades now starting with the cold storage sector in 1967-68, deep sea fishing, small power loom textile mills, Jute carpeting mills and

lastly in the garments manufacturing sector. As a result of the creation of over capacity the less efficient industries in these sectors become sick and turn into liabilities of the investors. These sick industries then become bad examples to other prospective industrial investors and kill their desire to invest in the industrial sector. To overcome this problem, a number of organizations both in the public and private sector should come up who can offer sound consultancy and advice in setting up industries. It is true that BSCIC in a way is supposed to provide such services but unfortunately, the quality of the services offered by them is not quite professional.

4. It is generally felt that the world bank credit squeeze on BSB and BSRS in the past years slowed down their operations as a result of which investment in the private sector became sluggish.

5. The present law and order situation, recurrent hartals and frequent changes in the power and telecom tariff are some of the other constraints which restrained investment in the private sectors. Total absence of entertainment facilities for the foreigners residing here was cited by some as one of the reasons for slow foreign investment in this country.

Casinos?
Night clubs?
[illegible]

THE NEW TECHNOLOGY IN APPAREL INDUSTRY.

A.S.M.Quasem

I. INTRODUCTION :

Till about the end of the seventies, the technology used in making apparels in Bangladesh used to be tailor-shop oriented. Organized mass production facilities were practically non-existent. There were only small and medium sized tailor-shops geared to do job orders of the customers. Consumers were so used to customized tailoring that the concept of wearing ready made garments of standard size specifications were beyond their comprehension. The initial efforts of popularizing ready made garments to the local consumers, thus, did not see the light of much success.

The first thought of mass producing apparels in Bangladesh emerged from the prospect of export potentials inspired by the success stories of countries like China, Hongkong, South Korea, Malaysia, Philippines and Taiwan.

II. HOW TECHNOLOGY WAS TRANSFERRED :

In the mid seventies, a handful of entrepreneurs took up the challenge to develop export oriented apparel industries in Bangladesh. They had to toil hard to remove bottlenecks of know-how transfer, streamline procedures for imports of raw materials and attract customers to this new and unknown source of supply of apparels. Factories were set up in joint venture. Desh Garments Ltd, a company established in joint venture with Daewoo of Korea sent a large number of workers, supervisors and mid level managerial staff to South Korea to master high productivity apparel manufacturing skills. When the euphoria of setting up apparel industries spread in the subsequent years, these trained personnel gradually migrated and became carriers of technology to the new manufacturing units. They acted as seeds and in turn proliferated their newly acquired

-16-

know-how down to the operational level through development of supervisors, line chiefs and quality control inspectors.

Grounds were thus made for the foreign buyers to come and place orders here. The rest of the technology transfer took place through the technical staff of the foreign buyers who started being posted here to ensure quality control. The buyers provided designs, patterns and markers and taught local technicians in the use of folders etc to achieve high degree of productivity.

III. THE TECHNOLOGY :

The technology involved in apparel manufacturing is highly labour intensive. The technology takes advantage of human nature of achieving high productivity in repetitive jobs. Unlike in a tailor shop where all the operations involved in making an apparel is performed by one tailor, here a set of workers are put in a line and each operator is required to perform only one operation. A complete apparel comes out at the end of the line. The technology also incorporates use of some sophisticated high performance labour saving machines for making button holes, attaching buttons and also for making shirt fronts. In the plain sewing machine operations, use of folders and templates greatly enhance productivity.

It is said that an apparel manufacturer makes his profits in the cutting room. Here, a large degree of economy is achieved by maximizing utilization of fabric with the help of pre-designed markers. Markers are drawn on papers and optimum marker lengths are arrived at by trial and error by making various sizes of parts and changing their location in the marker itself. As a result of this, when the fabric is cut, various parts of a particular apparel may be coming from different sections of the fabric [illegible]. Thus quality of fabric [illegible] concerned is

M

of paramount importance. Sewing of all parts of an apparel from the same roll of fabric is ensured by bundling the parts roll-wise and using separate bundle numbers for each of them. One very important job of the supervisors is the ensure that the bundles don't get mixed up. If this happens, shadings in the apparel will occur. The size mix ups are also controlled by the same bundle card system.

IV. WHAT TECHNOLOGY THEY REPLACED :

The line production system of apparel manufacturing replaced the age old tailor shop technology. Use of high performance electric machines replaced old manual machines.

V. ROUGHLY BY HOW MUCH THE UNIT COST HAS BEEN REDUCED :

The unit cost of production of an apparel out of a factory using line production method is substantially low. To give an example, tailoring shops now-a-days charge about Taka 100.00 to Taka 150.00 for making a shirt, excluding the cost of fabric. Assuming that the enterprise charges 100% on account of overhead and profit, the actual cost of production will be about Taka 50.00 to Taka 75.00. Compared to this figure, the cost of making a similar shirt out of a medium sized factory will be in the region of Taka 15.00 to Taka 20.00. Moreover, the savings in fabric consumption will further result in cost savings to the extent of Taka 10.00 to Taka 12.00 (assuming fabric to be solid coloured TC). The total cost of production of a shirt using solid coloured TC fabric out of a mechanized factory will range from Taka 63.00 to Taka 68.00 compared to Taka 110.00 to Taka 135.00 from a tailoring shop (Prices are excluding import duties and taxes leviable on imported fabric).

February [illegible]