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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think-tank

COMPETITIVENESS ENVIRONMENT IN BANGLADESH 2001 & 2002

(Press Summary)

A nation's prosperity depends on its competitiveness, which is based on the productivity and efficiency of the enterprises in producing goods and services. Sound macroeconomic policies and stable political and legal institutions are necessary, but not sufficient conditions to ensure a prosperous economy. *Competitiveness is rooted in a nation's microeconomic fundamentals* – the sophistication of company operations and strategies, and the quality of both the macro and micro business environment in which companies compete. These factors are becoming increasingly crucial in the context of the ongoing globalisation.

In this connection, the *Centre for Policy Dialogue* (CPD) carried out two surveys in the year 2001 and 2002 to assess the state of competitiveness environment in Bangladesh. The surveys were executed as a part of CPD's contribution to the *Global Competitiveness Report* 2001 and 2002 prepared for the *World Economic Forum* (better known as the *Davos Meeting*). It may be mentioned that, through the CPD's survey, Bangladesh was included in the *Global Competitiveness Report* (GCR) for the first time in 2001. The study was carried out in collaboration with the *Centre for International Development* (CID) of the Harvard University.

In the GCR 2001, Bangladesh was ranked 71 among 75 countries. However, it was mentioned in the Report that the country possesses a tremendous potential for growth if it is able to enhance its political and technological capacities under macroeconomic stability.

The GCR 2002 is currently under preparation.

BANGLADESH RANKING AS PER GLOBAL COMPETITIVENESS REPORT 2001

<table>
<tr><th colspan="2">Indicator</th><th>Ranking</th><th>Comments</th></tr>
<tr><td rowspan="2">Overall Competitiveness Rankings</td><td>Growth Competitiveness Index (GCI) Ranking 2001</td><td>71</td><td>Other South Asian countries included in this ranking are India and Sri Lanka, which ranked 57 and 61 respectively. Bangladesh and Nigeria were the two poorest economies from the samples that were added in the last year’s report for the first time. Nigeria ranked 74 in Survey 2001. However Sri Lanka was also added in the report for the first time.</td></tr>
<tr><td>Current Competitiveness Index (CCI) Ranking 2001</td><td>73</td><td>India ranks 36 and Sri Lanka ranks 57 in the current competitiveness ranking.</td></tr>
<tr><td colspan="4">* GCI represents a best estimate of 75 economies’ underlying prospects for growth over the coming five years
* the CCI uses microeconomic indicators to measure the ‘set of institutions, market structures and economic policies supportive of high current level of prosperity’ referring mainly to an economy’s effective utilization of its current stock of resources and thus assesses the current productive potential of the same 75 economies.</td></tr>
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CPD maintains that the present study on competitiveness environment can play an invaluable role in identification of existing impediments to economic growth. Along with other important features, the study measures the comparative strengths and weaknesses of national economy.

1. SURVEY DESIGN AND SAMPLE PROFILE

Survey Design: Number of companies surveyed in 2001 and 2002 were 56 and 71, respectively. All the companies, which were surveyed in 2001, were requested to participate in the 2002 survey. However, 3 companies refused to participate in the survey while the rest 53 companies participated in the 2002 survey. The survey also included 18 new companies. Thus, the number of total companies surveyed in 2002 was 71. All companies surveyed in 2002 except five were from Dhaka. Five outside Dhaka companies include 2 from Chittagong and one each from Khulna, Joydebpur and Bhagabari. Majority of the sample companies were from Manufacturing (43.7%), Financial Institutes (9.9%), Real Estate Business (9.9%), and from the Wholesale and Retailing Business (8.5%). Others were engaged in construction, transport, storage & communication, health and social works, agriculture, hunting & forestry, Mining & quarrying and electricity, Gas, Steam & Hot water supply.

This survey included companies, which had total assets exceeding Tk. 100 million. After an introductory briefing about the background of the survey, a structured questionnaire was administered to the Chief Executive Officer (CEO) of the respondent company. It was ensured that the respondent was a member of the highest-level management team of the company. The CEO or his nominee filled in the questionnaire, which was then returned to the CPD.

Distribution of Sample Companies

Category	**2001**	**2002**
Number of samples	56	71
Criteria of Selection	Company assets exceeding Tk. 100 million	Company assets exceeding Tk. 100 million
Survey Period	January – March (2001)	February – April (2002)
Survey Area	Dhaka City	Dhaka City
Survey Method	Structured Questionnaire	Structured Questionnaire

Sample Profile: 45% of the companies were fully domestic market oriented, 23% companies were fully export oriented companies; the rest 32% of the companies were involved in both domestic and export oriented operations. Average number of employees per company in the year 2002 was 1883; the corresponding figure for 2001 was 2063. In 2001 about one-third of these companies stated that they faced competition from other large local companies; in 2002 this has gone up to 45%.

Basic Characteristics of the Companies Surveyed

Indicator	**2001**	**2002**
Number of Employees	**--**	**--**
Average number of employees per company	2063	1883
Percent of companies having less than 500 employees	43.0	42.3
Percent of companies having more than 2000 employees	2.0	1.4
Company Headquarter	**--**	--
Companies having global Headquarter in Bangladesh	**--**	83.1%
Companies having global Headquarter outside Bangladesh	**--**	16.9%
Competition	**--**	--
Facing one or a few large local competitors	37.5%	44.9%
Numerous local competitors	21.4%	33.3%
Facing little or no competition	8.9%	2.9%
Facing other type of competition	32.2%	18.9%
Business Growth	--	--
Slower than Industry Average	--	18.3%
Same as Industry Average	--	40.8%
Faster than Industry Average	--	35.2%
Market Orientation	--	--
100% Export oriented	19.6%	23.2%
100% Domestic oriented	58.9%	44.6%
Currency Used for Payment	--	--
Local (Taka)	--	87.3%
US$	--	8.5%
Other currency	--	4.2%
Ownership	**--**	--
Full Domestic ownership companies	**--**	61.97%

2. ECONOMIC PERFORMANCE: TONED DOWN OUTLOOK

According to the survey carried out in 2001, 60.7% of the key executives of the sample enterprises of the respondents predicted that there would be a growth in the country's economy in 2002. In contrast, 43.7% of the respondents of the 2002 survey reckoned that the country's economy will grow in 2003. Evidently, the respondents have toned down their outlook as regards economic performance of the country.

3. GOVERNMENT AND PUBLIC SECTOR: LOW COMPETENCE AND LACK OF INTEGRITY

An increased percentage of companies consider competence of the government sector to be very poor. Most of the respondents mentioned about burdensome administrative regulations, favouritism in policy decision and contracts, and low trust in politicians. 85.7% of the respondents thought that the competence of public sector personnel were lower than that of private sector, by 2002 this has come down to 80.3%. About 70% of the companies were of the opinion that unfair or corrupt activities of other firms imposed high costs on their firms. The respondents were most emphatic about absence of public trust in the honesty of politicians (91.1% in 2001 and 95.8% in 2002).

(%)

Factors	2001	2002
Companies stating that competence of personnel in the public sector is lower than the private sector	85.7	80.3
Companies stating that unfair or corrupt activities of other firms impose large costs on their firms	69.6	69.0
Companies stating that administrative regulations in the country are burdensome	84.0	92.9
Companies supporting that government subsidies to business in the country keep uncompetitive industries alive artificially	73.2	83.1
Companies stating that government officials usually favor well-connected firms and individuals while deciding upon policies and contracts	82.1	90.1
Companies stating that public trust in the honesty of politicians is very low	91.1	95.8

4. PUBLIC INSTITUTIONS: HIGH INCIDENCE OF EXTRA PAYMENT AND UNOFFICIAL BUSINESS

Increased number of companies are making extra-payments or bribes in connection with permits, public utilities, taxes and loan applications. Highest share of respondents (91.5%) indicated incidence of extra payments was observed in case of tax payment.

Firms making irregular extra payments or bribes	2001	2002
In connection to import and export permits	76.8	82.8
In connection to public utilities (e.g. telephone or electricity)	87.5	90.1
In connection to annual tax payments	87.5	91.5
In connection to loan applications	83.9	83.1

- **Frequency and extent of bribes in the recent three years.** Survey 2002 shows that 66.3% companies are of the opinion that the frequency of additional payments or bribes has increased significantly; the corresponding percentage was 78.6 in 2001.

About a steady 79% of the respondents thought that organized crimes impose significant costs on their businesses. Increased percentage indicates that reliance on legal framework and reliability on police service in the context of protection of business is decreasing in the country. Overwhelming share of the companies found the intellectual property right (IPR) regime to be very weak. However, the respondents seem to have moderated their view about the independence of the judiciary between the two surveys.

Factors	2001	2002
Companies stating that judiciary in our country is not independent from political influences of members of government, citizens or firms	64.3	47.9
Companies stating that organized crimes (racketeering, extortion) in the country impose significant costs on businesses	78.6	78.9
Companies supporting that the legal framework in the country for private businesses is insufficient and subject to manipulation	57.1	74.6
Companies stating unreliability of the police services in the context of protection to business	87.5	92.9
Companies stating that intellectual property protection in our country is weak or non existent	80.4	87.3
Companies stating that financial assets and wealth in the country are poorly delineated and not protected by law	46.5	56.4

Size of unofficial business. The maximum percentage of companies thinks that the unofficial business percentage in the country ranges between 21 – 30%. The second most possible range of unofficial business is perceived to be 31 – 50% which is supported by around 20% companies-both in 2001 and 2002.

Unofficial business in the country	2001	2002
Less than 5% of all business	8.9	5.6
6-10%	7.1	4.2
11-20%	10.7	12.7
21-30%	32.1	29.6
31-40%	10.7	11.3
41-50%	12.5	8.5
51-60%	7.1	8.5
61-70%	3.6	4.2
More than 70%	3.6	11.3
Refrain from answering (System Missing)	3.6	4.2

5. INFRASTRUCTURE: POORLY DEVELOPED AND INEFFICIENT

An overwhelming share of the respondents (more than 90% in both the surveys) is of the opinion that the general infrastructure of the country is poorly developed and inefficient. The respondents were most critical about quality of electricity supply, closely followed by assessment about accessibility of new telephone lines and relative cost of mobile telephones. Between the two surveys, the respondents have toned down their perception about the unreliability of postal system and lack of internet access in schools.

Factors	2001	2002
Companies stating that the general infrastructure of the country is poorly developed and inefficient	92.8	90.1
Companies stating about:		
Underdeveloped railroads	82.2	90.1
Underdeveloped waterways	82.2	93.0
Underdeveloped air transport	71.5	78.9
Companies stating that new telephone lines are scarce and difficult to obtain	82.1	94.4
Companies stating that mobile phones are as accessible and affordable as in the world's most technologically advanced countries	78.6	90.1
Companies stating that the quality of electricity supply in the country is worse than most other countries	94.6	95.7
Companies stating about unreliable postal system in the country	84.0	69.0
Companies supporting that internet access to school is very limited	94.6	88.8

6. FINANCIAL SYSTEM: UNSOPHISTICATED AND UNSOUND

Among the factors related to finance and openness, the respondents emphasised the low sophistication level of the financial market and services vis-à-vis the international norms as well as impediments in accessing finance. The view seems to have become stronger between the two surveys.

Majority of the respondents were not sure about the general health of the financial sector including soundness of the balance sheets of the banks. While an overwhelming share of the respondents (more than 80%) stated that it is impossible to obtain loan with only a good business plan and no collateral as well as to obtain venture capital fund for innovative but risky projects.

Factors	2001	2002
Companies stating that the level of sophistication of financial markets in the country is lower than international norms	85.7	88.7
Companies supporting that it is impossible to obtain a loan with only a good business plan and no collateral	85.7	80.3
Companies stating that entrepreneurs with innovative but risky projects cannot generally find venture capital in the country	82.1	80.3
Companies supporting that banks are generally healthy with sound balance sheets	39.2	46.5
Companies stating that raising money is quite possible for a good company	69.6	73.3
Companies supporting hidden import barriers (i.e. barriers other than published tariffs and quotas) as an important problem in the country	46.5	50.8

- **Access to bank credit by the companies.** While 46.4% companies from the Survey 2002 felt that obtaining credit for their companies has become more difficult during the past year, a lower percentage of 32.1% companies in 2001 were of the same opinion.

The cost of explicit import barriers was assessed to be upto 20% by 62.5% of the respondents in 2001. The same was mentioned by 42.3% of the respondents in 2002, indicating a rise in such costs.

Cost raised due to explicit import barriers	2001	2002
Upto 10%	21.4	16.9
11-20%	41.1	25.4
21-30%	12.5	19.7
31-40%	10.7	12.7
41-50%	8.9	5.6
51-60%	1.8	2.8
61-70%	0.0	7.0
71-80%	1.8	4.2
System Missing	1.8	5.6

7. DOMESTIC COMPETITION: PREPONDERANCE OF A FEW BUSINESS GROUPS

More than three-fourth of the respondents maintained that the business in the country is concentrated in a few hands. In 2001, 87.5% of the respondent key executives were of the above opinion, the percentage decreased to 77.4% in 2002. The state of anti-monopoly policy was found to be lax and not effective by the respondents.

Imported goods create competition to the domestic producers, this is a steady opinion of an absolute majority of the respondents (little above 50%).

According to the respondents, starting of a new business seems to have become more difficult and time consuming (62% in 2002). The buyers seem to be increasingly making their choices based on lowest price (about 65% in 2002).

Factors	2001	2002
Companies stating that the competition in the local market is intense in most industries as market leadership changes over time	58.9	59.3
Companies stating that competition in the local market comes primarily from imports	53.6	52.1
Companies supporting that starting a new business in the country is generally extremely difficult and time consuming	42.8	62.0
Companies stating that buyers in the country are unsophisticated and choose based on the lowest price	44.6	64.9
Companies stating that buyers in the country are slow to adopt new products and processes	44.6	53.5
Companies stating that anti-monopoly policy in the country is lax and not effective at promoting competition	69.7	60.5
Companies stating that corporate activity in the country is dominated by a few business groups	87.5	77.4

Companies stating that clusters are limited and shallow in the country	67.9	62.0
Companies stating that in their industries, components and parts are almost always imported	80.3	62.0
Companies stating that in their industries, process machinery is usually imported	96.4	74.6
Companies stating that in their industries, specialized research and training services are not available in the country	78.5	70.4

- **Quality of local suppliers in the country.** While 45.1% companies from Survey 2002 think that local suppliers in the country are non-existent, a lower percentage of 26.8% were of the same opinion in 2001 survey. However, 42.9% companies from 2001 survey feel that they are numerous.

8. COMPANY OPERATIONS AND STRATEGY: NON-RESPONSIVE AND AUTHORITATIVE

Overwhelming majority of the business community believes in the neo-classical theory of comparative advantage, i.e. Bangladesh's strength in the international market is due to low cost or endowment of natural resources. Although this believe seems to have faded a bit in 2002 (83%) in comparison to 2001 (92.9%).

Authoritative trend in management in the companies has been identified to be high as in 2001 about 82% and in 2002 more than 91% of the respondents opined that willingness of the management to delegate authority to subordinates is generally low. Corporate boards seem to be controlled by the management. Compensation of management is exclusively based on salary. Management training schools in the country are limited and/or of poor quality.

Lack of responsiveness to customers, dominance of foreign company in international distribute, limited exports to regional markets are some of the factors underscored by the respondents.

Factors	2001	2002
Companies stating that competitive advantage of their nation's companies in international market is due to low cost or local natural resources	92.9	83.0
Companies supporting that exporting companies in the country are primarily involved in resource extraction or production	78.6	69.0
Companies supporting that companies obtain technology exclusively from licensing or imitating foreign companies	78.6	87.3
Companies supporting that the extent of marketing in the country is limited or primitive	50.0	73.2
Companies stating that firms are highly responsive to customers and customer retention	57.1	46.5
Companies stating that international distribution and marketing from their country takes place through foreign companies	50.1	60.6
Companies supporting that exports from their country to surrounding regions are limited	69.6	84.4
Companies supporting that exporting companies from the country sell primarily in a few foreign markets	62.4	81.6
Companies stating that the general approach of companies to human resources is to invest little in training and employee development	78.6	81.6
Companies stating that willingness of the management to delegate authority to subordinates is generally low	81.9	91.5
Companies stating that compensation of management in the country is based exclusively on salary	80.3	74.7
Companies supporting that management schools in the country are limited or of poor quality	66.0	60.7
Companies stating that corporate boards in the country are controlled by management	87.4	78.9

- **Production Procedures.** Survey 2002 shows that 83.1% companies are of the opinion that, production processes generally use labor-intensive methods or previous generations of process technology. 30.4% companies are of same opinion in 2001 survey. In contrast, a higher percentage in 2001 (39.3% companies) stated that production processes generally employ the world's best and most efficient technology.

- **Criteria for the senior management position.** While only 39.5% companies in 2002 survey are of the opinion that senior management positions are often held by relatives, a higher percentage in 2000 (46.5% companies) were of the same opinion. However, 43.7% companies from Survey 2002 and 34.0% companies in 2001 think that these positions go only to professional managers chosen based on superior qualification.

9. HUMAN RESOURCES: LOW QUALITY AND LOW RETENTION

A frustrating situation was revealed by the survey 2001 as regards the major indicators of effective human resource management in Bangladesh. The situation seems to have further deteriorated according to the Survey 2002.

The respondents thought that the public (free) schools in the country are of poor quality. Particularly, the quality of mathematics and science education in the schools lags far behind. According to the respondents (about 96% in 2002) the tendency to migrate on the part of the scientists and engineers is on the rise.

Factors	2001	2002
Companies stating that the public (free) schools in the country are of poor quality	92.8	88.7
Companies supporting that the hiring and firing of workers is flexibly determined by employers	42.9	46.5
Companies stating that labour-employer relations in the country are generally cooperative	50.0	42.3
Companies stating that wages in the country are up to each individual company	60.7	69.0
Companies stating that payment to the worker in the country is not related to worker productivity	69.7	66.2
Companies supporting that the difference in the quality of the healthcare available to rich and poor people in the country is large	96.4	88.7
Companies stating that math and science education in the country's schools lag far behind most other countries	55.3	64.7
Companies supporting that scientists and engineers in the country are widely available	51.8	47.8
Companies supporting that migration tendency of the scientists and engineers in the country	85.6	95.8

10. PERCEPTION ABOUT TECHNOLOGY: LOW INDIGENOUS CAPABILITY

An overwhelming portion of the respondents of both the surveys were of the view that technology in the country lags behind most other countries. Curiously, a decreasing share of the respondents opined that FDI is an important source of new technology in Bangladesh. Companies in Bangladesh also do not spend much on R&D, their collaboration with local universities is non-existent and growth programmes for promoting ICT are not very successful.

Factors	2001	2002
Companies supporting that technology lags behind most other countries	91.0	85.9
Companies supporting that continuous innovation plays a major role in generating revenue in the business,	71.5	67.7
Companies supporting that FDI is an important source of new technology	60.7	47.9
Companies supporting that the companies in the country are aggressive in absorbing new technology	44.6	46.5
Companies stating that scientific research institutions in the country are non-existent	55.4	57.8
Companies stating that companies in Bangladesh do not spend much money on R&D	75	84.6
Companies stating that their business collaboration with local universities in R&D activity is minimal or non-existent	76.8	87.3
Companies stating that government purchase decisions for the procurement of advanced technology products are based solely on price	55.4	77.4
Companies stating that government programmes promoting the use of ICT are not very successful	64.2	76.1
Companies stating that laws relating to information technology are non-existent	76.7	78.8
Companies stating that there is sufficient competition among the Internet Service Providers	46.4	47.9
Companies stating that ICT are an overall priority for the government	37.4	56.4

- **Licensing of Technology.** 46.5% companies from Survey 2002 are of the opinion that licensing is a common mean of acquiring new technology. However, 33.4% companies of Survey 2001 are of the same opinion.

- **Government subsidies and R &D tax credits.** As per Survey 2002 77.5% of the firms conducting R&D in the country opined that direct government subsidies to individual companies or government R&D tax credits to firms for research and Development never occurs.

11. ENVIRONMENTAL POLICY: LAX REGIME

Overall environmental regulation was described as lax, although concerned share of respondent seems to have decreased marginally in 2002 (from 89.2% to 81.3%).

Responses to seven queries were found to be highly negative (above 80%), responses to three queries were moderately negative (between 50 to 80%) and three responses were found to be negative (less than 50%). However, in two instances (i.e. delay in enacting environmental regulations, utilization of environmental management system), as per the respondents, the situation seems to have deteriorated further. In another two cases (relating to enforcement of environmental regulations and compliance with the environmental standards) the respondents remained more or less indifferent between the two surveys.

Factors	2001	2002
Companies stating that environmental regulation overall is lax compared to most other countries	89.2	80.3
Companies considering the pollution situation to be lax in comparison to other countries:		
Air pollution	92.9	88.7
Water pollution	96.4	88.7
Companies supporting that toxic waste disposal is lax in comparison to most other countries	94.6	91.6
Companies supporting that chemicals used in manufacturing is lax in comparison to most other countries	94.6	90.1
Companies stating that Government subsidies in the country encourage inefficient use of energy or materials	44.6	43.6
Companies stating that the country normally enacts environmental regulations much later than other countries	82.1	90.2
Companies strongly disagreeing with the argument that “compliance with environmental agreements is a high priority in the country’s government”	64.3	48.0
Companies stating that environmental regulations in the country are confusing and frequently changing	66.1	57.8
Companies stating that environmental regulations in the country offer no options for achieving compliance	57.1	50.6
Companies stating that environmental regulations in the country are not enforced erratically	85.7	85.9
Companies supporting that complying with the standards helps long-term competitiveness by prompting companies to improve products and processes	37.5	38.0
Companies supporting that almost no company in the country utilize any environmental management systems such as ISO 14000	86.3	88.8

- **Ways to achieve environmental gains benefits.** While 39.5% of the respondents from Survey 2002 think that the environmental gains are achieved through government-business cooperation and voluntary corporate action, a larger percentage in 2001 (28.6%) were of the same opinion. 37.5% companies from Survey 2001 were of the opinion that environmental gains in the country are achieved through adversarial and legal means.

COMPETITIVENESS ENVIRONMENT IN BANGLADESH 2001 & 2002

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