Bangladesh attempts to woo foreign investment

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26 June 2010

Bangladesh's Awami League-led government handed down a budget this month aimed at attracting foreign investment and propping up big business. Despite a global shift by governments to harsh austerity measures, the budget included stimulus packages for various industries, drawing cautious support, as well as a warning, from the World Bank.

While welcoming the budget's boost to private investors, the World Bank described it as "ambitious and expansionary" and warned that the increase in the deficit budget from 4.5 percent to 5 percent of GDP could worsen inflation.

Facing strikes by low-paid garment workers for higher pay, Prime Minister Sheikh Hasina claimed that the budget aimed to "free the people from poverty". Yet there was nothing to improve the conditions of the working class or rural poor. During the 2008 election, Hasina's Awami League made a host of promises to uplift social conditions, but after 18 months in office, none of the pledges has been fulfilled.

Tabling the budget on June 9, Finance Minister Abul Maal Abdul Muhith said expenditure would rise by almost 20 percent to 1.32 trillion taka ($US19 billion), with the higher deficit financed from foreign and domestic borrowings.

Substantial allocations were made for infrastructure, especially in the power and transport sectors, to meet a recent World Bank criticism that: "In Bangladesh, recovery has also been restrained by structural bottlenecks—notably energy supply—particularly in the manufacturing sector."

Abdul Muhith admitted that only 47 percent of the population has access to electricity. Regular power shedding has led to popular unrest, but the government's main concern is to provide reliable supplies to local and foreign-owned businesses.

The budget allocated 30 billion taka to boost the government's so-called public-private partnership (PPP) program, and 20 billion taka to prop up weak industries, including jute mills, textile mills and small and medium sized enterprises affected by the world economic slump. Abdul Muhith also outlined a privatisation program, declaring that state industries that had been "sick" for 15 years would be sold off. He did not name the industries, but the move threatens the jobs of tens of thousands of workers.

The Federation of Bangladesh Chambers of Commerce and Industries (FBCCI), the main big business group, supported the budget, describing it as "pro-growth and pro-business".

The government forecast a growth rate of 6.7 percent, up from the current 4.5 percent, which is a seven-year low. With export earnings dropping, mainly from the ready-made garment sector, the government is banking on an uncertain global recovery. Over the past 10 months, the trade deficit has widened to $11 million, with knitwear exports down by 13 percent and woven fabrics by 16 percent. These falls translated into the loss of 300,000 jobs, the garment manufacturers association admitted.

To overcome business complaints of a "low tax base" for the budget, the government plans to extend the 15 percent value-added tax (VAT) to 34 new types of businesses. The VAT increase will drive up prices, further burdening the poor. The current inflation rate is 8.8 percent, with food prices rising in May by over 12 percent, up from 10 percent the previous month.

The government boasted that education accounted for 12.8 percent of budget expenditure, but 59 percent of the population remains illiterate. A far bigger proportion, 22 percent, went to the military. Having ruled the country directly for 16 years and indirectly for 2 years since independence in 1971, the military remains a powerful political force. With signs of developing mass discontent, the government is well aware that it needs the security forces to suppress any unrest.

The budget allocation for the "social safety net," which includes work-for-food programs, was lowered by half a percentage point to 14.8 percent of the budget, even though 49 percent of Bangladesh's 150 million people live below the poverty line. The country's child malnutrition rate of 48 percent is the second highest in the world. The unofficial estimate of unemployment is 30 million. According to one study, every year some 2.7 million youth become eligible for jobs but only about 0.7 million find employment.

Like previous governments, the current one is incapable of addressing any of the massive social problems. The budget is primarily aimed at improving Bangladesh's competitive position as a cheap labour platform, amid the deepening world economic crisis. While wages in Bangladesh are far lower than many of its competitors, the country is badly lacking in the type of infrastructure needed by transnational corporations.

A *Daily Star* editorial commented that the industry stimulus package looks like a sound policy stance in the face of the global trend of phasing out stimulus now, as big competitors like China and Vietnam, which received even higher stimulus, are now much strongly positioned in the global market. China is even entering Bangladesh's low-end product market.

Tens of thousands of garment workers protested early this week demanding higher wages. The lowest paid in the world, on a minimum wage of less than $25 per month, they are demanding increases of 200 percent to nearly $75. During a strike that closed 700 factories on the outskirts of Dhaka, many strikers were injured when 1,000 riot police used water cannons and rubber bullets against an estimated 50,000 demonstrating workers.

These clashes indicate a new period of class struggle is opening up in Bangladesh against intolerable living conditions.