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COMPETITIVENESS ENVIRONMENT IN BANGLADESH 2003
and
GLOBAL COMPETITIVENESS REPORT 2003-04

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CPD Study on
COMPETITIVENESS ENVIRONMENT IN BANGLADESH 2003

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I. INTRODUCTION

In 2003, for the third consecutive year, the *Centre for Policy Dialogue* (CPD) has conducted a survey to assess the state of competitiveness environment in Bangladesh. The survey was executed as a part of CPD's contribution to the *Global Competitiveness Report (GCR) 2003-04* prepared for the *World Economic Forum* (WEF) (better known as the *Davos Meeting*).[1] WEF initiated the annual competitiveness Report in 1979 and since 1996 GCR is prepared in collaboration with the Harvard University (by a team led by Professor Michael Porter) and with support from partner organisations across the world. CPD is the partner institute of the WEF in Bangladesh.

The Global Competitiveness Report 2003-04 of the World Economic Forum is being launched today (October 30, 2003) globally. In this context, the present press briefing has two main objectives:

(i) To share information, based on the GCR 2003-04, about Bangladesh's comparative global status with respect to growth competitiveness and business environment in the country.

(ii) To report on the detailed2 findings of the CPD Study on *Competitive Environment in Bangladesh* based on its Executive Opinion Survey of 2003.

Scope and Coverage of GCR 2003-04

The GCR addresses a range of competitiveness dimensions. It examines *growth competitiveness, microeconomic competitiveness, state of the world economy, governance,* and *environmental performance.* For estimation of these indices both "hard data" and "survey data" are used.

Country coverage of GCR 2003 is significantly higher than that of the previous year (2002) – up from 80 to 102 countries. Particular effort was undertaken to increase the coverage of the African countries - up from 8 to 25. From South Asia, Pakistan has been included for the first time in GCR 2003. Countries covered by GCR 2003 account for 97.8% of the world's GDP.

[1] 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.

A unique and evolving methodology is used to calculate the country rankings by combining publicly available data with survey data which capture the perceptions and observations of business leaders operating in a particular country. GCR 2003-04 is based on an analysis of a record number of 7,741 responses to the Executive Opinion Survey, conducted in collaboration with a network of 104 partner institutes in 102 countries.

Scope and Coverage of CPD Survey 2003

The Executive Opinion Survey carried by the CPD is informed by three main objectives:

- To elicit information on competitiveness environment in the country for identifying the major bottlenecks and impediments which constrain the functioning of the business sector of the country;
- To generate information on positive achievements of the country in terms of the trends in the economy with respect to competitive environment for investment and trade;
- To provide inputs to the policymakers and stakeholders in their efforts to prioritise the areas for improving the economic governance in the country through focussed initiative.

The Executive Opinion Survey conducted by CPD dealt with issues related to *macroeconomic stability, quality of services provided by public institutions, corruption, infrastructure, technology, environmental situation* and *role of international financial institutions.* The respondents also expressed their assessment of the growth prospect of Bangladesh in 2004.

Survey Design. The CPD’s survey on Bangladesh conducted for the GCR 2003-04, covered 81 companies. The survey was carried out in March-May, 2003. All the companies surveyed, apart from two, are from Dhaka. The two companies outside Dhaka include one from Khulna and another from Gazipur.

The survey included relatively big companies, i.e. which have total assets not less than Tk. 10 crores (Tk. 100 million). Twenty two percent of the surveyed companies had less than 100 employees; 44.4% had employees between 100 and 1000; about 26% companies had employees between 1000 and 5000.

Of the 81 respondent companies, 27 are manufacturing activities, 23 are financial institutions, 10 are in real estate and construction business, 8 are in information and communication technology (ICT) sector, and 6 are in wholesale and retailing business. Rest (7 companies) are engaged in transport, storage and telecommunication, health and social works, agriculture, hunting and forestry, energy and electricity, etc. In other words, 33.3% companies are involved in manufacturing, 28.4% are financial institutions, 12.3% are from real estate and construction business, about 9.9% are ICT firms, and 7.4% are wholesale and retail industry.

Of the surveyed companies, 31.5% of the companies are entirely domestic market oriented, whilst 17.5% companies are exclusively export oriented companies. The rest 51% of the companies are involved in both domestic market and export related operations. About 73% of the respondent companies are under full domestic ownership, while the rest 27% are either fully foreign investment or joint venture.

After an introductory briefing about the background of the survey, a structured questionnaire was administered to the Chief Executive Officer (CEO) of the respondent firm. It was ensured that the respondent in the company was a member of the top level management team of the company. The CEO himself/herself or his/her nominee filled in the questionnaire which was then returned to the CPD.

II. BANGLADESH'S COMPETITIVENESS RANKING: COMPARATIVE STATUS FROM GCR 2003-04

According to the GCR 2003-04, Bangladesh's global competitiveness ranking has deteriorated further between 2002 and 2003.

GCR presents competitiveness ranking of different countries using two indices, namely *Growth Competitiveness Index* (GCI) [2] and *Business Competitiveness Index* (BCI)[3]. This year (2003-04) number of countries covered has been increased to 102 for GCI estimation and 95 for BCI estimation. **For the year 2003, GCI Ranking puts Bangladesh at 98th position out of 102 countries and BCI Rank of Bangladesh is 86 out of 95 countries** (See Box 1 & 2 of Table 1). This indicates that competitiveness of Bangladesh in terms of growth and business are among the poorest in the world.

In the South Asia region, all the three assessed countries, viz. India, Sri Lanka and Pakistan have fared much better than Bangladesh in terms of both GCI and BCI.

Table 1
Bangladesh's Global Rank in GDI and BCI in 2003

Indicator	Year	Ranking	Comments
Growth Competitiveness Index (GCI) Ranking	2003	98 (out of 102 countries)	Other South Asian countries included in this ranking are India, Pakistan and Sri Lanka, which ranked 56, 73 and 68 respectively. Pakistan is added in the report for the first time.
Business Competitiveness Index (BCI) Ranking	2003	86 (Out of 95 countries)	India ranks 37, Pakistan ranks 72 and Sri Lanka ranks 57 in the business competitiveness ranking.
Growth Competitiveness Index (GCI) Ranking	2003	79 (Among 80 countries covered last year)	India ranked 53 and Sri Lanka ranked 64.
Business Competitiveness Index (BCI) Ranking	2003	75 (Among 80 countries covered last year)	India ranked 37 and Sri Lanka ranked 56.
Growth Competitiveness Index (GCI) Ranking	2002 *(Applying formula used in 2003-04 Report)*	77 (Out of 80 countries)	India ranked 54 and Sri Lanka ranked 59.
Growth Competitiveness Index (GCI) Ranking	2002 *(Applying formula used in 2003-04 Report)*	74 (Out of 80 countries)	India ranked 37 and Sri Lanka ranked 47.

[2] The **Growth Competitiveness Index** (GCI) analyses the potential of the world's economies to attain sustained economic growth over the medium and long term. The index is founded on three central components: the macroeconomic environment, the quality of public institutions, and technology.
[3] The **Business Competitiveness Index** (BCI) tries to identify the factors that underpin high current productivity and, hence, current economic performance measured by the level of GDP per person. It reflects microeconomic fundamentals, with one subindex that focuses on company sophistication and another on the quality of the business environment.

It may be noted that last year (2002-03) 80 countries were covered for competitiveness ranking (for both GCI and BCI). The World Economic Forum has adopted in 2003 an improved competitiveness estimation formula. **According to this new formula and among the 80 countries covered last year, Bangladesh's GCI ranking dropped between 2002 and 2003 from 77 to 79, while Bangladesh's BCI ranking slid from 74 to 75** (See shaded Box 2-4 of Table 1). Last year Honduras, and Zimbabwe were behind Bangladesh in terms of GCI ranking, but this year they ranked better than Bangladesh. In case of BCI, this year, Ecuador has performed better than Bangladesh and thus, Bangladesh moved down further in terms of BCI ranking.

Table 2

GCI and BCI Component Ranks of Bangladesh in 2003

A. Growth Competitiveness Index Rank (out of 102 countries)	**98**
A.1 Macroeconomic Environment Index Rank	**72**
Macroeconomic Stability Sub-index Rank	55
Government Waste Sub-index Rank	88
Country Credit Rating Rank	75
A.2 Public Institutions Index Rank	**100**
Contracts and Law Sub-index Rank	86
Corruption Sub-index Rank	102
A.3 Technology Index Rank	**95**
Innovation Sub-index Rank	91
ICT Sub-index Rank	99
Technology Transfer Sub-index Rank (out of 77 non-core innovators)	61
B. Business Competitiveness Index Rank (out of 95 countries)	**86**
B.1 Sophistication of Company Operations and Strategy Rank	**86**
B.2 Quality of the National Business Environment Rank	**85**

Table 2 presents the global ranks of the three constituent components of GCI and two other of BCI relating to Bangladesh. **The GCI components shows that the ranking of the country's *Macro-economic Environment Index* (72) is much better than the other two (*Technology Index* – 95 and *Public Institutions Index* - 100).** In case of BCI, the ranks for *Sophistication of Company Operation and Strategy*, and *Quality of National Business Environment* are both low and about the same (86 and 85 respectively).

The countries located below Bangladesh are the following:

(a) for GCI – Mali, Angola, Chad and Haiti

(b) for BCI – Mozambique, Nicaragua, Honduras, Ethiopia, Paraguay, Bolivia, Chad, Haiti and Angola.

III. COMPETITIVENESS ENVIRONMENT IN BANGLADESH: FINDINGS OF THE CPD SURVEY 2003

III.1 Government and Public Sector: Low Competence and Declining 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. Low trust in politicians has dropped to new depth.

- Most of the companies (87.7%) stated that administrative regulations in the country are burdensome.
- An overwhelming majority (85.2%) of the companies stated that government officials usually favour well-connected firms and individuals while deciding upon policies and contracts.
- A large majority (82.7%) of the respondents thought that the competence of public sector personnel are lower than that of private sector.
- About 73% companies reported that government subsidies to business in the country keep uncompetitive industries artificially alive. The share shows some improvement over 2002 figure.
- Three out of every four companies stated that unfair or corrupt activities of other firms impose large costs on their own firms.
- **Most of the respondents (96.3%) were most emphatic about absence of public trust in the honesty of the politicians. It seems over the years, trust in the honesty of politicians is experiencing secular decline (91.1% in 2001 and 95.6% in 2002).**

III.2 Public Institutions: High Incidence of Unofficial Transactions and Vulnerable Property Rights

Most of companies are making extra-payments or bribes in connection with procuring government permits, accessing public utilities, filing tax returns and loan applications. **Ninety percent of respondents indicated that they made extra payments for getting connection to public utilities like telephone or electricity.** About 88% respondents reported that they had to bribe for tax payment, about 83% respondents made extra payments in connection with loan application, while 77.7% made extra payment for getting import and export permits.

- ***Frequency of Bribes:*** Sixteen out of 81 companies refrained from answering this question. **Among the 65 respondent executives, two-third were of the opinion that frequency of additional payments or bribes has increased significantly.** In contrast, 9.2% thought that frequency of bribes has somewhat decreased, while rest of the respondents (23%) was not sure about the situation.
- ***Organised Crimes:*** **About a steady 75.3% of the respondents thought that organized crimes impose significant costs on their businesses.** This high percentage indicates that reliance on legal framework and reliability on police service in the context of protection of business is marginal in the country.
- ***Independence of Judiciary:*** **More than two-third of the companies (68%) stated that judiciary is not independent from political influences of members of the government, citizens or firms.** The survey suggests that the independence of judiciary has eroded further as comparable figure for 2002 was about 48%.
- ***Property Right and Legal Framework:*** One out of every two companies stated that financial assets and wealth in the country are poorly delineated and not protected by law.
- More than 70% companies thought that the legal framework in the country for private businesses is not adequate and subject to manipulation.
- More than 86% companies stated that intellectual property protection in the country is weak or non-existent.
- ***Police:*** **About 89% companies underscored unreliability of the police services in the context of protection to business.**
- ***Size of unofficial business:*** 11 company executives refrained from answering this question. Out of 70 respondents, majority (51.4%) thought that unofficial business in the country ranges between 21-50% of the total business in Bangladesh. The second most possible range of unofficial business was reported to be "more than 50%" by 27% of the respondents.

III.3 Infrastructure: Poorly Developed and Inefficient for Business Support

A steady and overwhelming number of the respondents (91.7%) were of the opinion that the general infrastructure of the country is poorly developed and inefficient

- Poor quality of rail roads (86.4%), waterways (88.9%) and air transport (79%).

- 91.3% companies stated that new telephone lines are scarce and difficult to obtain.
- **Interestingly, 88.9% companies stated that mobile phones are as accessible and affordable as in the world's most technologically advanced countries.**
- **Most of the companies (96.3%) stated that the quality of electricity supply in the country is worse than most other countries. It seems the respondents are of the opinion that the quality of electricity supply has deteriorated during the elapsed year in the country (95.7% in 2002).**
- **About 76.5% companies stated about unreliable postal system in the country. It appears that quality of the postal service has declined since 2002 (69% in 2002).**
- 91.4% companies supported that internet access to school is very limited.

III.4 Financial System: Unsound and Unsophisticated

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 over the years.

About half of the respondents (45.7%) 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 82%) stated that it is impossible to obtain loan with only a good business plan and no collateral. It is also difficult to obtain venture capital fund for innovative but risky projects (more than 85%).

However, a large share of respondents (76.6%) indicated it is quite possible to raise money for a good company.

- ***Access to bank credit by the companies.*** **42% felt that access to bank credit has become easier. One-third of the companies opined that obtaining credit for their companies has become more difficult during the past year.**
- ***Import Barriers.*** The cost of explicit import barriers was assessed to be upto 30% by 58% of the respondents in 2003. Situation has slightly improved compared to last year.
- More than half of the respondents identified hidden input barriers (i.e. barriers other than published tariffs and quotas) as an important problem in the country.

III.5 Domestic Competition: Oligopolistic Market Structure and Dependence on Imported Supplies

More than three-fourth of the respondents maintained that the business in the country is concentrated in a few hands. The state of anti-monopoly policy was found to be lax and not effective. The situation seems to have deteriorated compared to 2002.

- It appears that competition in the domestic market has increased, primarily due to liberalised imports. An increasing share of respondents (up to 62% in 2003 from 52% in 2002) held this view.
- According to the respondents, starting of a new business is still very difficult and time consuming, though the situation has slightly improved.
- ***Consumers Choice.*** The buyers appear to be increasingly making their choices based on lowest price (about 73% in 2003 and 65% in 2002). More than half of the companies reported that buyers are slow to adopt new products and processes.
- ***Quality of local suppliers in the country***. The respondents expressed two opposing views. A large number of companies (44.4%) observed that local suppliers in the country are non-existent; while 38.3% companies expressed that there are numerous local suppliers. This may express sectoral variations.
- However, it was also pointed out that proportion of companies using imported process machinery (86.4%) as well as components and parts (79.1%) has increased.
- A large number of respondents (86.4%) reported that specialised research and training services are not available in the country.

III.6 Company Operations and Strategy: Narrow Market Base and Authoritative Style in Management

Overwhelming majority of the business community (about 90%) seems to believe 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. This belief has strengthened further in 2003. 88.3% companies are of the opinion that, production processes generally use labor-intensive methods or previous generations of process technology. Exporting companies (69.1%) are generally involved in resource extraction and production.

85% of the respondents mentioned that corporate activities in the country is dominated by a few business groups. This share has gone up from 77.4% in 2002 indicating further concentration of market power in the country.

Authoritative trend in management in the companies has been identified to be high. About 90% of the respondents opined that willingness of the management to delegate authority to subordinates is generally low. Compensation of management is exclusively based on salary (79%). Management training schools in the country are limited and/or of poor quality (71%). Interestingly, there has been a significant fall in proportion of respondents (to 33.3% in 2003 from 78.9% in 2002) stating that company boards are controlled by management. **Majority of respondents (53.1%) were of the opinion that relatives often hold senior management positions.**

- **Most of the companies (87.7%) reported that companies exporting from the country primarily concrete on a few foreign markets. Dominance of foreign companies in international distribution (61.7%), and limited exports to regional markets (85.1%) are two other factors underscored by the respondents.**
- Most of the companies (90.1%) indicated that companies obtain technology exclusively from licensing or imitating foreign companies.
- About 89% respondents stated that companies generally do not invest in human resources including training and employee development.

III.7 Labour Force: Deteriorating Quality and Low Retention of Skills

A frustrating situation was revealed as regards the major indicators of effective human resource management in Bangladesh. The situation seems to have deteriorated further in 2003, particularly in areas of quality of education and access to health care. Migration tendency of technical people remains very high.

- **An overwhelming proportion of the respondents (90.2%) 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, and further deteriorated in 2003.**
- Similarly, most of the respondents (93.9%) felt that there was wide discrepancy in the quality of the healthcare available to the rich and the poor people in the country.

- According to the respondents (about 93.9%) the tendency to migrate on the part of the scientists and engineers has always been very high.
- On the other hand, more than 55% companies thought that scientists and engineers in the country are readily available

It was also observed that although flexibility in the labour market has increased, it remains alienated for productivity trend. Hiring and firing is flexibly determined by the employers (50.6%). Fixation of wages are up to each individual company (79%). It was stated (67.9%) that payment to the worker is not related to productivity. **More importantly, a decline in cooperative relationship between labor-employer was observed (from 42.3% in 2002 to 37.0% in 2003).**

III.8 Perception About Technology: Low Indigenous Capability

A steady and overwhelming portion (86.5%) of the respondents viewed that technology in the country lags behind most other countries. An increasing 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 programmes for promoting ICT are not very successful.

- A large number of companies (70.4%) indicated that continuous innovation has played a major role in generating revenue in the business.
- ***ICT Regime.*** An overwhelming majority of the companies (84.0%) stated that appropriate laws relating to information technology are non-existent.
- 58% of the companies thought that there is insufficient competitive on among the internet service provider.
- Two out of every three companies thought that ICT development is an overall priority for the government.
- ***Licensing of Technology.*** 44.5% companies are of the opinion that licensing is a common means of acquiring new technology.
- A large number of companies stated that government purchase decisions for procurement of advanced technology products are based entirely on price
- ***Government subsidies and R &D tax credits.*** **82.7% of the firms conducting R&D in the country opined that there was no direct government subsidies to individual**

companies or government R&D tax credits to firms for R&D. This was higher than the previous year (77.5%).

- **More than half of the companies (59.3%) stated that scientific research institutions in the country are non-existent. On the other hand, 82.7% of the respondents pointed out that companies in Bangladesh do not spend much on R&D.**

III.9 Environmental Regime: Signs of Improvements in Regulatory Framework and Standard Setting

Overall environmental regime in Bangladesh has been described as lax, although the share of respondents having a critical view has declined from 70.3% to 81.3% between 2002 and 2003. However, about 57% of the respondents do not think compliance with environmental agreements is a high priority of the government. The state of both air and water pollution has been considered to be very poor (74.1% and 81.6% respectively), although there are signs of improvements.

Toxic waste disposal system (84%) and use of chemicals in manufacturing (85%) are considered to be lax. Government is slow (85.2%) in enacting environmental regulations, and regulations in the country are frequently changing and confusing (64.2%), and enforced erratically (34.5%), and environmental regulations offer no option for compliance (44.5%). **82.7% of the respondents maintained that no company in the country utilize any environmental management system (e.g. ISO 14000).** It is interesting to note that 54.2% of the companies think government subsidies encourage inefficient use of energy. However, the most curious finding was that a small share (34.1%) of the companies think that compliance with the standards help in term of long term competitiveness.

- ***Ways to achieve environmental gains.*** While 32.2% of the respondents in the Survey 2003 think that environmental gains are achieved through government-business cooperation and voluntary corporate action, **a larger percentage (45.6%) are of the opinion that adversarial and legal means are more effective in this regard. The share of proponents of the adversarial and legal ones seems to be increasing.**

III.10 International Institutions: Marginally Effective

The respondents also provided their opinions on the role of some international financial institutions (IFIs) (i.e. the *World Bank, International Monetary Fund, Asian Development Bank* and *International Financial Corporation*) working in Bangladesh. The role of the IFIs were assessed in the context of (i) Promoting a pro-private sector development/pro-investment climate and (ii) Promoting a socio-economic development and poverty alleviation. It may be noted that in all four cases, a large majority of the respondents either had very low opinion or were unaware (ranging from 46% for ADB to 64% for World Bank) about the effectiveness of these institutions. **However, according to the respondents, amongst the four, ADB is relatively more effective (44%), followed by IMF (42%). The World Bank and its affiliate IFC together ranked third (36%).**

III.11 Most Problematic Factors in Doing Business

Companies were asked to identify and rank five top most problematic factors for their business from a list of 14 issues. **According to the survey 2003, the single largest share of respondents (45.7%), reckon that the most inhibiting factor of doing business in Bangladesh is corruption. The other four important factors in descending order of importance are "inefficient bureaucracy" (28.4%), "inadequate supply of infrastructure" (18.5%), "crimes and theft" (14.8%), "policy instability" and "access to financing" (12.9%% each). It is interesting to note that policy stability and constrained access to finance have been pushed down this year in line up of the concerns of the entrepreneurs giving way to such issue as "crime and theft".**

Problematic Factor	***Ranking***	***Percentage***
Corruption	1	45.7
Inefficient Government bureaucracy	2	28.4
Inadequate supply of infrastructure	3	18.5
Crime & Theft	4	14.8
Policy Instability	5	12.3
Access to financing	5	12.3

IV. ECONOMIC OUTLOOK FOR 2004

A substantial majority of the respondents of CPD's Executive Survey 2003 indicated a depressed outlook on the expected performance of the Bangladesh economy in the coming year. **66.7% of the respondents, in varying degree of certainty, opined that the Bangladesh economy may experience recessionary trends in 2004.** Conversely, 17% of the respondents indicated that they expect a steady growth in the coming year.

Description	**Percentage**	
Will likely be in a recession in 2004: Fully agree	7.4	
Will likely be in a recession in 2004: Largely agree	28.4	66.7%
Will likely be in a recession in 2004: Somewhat agree	30.9	
Indifferent between the 2 possibilities	16.0	
Will have strong growth in 2004: Somewhat agree	14.8	
Will have strong growth in 2004: Largely agree	1.2	17.2%
Will have strong growth in 2004: Fully agree	1.2	
Number of observations	**81**	