

Industrialisation and Employment growth : Bangladesh's Development Experience

- Rushidan Islam Rahman, PhD
- Executive Chairperson, Centre for Development and Employment Research (CDER)
- February 6, 2023

Why Industrial growth

- ▶ Industrial growth can be faster than growth of other sectors and help acceleration of GDP growth.

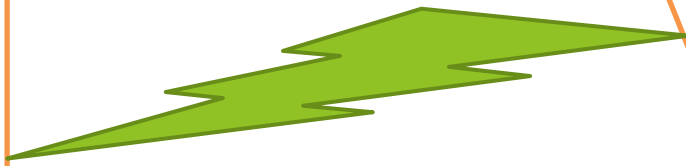
But how: It can use modern technology, from own sources, and from foreign sources.

It may overcome the law of diminishing returns.

- ▶ It can be an important source of employment for surplus labour from other sectors.
- ▶ It can increase the income of the employed labour force who may in turn increase the demand for goods and services from other sectors which will help boost growth of those sectors.

Interdependence between agriculture and industry

Agriculture:
Supply of food,
Surplus labour,
Raw materials



Industry:
Industrial employment,
Demand for food,
Supply machinery, fertilizer,
etc. for agriculture,

Lewis theory of development with surplus labour

- ▶ There is surplus labour in the traditional sector
- ▶ This surplus labour can be used for growth of manufacturing sector
- ▶ The supply of labour will be elastic at wage rates close to subsistence
- ▶ The industrial entrepreneurs will make profit and reinvest this surplus
- ▶ There will then a outward shift in productivity which will generate more profit, reinvestment and acceleration of manufacturing sector growth
- ▶ This process will continue until the surplus labour is exhausted. Then wage will start to rise

Ref: Lewis, W.A. (1954) Economic Development with Unlimited Supplies of Labour. The Manchester School of Economic and Social, 22, 139-191.

Outline of the rest of the presentation

▶ Part 1

- ▶ Growth of Manufacturing GDP and its share in total GDP
- ▶ Employment growth in manufacturing
- ▶ Growth of various sub-sectors
- ▶ Growth of SME and large industries
- ▶ Wage trends in Manufacturing
- Diversification
- Jute industry
- SME growth
- Women entrepreneurs
- Part 2: RMG
- Overall constraints to future industrial growth and prospects

Sources used

- ▶ **Growth , Employment and Social Change in Bangladesh, UPL, 2016**
- ▶ বাংলাদেশের অর্থনৈতিক উন্নয়নের গতিধারাঃ সুবর্ণজয়ন্তীতে ফিরে দেখা। ইউপিএল , ঢাকা, ২০২২
- ▶ শিল্পায়ন ও রপ্তানিমুখী শিল্পের প্রসারঃ উন্নয়ন ও কর্মসংস্থানে ভূমিকা (প্রকাশিতব্য)
- ▶ **Reports prepared for project SEIP on skill gap in industrial sectors, 2016**

Background

At the time of independence, Bangladesh's development prospect didn't look bright. Many experts made pessimistic comments.

The prevailing situation which prompted these comments include:

- **Very high poverty incidence**
- **Dependence on agriculture with small agricultural land per family**
- **High population density along with high growth rate of population**
- **No significant industry in operation**
- **High dependency on foreign aid due to lack of foreign exchange reserve**

Comparison of some indicators: Bangladesh and her neighbours

	Year	Bangladesh	India	Pakistan
Per capita income (USD)	1973	120	140	150
	2001	440	450	520
	2019	1940	2101	1530
	2020	2270	1901	1360
Literacy rate (%)	2001	47.5	61	54.2
	2018	73.9	74.8	59.1

How did it happen

- ▶ **Rapid agricultural growth through adoption of modern HYV crops, rising cropping intensity: 1980s, 1995 onwards**
- ▶ **Industrial growth : 1990s onwards**
- ▶ **Acceleration of Industrial growth : 2010 onwards**
- ▶ **Employment growth 1995 to 2013**
- ▶ **Lower population growth : 1990s onwards**
- ▶ **Higher school enrolment: 1990s onwards**

Annual GDP growth in manufacturing and agriculture(%)

Period	Manufacturing	Agriculture
1981-1990	4.99	2.53
1991-2000	6.90	3.22
2001-2010	6.80	3.12
2010-2019	11.11	2.65
2019-2020	1.68	3.42
2020-2021	11.59	3.17
2021-2022	12.31	2.20

Share in total GDP (%)

Year	Manufacturing (%)	Agriculture (%)
1975	7.38	48.30
1985	9.83	41.80
1990	9.90	38.30
1995	11.34	31.80
2001	15.59	19.51
2006	16.13	19.00
2010	17.34	18.38
2015	20.16	16.00
2019	22.86	12.56
2020	22.40	12.52
2022	24.45	11.50

Annual growth rate of employment in Manufacturing industry

Period	Annual growth rate %
1999 to 2001-02	3.85
2001 to 2006	7.08
2006 to 2011	6.24
2011 to 2018	1.23

Male and female employment in manufacturing sector

year	Female (F) (000)	Male (M) (000)	Share of female (%)=F*100/(M+F)
2006	1298	3926	24.8
2010	1907	4821	28.3
2017	2871	5905	32.7

Share (%) of women in RMG and non-RMG manufacturing

Year	2011	2018	
All manufacturing	44.2	43.9	
RMG	64.0	59.4	
Non-RMG	19.9	21.0	

Sub-sectors of manufacturing

High share in GVA/Employment

- ▶ RMG
- ▶ Textile
- ▶ Non-metallic minerals
- ▶ Food

Prospect in terms of export

- ▶ Leather & L goods
- ▶ Pharma
- ▶ Jute goods
- ▶ Electrical goods

Indicators of growth of some selected sub-sectors

Sub-sector	Number of factories in 2018	Number of factories in 2011	% rise in empl in 7 years
Food	939	8441	9.4
Textile	12753	10983	-16.9
RMG	7727	6984	21.6
Pharma	149	494	-30.7
Leather and leather goods	1369	930	53.2

Average investment in selected sub-sectors

Sub-sector	Average fixed asset per establishment (Mln tk)	Average Salary-wage-benefits per establishment (Mln tk)
Food	24.84	4.10
Textile	40.33	5.90
RMG	96.09	62.74
Pharmac	509.12	120.01
Leather and leather goods	66.48	12.97

Indicators of salary, wage benefit

Sub Sector	Per cent change in SWB per person between 2011 and 2018		Change SWB as share of GVA 2011 and 2018	
RMG		30.7		Increased +
Textile		4.5		Decreased-
Non-metallic minerals		-14.0		Decreased-
Food		8.8		Decreased-
Leather & L goods		82.0		Decreased-
Pharma		35.7		Decreased -

Growth experience by Size of firms

Size of firm	Share of Establishments		Share (%) of Total persons engaged	
	2011	2018	2011	2018
Micro	40.6	36.4	5.4	4.8
Small	36.6	58.5	14.7	19.1
Medium	14.3	6.9	20.8	9.0
<i>MSM sub-total</i>	<i>91.5</i>	<i>93.8</i>	<i>40.9</i>	<i>32.8</i>
Large	8.5	6.2	59.1	67.2
total	100.0	100.0	100.0	100.0

Growth experience by Size of firms: Implications

- ▶ Dominance of large firms in manufacturing growth, and it is increasing
- ▶ Share of large firms in employment growth in manufacturing is increasing. This implies that their control over wage and terms of employment is also increasing
- ▶ Large firms are more capital intensive and therefore manufacturing sector as a whole is moving towards higher capital intensity
- ▶ Regional dispersion will be adversely affected

RMG: Its role, problems, prospects

- ▶ Leadership in manufacturing growth
- ▶ Predominance in Export and foreign exchange earnings
- ▶ Employment Creation
- ▶ Employment of female workers and its impact

RMG: Its role, problems, prospects (contd.)

- ▶ Barriers on its way of progress and overcoming them
- ▶ Recent declining trend of employment
- ▶ Why capital intensity is rising?
- ▶ Future: high value products, diversification of export destination, skilled labour, sustained career development of employees, new generation of entrepreneurs
- ▶ Can it lead new sub-sectors of manufacturing or modern service sector?

Future potential and desired directions

- ▶ Industrial policies of the last two decades address most of the relevant policy needs; the problem lies mostly in inadequate implementation
- ▶ The major issues related to industrial policy are:
 - ▶ Which sub-sectors to be protected and how?
 - ▶ Import substitution vs export oriented industry: proper balance
 - ▶ Growth of labour intensive sub-sectors
- ▶ It is not unexpected that an export industry will gradually become more capital intensive. This often is not in the hands of the exporter. The consumers in high income country bends towards more sophisticated quality, design etc for which machinery with more advanced technology is needed.
- ▶ Therefore other sectors with higher labour intensity should receive support
- ▶ MSME must effectively grow
- ▶ New entrepreneurs, female entrepreneurs to be encouraged

Future potential and desired directions ((contd.))

- ▶ The major concern for the coming years is to increase the rate of employment growth
- ▶ Industrial policy must make this as a priority goal so that the country can achieve the vision of participatory and equitable development
- ▶ Employment growth will push up wages which may be supplemented by minimum wage
- ▶ Employment growth will require productivity growth, which in turn will require quality education and skill generation.

▶ Thank you