

Impact of the Global Economic Crisis on the
Employment and Labour Market of Bangladesh
A Preliminary Assessment

Paper 80

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In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of the CPD include **The Independent Review of Bangladesh's Development (IRBD), Trade Related Research and Policy Development (TRRPD), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Environment and Natural Resources Management, and Social Sectors**. The CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns. With a view to promote vision and policy awareness amongst the young people of the country, CPD is implementing a **Youth Leadership Programme**.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out **CPD Occasional Paper Series** on a regular basis. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series. The Occasional Paper Series also include draft research papers and reports, which may be subsequently published by the CPD.

The paper titled "Impact of the Global Economic Crisis on the Employment and Labour Market of Bangladesh" is a preliminary output of the study on *Rapid Assessment: Impact of the Global Economic Crisis on the Social Dimensions in Bangladesh*. The study is being conducted as part of joint collaboration between the CPD and the International Labour Organization (ILO). The objective of the study is to examine and analyse the impact of ongoing global economic crisis on social dimensions in the context of Bangladesh, particularly focusing on employment, labour market, protection of labour rights, safety net programmes and resource allocation. The study will assess initiatives taken by the government of Bangladesh to address the attendant challenges. The study will put forward short and medium term policy suggestions to mitigate possible adverse social effects of the crisis on workers and other vulnerable groups of the society.

The paper has been prepared by Professor Mustafizur Rahman, Executive Director, CPD, Dr Khondaker Golam Moazzem, Senior Research Fellow, CPD and Syed Saifuddin Hossain, Senior Research Associate, CPD.

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Acronyms

ACU	Asian Clearing Union
AIDS	Acquired Immune Deficiency Syndrome
ARG	America's Research Group
BB	Bangladesh Bank
BDT	Bangladeshi Taka
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BJMA	Bangladesh Jute Mills Association
BJSA	Bangladesh Jute Spinners Association
BKMEA	Bangladesh Knitwear Manufactures & Exporters Association
BMET	Bureau of Manpower Employment and Training
BOI	Board of Investment
BTMA	Bangladesh Textile Mills Association
CC	Cash Credit
CM	Cutting and Making
CPD	Centre for Policy Dialogue
DDR	Doha Development Round
DF-QF	Duty Free-Quota Free
DG	Director General
DSE	Dhaka Stock Exchange
DWCP	Decent Work Country Programme
DWT	Deadweight Tonne
EIU	Economist Intelligence Unit
EU	European Union
FDI	Foreign Direct Investment
FRD	Fund for Research and Development
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFH	Gulf Finance House
GoB	Government of Bangladesh
GSP	General System of Preferences
ILO	International Labour Organization
IMF	International Monetary Fund
IRBD	Independent Review of Bangladesh's Development
LDCs	Least Developed Countries
MoU	Memorandum of Understanding
NBR	National Board of Revenue
NPDA	New Partnership for Development Act
ODA	Overseas Development Aid
PEDP-II	Second Primary Education Development Programme
PFDS	Public Food Distribution System
RMG	Readymade Garments
SME	Small and Medium Enterprise
SUF	Skill Upgradation Fund
TUF	Technology Upgradation Fund
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD	United States Dollar
WB	World Bank
WTO	World Trade Organization

I. INTRODUCTION AND OBJECTIVES

The contagion affects of the global economic crisis which originated in the collapse of USD 8 trillion US housing market bubble, has now deepened and broadened its adverse impacts across countries and in different forms. An economic downturn has now degenerated into recession, and while developed countries were the first to feel the heat, developing and least developed countries (LDCs) have also now started to suffer from the consequences of the crisis, to various degrees. Projections of Gross Domestic Product (GDP) growth of developed economies and economies in transition published regularly provide a bleak picture about how the scenario could evolve in 2009. Experts tend to agree that the recession will continue and deepen in 2009; according to the January 2009 Report of the International Monetary Fund (IMF), world economy was unlikely to achieve more than 0.5 per cent growth in 2009. A common refrain, oft-repeated and widely circulated, is that *things will get worse before they start to get better*. The related discourse with regard to the crisis has now shifted from 'where did it all originate' and 'who were the main culprits' to 'what are the possible consequences' and 'how the adverse impacts should be best addressed'.

Economic recessions tend to have adverse impact on all sectors and sections of the society; however it is the poor and working class which generally suffers from the worst consequences first. Recessions have negative impact on both employment and labour market. According to Global Employment Trends Report, published by the International Labour Organization (ILO), a total of 18 million to 30 million workers would be unemployed in 2009 and if the situation worsens, the number could increase to even 50 million. In South Asia, the number of unemployed workers would increase within a range of 0 (unchanged scenario) to 2 million (adverse impact scenario), while the rate of poverty could increase by -1.3 to 2.7 per cent (as per the possible two scenarios projected by the ILO). Some of the South Asian countries, such as India have been taking safeguard measures in view of the crisis; however, in low income countries such as Bangladesh appropriate policies and measures in support of sectors and workers which could be adversely affected are yet to be designed or thought of.

In view of this, ILO's initiative to assess the impact of the financial crisis on employment and labour market of South Asian economies and develop alternative policy responses to mitigate the adverse social effects of the crisis on the world of work, especially the vulnerable groups, is timely and addresses a key emerging concern. The Bangladesh country study is part of this South Asia wide study, and the *Centre for Policy Dialogue* (CPD) has been entrusted with carrying out this part of the regional study. The study will be carried out in two phases: a rapid assessment study to be followed by a more indepth

study of the impact of recession on the labour market of Bangladesh which will focus on required policy responses.

The overall objectives of the CPD country study are threefold:

- (a) To assess the likely impact of the global economic crisis on the Bangladesh economy, particularly its social impacts in terms of employment, labour market, and social protection, with a focus on export sectors and overseas migrant workers.
- (b) To develop policy responses to mitigate the adverse social effects of the crisis on the world of work, especially the vulnerable groups.
- (c) To identify areas of assistance that may be provided by ILO within its Decent Work Country Programme (DWCP) for Bangladesh.

As was indicated above, the assessment is designed to be carried out in two stages: (a) an initial review that will lay down some basic issues based on preliminary findings collated from secondary sources, and (b) a detailed assessment of the crisis over a longer period based on interviews, sample surveys, and consultations with government officials and other stake holders.

This report is the initial review of the impact of the economic crisis on various macroeconomic performance indicators. It also attempts to foresee the impact of these developments on employment and labour market scenarios of Bangladesh.

II. LITERATURE REVIEW

Economic recession has consequences for the labour market in different ways depending upon the nature and extent of its impact and depth, and the sectors that tend to have suffered from the worst impact. For example, *Betcherman and Islam (2001)* pointed out that during the Asian crisis unemployment increased, earnings of workers fell and workers rights were endangered; consequently various adjustments took place in the labour market such as internal and international migration and participation in informal sector. *Jones, Hull and Ahlburg (2000)* noted that unemployment rate increased in all the crisis affected-countries, mainly in urban areas and was concentrated in the construction, finance, real estates and manufacturing sectors. *Knowles, Pernia and Racelis (1999)* pointed out that employment in agriculture and services sector has increased in several countries during the financial crisis. *Horton and Mazumdar (2001)* found that labour participation rate decreased more for vulnerable groups, such as young workers, women and older workers compared to that of prime-age males in both absolute and relative terms in the South East Asian region during the time of crisis. *Pernia and Knowles (1998)* identified that female workers are more likely to lose their jobs than their male counterparts as they are mostly the secondary earners and they usually do not belong to labor unions. However, *Moon, Lee and Yoo (1999)* revealed that males were more adversely affected than female in Korea during the crisis in 1990s. *Knowles, Pernia and Racelis (1999)* found that the main form of impact of the crisis in the informal sector is the decline in the real income per worker rather than open unemployment. According to *Betcherman and Islam (2001)* the increased contribution of self-employed and unpaid family workers in the relative shares indicates that many workers move from formal to informal sector.

Overseas migrant workers, working in South East Asia, were seriously affected during the financial crisis. *Manning (2002)* found that three of four crisis affected countries (Malaysia, Korea, Thailand, Hong Kong) which imported workers had curtailed worker intake. *Abubakar (1999)* described that in some cases migrant workers were forced to work longer hours. *Sek-hong and Lee (1998)* stated that local workers were more adversely affected than the guest workers in Hong Kong. According to *Battistella and Asis (1998)* a large number of Bangladeshi workers who worked in the construction and services sector in Malaysia lost their jobs; as repatriation was not easy, most of them became undocumented migrant workers. Singapore's migrant workers were not severely affected, and *Hui, Weng-Tat (1998)* mentioned that this mainly owed to Singapore's emphasis on workers' performance rather than nationality in case of retaining workers. Owing to the Asian Financial Crisis, there was a substantial decline in outward transfer of remittances from the affected countries (*Ahmed, 1998*).

A survey of literature pertaining to the East Asian financial crisis of the 1990s indicate that in the context of a global economic crisis the most vulnerable areas of countries such as Bangladesh are likely to be export-oriented sectors, manpower export, remittance and domestic resource mobilisation. Aid inflow could also be hit by the crisis. All such developments were likely to have adverse impact on workforce employed in those sectors and the labour market associated with those developments. It is important that a review of the repercussions of the current crisis is carried out both at the level of Bangladesh's partners in the global economy, and also at the level of the domestic economy with its various sectoral dimensions.

III. IMPLICATIONS OF THE CRISIS AT INTERNATIONAL LEVEL

III. 1 Projection of Economic Growth of Developed and Developing Countries

Projections made by alternative sources indicate that the global economic melt down, which started in 2008, is likely to continue and further deepen in 2009 (Table 1). IMF's World Economic Outlook published in January, 2009 portrayed a bleak picture of global economic growth for 2009 with the situation improving in the next year (0.5 per cent in 2009 and 3 per cent in 2010). Although US and EU, two major economies, registered positive growth during 2008 (1.4 per cent and 1.2 per cent respectively), both of these were likely to face negative growth in 2009 (-1.6 per cent and -2.0 per cent respectively), before they revert back in 2010.¹

The downturns observed in the developed countries have started to progressively affect advanced, emerging and other developing economies. Economic growth of Middle East countries in 2009 was likely to be 3.9 per cent, about 1.5 times lower compared to that in 2008, which was mainly related to lower crude oil price, drying up of foreign capital and declining demand for the region's energy-intensive industrial and building materials (Gulf Cooperation Council (GCC) Economics and Strategy Report for the fourth quarter of

TABLE 1: GROWTH PROJECTIONS FOR MAJOR ECONOMIES

	Actual 2007	Actual 2008	November 2008 Report		January 2009 Report	
			2008	2009	2009	2010
World Output	5.20	3.40	3.70	2.20	0.5	3
US	2.00	1.10	1.40	-0.70	-1.6	1.6
Euro area	2.60	1.00	1.20	-0.50	-2	0.2
Germany	2.50	1.30	1.70	-0.80	-2.5	0.1
France	2.20	0.80	0.80	-0.50	-1.9	0.7
Italy	1.50	-0.60	-0.20	-0.60	-2.1	-0.1
UK	3.00	0.70	0.80	-1.30	-2.8	0.2
Middle East	6.40	6.10	6.10	5.30	3.9	4.7
China	13.00	9.00	9.70	8.50	6.7	8
India	9.30	7.30	7.80	6.30	5.1	6.5

Source: IMF, World Economic Outlook Updates

¹ Within EU, all major economies have registered low level of growth in 2008 and were likely to face negative growth in 2009: Germany (1.7 per cent and -0.80 per cent), UK (0.8 per cent and -1.3 per cent), and Italy (-0.2 per cent and -0.6 per cent).

2008).² In South East Asia, major economies would experience a slow economic growth in 2009 compared to that in 2008: Malaysia (from 5.8 per cent in 2008 to 4.8 per cent in 2009), and Singapore (3.6 per cent to 3.5 per cent). Economic growth of China and India would also decline in 2009 (6.7 per cent and 5.1 per cent respectively). LDCs are likely to experience a 5.1 per cent growth in 2009 against 6.4 per cent in 2008.³ Recovery was likely to start only in 2010, by some projections. Relatively less adverse impact of the financial crisis on Asian economies, thus far, is perhaps because of the state of the region's financial institutions which, unlike their European counterparts, had only limited exposure to sub-prime and related financial products. However, these countries are unlikely to remain isolated from the worst consequence. This is also because lower growth rates would induce low demand for goods and services, which in turn will adversely affect their import of goods and services from developing countries. This will seriously affect the exporting sectors in the developing countries. It remains to be seen whether Asian financial systems remain unscathed or deepens, as the global crisis unfolds.

By all estimates, Bangladesh is likely to face a slow down of economic growth during FY2008-09 (Table 2). However projections of economic growth are widely varied according to reports published by different organisations. Bangladesh Bank (BB), in its monetary policy statement of January-June, 2009, had earlier reconfirmed GDP projection made in the national budget for FY2008-09 (6.5 per cent growth), which it revised downward later on (6.0 per cent). The latest statement mentions a high case of 6.6 per cent and a low case of 6.3 per cent. However, World Bank (WB) provided a projection with two alternate scenarios; under the best possible case scenario the economy would grow by 5.4 per cent, while under the worst possible case scenario the GDP growth would come down to 4.8 per cent.

TABLE 2: GDP GROWTH PROJECTIONS OF BANGLADESH FOR FY2008-09

	GDP Growth (per cent)	
Bangladesh Bank (Monetary Policy, H2)	6.5 (high case 6.6 per cent; low case 6.3 per cent)	
IMF ¹	5.6	
World Bank ²	Scenario 1	Scenario 2
	5.4	4.8
Country Report, EIU ³	5.5	
ADB ⁴	6.5	
CPD	6.5	

² The report was released by leading Islamic investment bank Gulf Finance House (GFH).

³ Cambodia would experience a reduction of economic growth by 1 per cent from 7 per cent in 2008 to 6 per cent in 2009.

Source:¹World Economic Outlook, IMF published in October 2008 (year ending December 31);²Media Briefing (Likely Implications of the Ongoing Global Financial Crisis for Bangladesh) by the World Bank November 26, 2008; ³Economist Intelligence Unit (EIU); ⁴Asian Development Outlook, September 2008

III. 2 Impact of the Crisis on Some of the Selected Sectors of Developed and Developing Countries

In view of Bangladesh's global integration, likely consequences of the crisis on some of the selected sectors of developed and developing countries are of special relevance. These include primary products such apparels, frozen food, leather and jute etc., labour market situation, and flow of remittances and flow of Foreign Direct Investment (FDI) and Overseas Development Aids (ODAs) in these country.

According to World Bank estimates, world trade is projected to experience a negative growth of 2 per cent in 2009 in contrast to the growth of 4 per cent registered in real terms in 2008. Because of low level of import by USA, global trade has decelerated by 4.4 per cent in early 2008.⁴ According to *World Economic Situation and Prospects 2009*, volume of world trade dropped to 2 per cent by September 2008, which was one-third of the same period of the previous year. During June-November 2008, import of apparels, frozen food, leather and jute by major developed countries, such as USA, EU and Canada portrayed a mixed picture (Table 3). During this period, import of apparels in the USA has declined by -3.14 per cent compared to the same period of the previous year, though import in EU and Canada was marginally positive (7.5 per cent and 5.8 per cent). Similarly, import of frozen food, leather, and jute goods in US, EU and Canada were either negative or positive at a low level (growth of import of leather in EU is relatively high).

TABLE 3: CHANGE IN IMPORT OF SELECTED COMMODITIES IN MAJOR MARKETS (BETWEEN JUNE TO OCTOBER/NOVEMBER OF 2007 AND 2008)

Country/Product	Apparels	Frozen Food	Leather	Jute
US	-3.14	4.14	0.23	-24.02
EU (27)	7.46	1.77	10.55	2.86
Canada	5.82	-7.71	4.69	-29.88

Source: Eurostat (2009)

Slow down of sales of various consumer goods in the major markets of developed countries has corroborated with the fact of low level of import of these products in these markets (Table 4). December retail performance in developed country markets,

⁴ 'United States imports, which account for about 15 per cent of the world total, have registered a decline in each quarter since the fourth quarter of 2007 and dropped as steeply as 7 per cent in the second quarter of 2008'. (World Economic Situation and Prospects 2009)

traditionally robust, has been rather discouraging in spite of multiple sales offers and heavy discounts by major retailers. Major retail stores such as Marks & Spencer and J.C. Penny went for pre and post Christmas sales, a measure never taken before.⁵ However, Wal Mart is found to be at a consistent level most of the time during this season (Figure 1).⁶ In view of such scenarios, much will depend on how quickly the inventories lying with buying-houses and retailers are disposed off, and how the orders for the summer season spans out over the next couple of months.

USA-based America's Research Group (ARG) published a survey report before Christmas (11 December, 2008) mentioning that 40 per cent of consumers was likely to spend less in the Christmas because of job fears (63.6 per cent), while the comparable figures for 2007 were 23 per cent and 0 per cent respectively. The sluggish trend in the sales of major chain stores in the US and other economies during the Christmas season, and fluctuation in the share price indices of these companies since June, 2008 indicate a depressing prospect for the export of these products from major supplying countries.

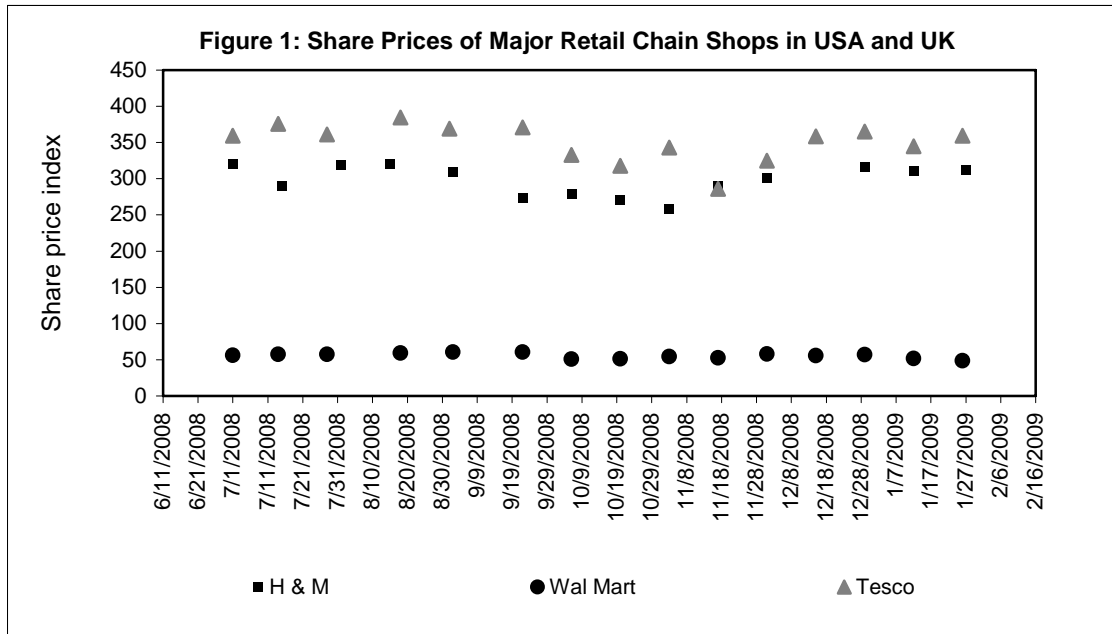
TABLE 4: CHANGES IN RETAIL SALES OF VARIOUS COMMODITIES IN USA AND UK DURING 2008 OVER 2007

Months	USA			UK	
	<i>Total Retail Sales</i>	<i>Clothing Stores</i>	<i>Pharmacy and Drug Stores</i>	<i>Retail Sales Index for all businesses</i>	<i>Retail Sales Index for textiles, clothing and footwear</i>
January	14.9	0.7	1.4	5.3	5.9
February	16.2	1.0	2.5	4.9	3.4
March	0.8	-1.8	1.8	2.9	-2.1
April	5.2	2.5	1.9	2.3	-6.5
May	-3.4	0.3	2.0	7.5	9.5
June	1.0	1.4	3.4	2.5	-1.7
July	1.5	0.5	2.0	3.6	1.9
August	-3.6	0.4	2.5	3.8	4.0
September	4.2	-3.7	3.7	2.7	-1.5
October	-3.9	-6.0	3.0	2.6	-1.9
November	-9.2	-6.4	3.8	2.0	-2.0

Source: US Census Bureau; UK National Statistics (www.statistics.gov.uk)

⁵ In view of consumers' deteriorating purchasing power discounts were offered ranging from 20 to 50 per cent in different stores. Besides, Wal-Mart, the world's largest retailer of clothing, had asked for a 2 per cent rebate on its current orders of Bangladeshi RMG products. One of UK's oldest high-street retailers, Woolworths, announced to close all of its stores by 5 January 2009.

⁶ The low level of sales by consumers is also found through consumers' perception as regards Christmas sales. According to Annual Deloitte Christmas Retail Survey, British shoppers are planning to spend on average 7% less this Christmas than last year -- although around 19% of people have said that they plan to spend more, in spite of the economic situation. This year the average sum reported was £655, down by 7% on last year. The area people are most likely to spend less on is socialising.



5

source:

For H & M

[http://www.digitallook.com/companyresearch/190159/H_ & T Group/company_research.html](http://www.digitallook.com/companyresearch/190159/H_&_T_Group/company_research.html)

For Wal Mart: <http://finance.yahoo.com/q/hp?s=WMT&a=06&b=01&c=2007&d=00&e=29&f=2009&g=w>

;

For Tesco

<http://uk.finance.yahoo.com/q/hp?s=TSCO.L&b=1&a=06&c=2008&e=29&d=00&f=2009&g=w>

Because of the slow down of the economic growth in the Middle East and South East Asia, a number of key sectors have experienced a down turn, particularly real estate and construction sectors. Share price of construction companies listed in the Dubai Stock Exchange declined by 38.7 per cent between May, 2008 to January, 2009.⁷ Contraction of the construction sector in the UAE is likely to reduce the demand for workers in this sector resulting in reduced demand for new recruitment of workers from abroad. In South East Asia, economic slow down has affected many industries such as construction and ship building. In Singapore, several large scale construction projects have been stopped, which compelled companies to retrench migrant workers. Companies in Malaysia have announced to lay off 45,000 workers in January, 2009; a part of these workers will be migrant workers. China’s export income slumped to 11.9 per cent in the final quarter of 2008. With reports of 40 per cent reduction in orders from overseas buyers in 2008 over 2007, Chinese manufacturers are also in a depressing situation. India’s export growth was the lowest in five years in October (15 per cent).⁸

⁷ Similar to that trend, overall share price index and industry share price index in Dubai Stock Exchange were declined by -57.6 per cent and -35.4 per cent respectively (<http://www.adx.ae/English/Pages/default.aspx>)

⁸ About 60 per cent of textiles and clothing companies in Cambodia do not have orders beyond February 2009 as a result of the slowdown in demand in the US market.

It appears that decelerating import demand in major developed economies, coupled with the rising unemployment, is likely to lead towards a further weakening of growth in global trade in 2009. This would have serious consequences for export-oriented economies such as Bangladesh.

III. 3 FDI Flow in Developed and Developing Countries

Global FDI flow in 2008 has declined by 21 per cent compared to the previous year, and reached USD 1.4 trillion (Table 5). Preliminary data issued by United Nations Conference on Trade and Development (UNCTAD) indicates that FDI inflows fell by 33.7 percent in EU and 5.5 per cent in USA during 2008, while in developing and transition economies it was 4 per cent higher mainly because of ‘investment opportunities based on cheap asset prices and industry restructuring, relatively large amounts of financial resources available in emerging countries and cash-rich oil-exporting countries, quick expansion of new activities such as new energy- and environment-related industries, and the relative resilience of international companies’. Decline in FDI flow to the Middle East by 21.3 per cent is a depressing sign for investments in the region’s construction sector. South East Asian countries however evinced a mixed scenario. UNCTAD projected an overall further decline in FDI in 2009.⁹ It could be inferred that Bangladesh’s interest in terms of flow of FDI in the country and opportunity for working abroad especially in FDI-led construction sectors of the Middle East and South East Asia, would be adversely affected in 2009.

TABLE 5: FDI INFLOW DURING 2007-2008

(billion USD)

	FDI Inflow		
	2007	2008a	Growth Rate (%)
World	1833.3	1449.1	-21.0
Europe	848.5	562.3	-33.7
United States	232.8	220	-5.5
Japan	22.5	17.4	-22.7
Middle East (West Asia)	71.5	56.3	-21.3
India	23	36.7	59.6
Malaysia	8.4	12.9	53.6
Singapore	24.1	10.3	-57.3

Source: UNCTAD (2009)

⁹ FDI flow has decelerated in some of the countries such as Hong Kong, China, Singapore, and Thailand, where it has declined noticeably in the first half of 2008. Even though in some countries such as India, there has been no reduction in FDI inflows in the first half of 2008, the inflows are expected to decline following portfolio equity (UNCTAD, 2008).

III. 4 Various Stimulus Packages Offered by Partner Governments and Their Likely Impact on Bangladesh economy

Stimulus packages put in place by partner countries were likely to have important implications for Bangladesh. It is thus important to keep track of these.

In order to safeguard their economies, countries affected most by the crisis have been putting in place various initiatives to safeguard the interest of domestic producers, exporters, workers and consumers. The US's USD 700 billion bailout plan was the first among the many initiatives followed by UAE's injection of USD 19 billion into the economy, and France's €10.5 billion rescue plan for six of its largest banks. Among the developing countries, China announced a USD 586 billion domestic stimulus package for the remainder of 2008, which would be continued till the end of 2010. One of the stimuli to boost the Chinese economy was raising tax rebates for certain exports to help producers cope with smaller profit margins as a result of slacking market demand, yuan's appreciation and rising cost of production. The adjustment involves 3,486 items from labour intensive industries such as textile, garment, toy, and hi-tech and high added value sectors like anti-AIDS drugs and tempered glass. Such measures, particularly targeted to apparel and other sectors of interest to Bangladesh, would have adverse impact on competitive scenario.¹⁰

The Indian government announced an additional USD 4.1 billion in spending to shield the country's economy from the global financial turmoil.¹¹ To boost exports, the government announced extra allocation of USD 70 million for a host of incentive schemes, which includes measures to boost infrastructure spending, small and medium businesses, and labour-intensive export sectors such as textiles and handicrafts. A cut of 4 per cent in excise duties across the board (on all manufactured goods except petroleum) and interest rate cuts on loans for infrastructure and exports is also among the packages. Additional allocation of Rs.1400 crore was made available to the textile sector to clear the entire backlog in Technology Upgradation Fund (TUF) scheme. Duty drawback benefits on certain items including knitted fabrics, bicycles, agricultural hand tools and specified

¹⁰ Vietnam, on the other hand, announced a stimulus package of US\$1 billion which will focus primarily on stimulating domestic consumption among consumers. The Vietnam government is determined to support agriculture and farmers, and will continue to provide them with a lending interest rate of 11.5 percent per annum in order to further develop agriculture and rural production. The US\$ 1 billion will also help to stimulate enough growth to consume a large volume of building materials, cement, and iron and steel, of which large stockpiles are building up, helping to solve difficulties for building materials producing businesses.

¹¹ Indian government has announced it on December 2008.

categories of yarn were enhanced. India is planning to introduce a third stimulus package by February 2009 to provide support to different sectors to boost consumption.

III. 5 Implication of Global Economic Crisis for the Multilateral Trade Talks

With trade being one of the first victims of the current global economic crisis, it is pertinent to ask what will be the likely consequences of the crisis on the ongoing negotiations of the World Trade Organization (WTO). The corresponding question that comes would be what WTO members can or should do to address the impact of the crisis on the Doha Development Round (DDR) negotiations. There is little doubt that if the crisis deepens, the WTO talks are most likely to be stalled in view of the cautious, often, protectionist policies that developed countries tend to pursue in such times. The DF-QF negotiations could suffer. US would now be more unwilling to provide a generous list under the 97 per cent package. The new Partnership for Development Act (NPDA) 2007 pertaining to Duty Free-Quota Free (DF-QF) market access to LDC products was also likely to be put on hold.

IV. THE ONGOING CRISIS AND THE BANGLADESH ECONOMY

As was pointed out at the very outset, Bangladesh is increasingly integrated with global economy in terms of trade, investment, flow of remittances; its degree of openness was about 57 per cent at the end of FY2007-08, where contribution of trade was the highest (43.4 per cent) followed by remittances (10 per cent) and ODA (2.4 per cent) (Table 6). About 85 per cent of Bangladesh's exports are destined to developed economies and about 60 per cent of imports are from those countries. If India, China and other emerging economies are also taken into consideration, the extent of exposure of the Bangladesh economy with crisis-driven developed and developing economies will be quite significant.

TABLE 6: BANGLADESH'S DEGREE OF OPENNESS AND EXTENT OF GLOBALISATION

	FY 1981	FY1991	FY 2001	FY 2007	FY2008
1. Export (X)	725	1718	6467	12154	14088
2. Import (M)	1954	3472	9335	17157	20217
3. Remittance (R)	379	764	1882	5978	7915
4. ODA Disbursed	1146	1733	1369	1565	1873
5. FDI (net)	n.a.	24	550	793	650
Total (1-5)	4204.0	7710.5	19603.4	37646.3	44743.8
GDP (Current Price)	19811.6	30974.8	47306.0	67714.0	78996.9
Degree of Openness (Export + Import as % of GDP)	13.5	16.8	33.4	43.3	43.4
Extent of Globalisation	21.2	24.9	41.4	55.6	56.6
X as % of M	37.1	49.5	69.3	70.8	69.7
(X+R) as % of M	56.5	71.5	89.4	105.7	108.8
ODA as % of GDP	5.8	5.6	2.9	2.3	2.4
ODA As % of Export	158.1	100.9	21.2	12.9	13.3

Source: CPD-IRBD Database

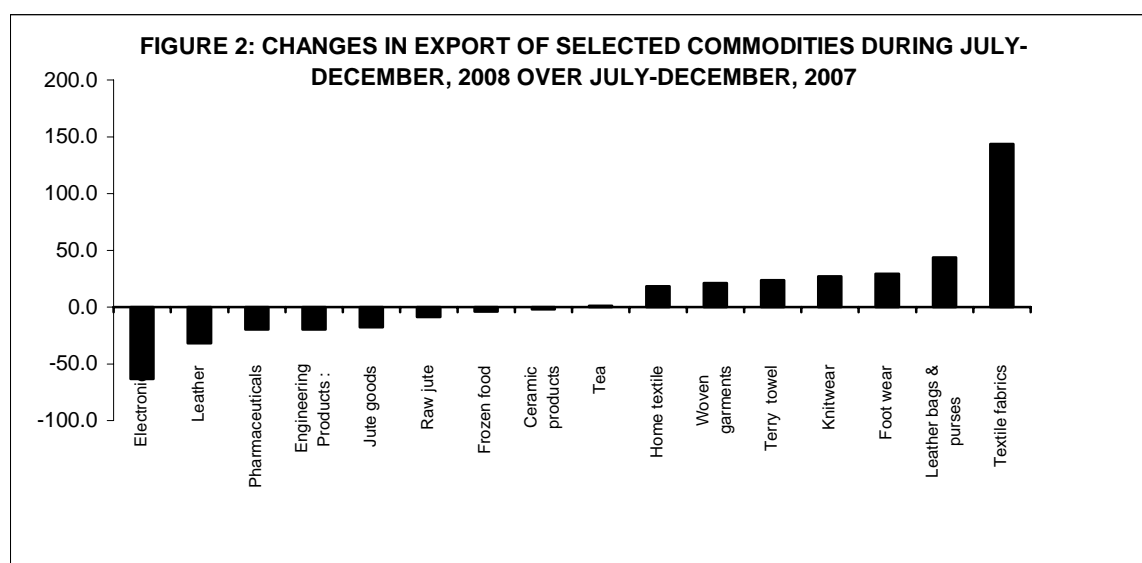
IV.1 Impact of the Crisis on Performance of Bangladesh Economy during July-December, 2008

During the first six months of FY2008-09 (July-December, 2008) exports from Bangladesh posted a growth of 19.4 per cent over the corresponding period of FY2007-08; remittance flow during the same period registered a growth of about 31 per cent. The fall in the prices of food, fertiliser and fuel eased the burden of import payments, growth of which is expected to decelerate further in near future. This is likely to lead to some improvement in the balance of payments situation over the coming months. Some

deceleration in inflation, particularly food inflation, is already visible. Macroeconomic fundamentals remain within comfort zone. However, Bangladesh's macroeconomic performance indicators conceal some disquieting features and undercurrents and some of the emerging trends of recent times ought to be seen as cause for concern. These recent developments merit a closer examination and should serve as a wake-up call for the policymakers.

IV.2 Performance of the External Sector of Bangladesh

Export growth, over the first two quarters, though robust (19.4 per cent), has experienced negative growth (-1.4 per cent) in the second quarter of FY2008-09 (October-December). This is something which is unheard of in recent memory (export growth rate in the months of October, November and December, 2008 were -7.4 per cent, 13.5 per cent and -10.0 per cent respectively when compared with corresponding months of FY 2006-07). This closely reflects the trend in export of apparels, the dominant item in the export basket, over the same period. Nonetheless, sluggish demand of recent times in the US and EU markets, accounting for about 90.0 per cent of Bangladesh's apparels export (77.3 per cent of total export), does not augur well for Bangladesh. Whether this is a temporary development, or sets a trend, will need to be very carefully followed and monitored.



Source: CPD-Trade Database

The July-December, 2008 export growth has been in the negative territory for several of Bangladesh's non-apparels items (Figure 2). Growth of export of raw jute and jute goods during this period were -8.8 per cent and -17.9 per cent respectively, while in last several years either there was no incidence of decline in export (in case of raw jute) or the decline in export was not so high (in case of jute goods, -7.5 per cent in FY2007-08 and -11.2 per

cent in FY2006-07). The slow down of export of jute and jute goods is particularly because of reduction of export of yarn and hessian products, though export of sacking products is relatively good because of increasing demand for sacks. What is also to be noted is the dismal record of leather export (-31.9 per cent), though export of footwear was 29.3 per cent higher compared to the same period of the previous year. Rising cost of processed finished leather made it more expensive compared to that of China, India and Morocco. Besides, prices of raw hides and finished leather dropped to 90 cents from the previous price of \$1.50 (per square foot) because of huge stock-pile of the last year. Raw hides and finished leather constitute 55 per cent of the total earnings from the sector. Tanners have complained that nearly 30 per cent hide and leather of around 200 million square feet remained unsold following the global economic crisis.

Because of substantial reduction of export of frozen foods (particularly shrimp) in December, 2008 (USD 22.5 million) against December, 2007 (USD 49.9 million), overall growth was found to be negative (-4.1 per cent) during July-December, 2008 over the same period of the previous year; there is no incidence of negative growth in case of overall export of frozen food over the last several years. Buyers in the US and Europe are pressing Bangladeshi exporters to reduce the price of the item in the wake of a deepening financial crisis, as a result price of shrimp has dropped by \$1.35 per pound. Export of pharmaceuticals also evinced declining trend, with a negative -19.9 per cent growth at the end of December, 2008. Although the relatively low price elasticity of demand for the lower-end exportables from Bangladesh is still holding (the so-called *Wal-Mart effect*), once the recessionary trends deepen with the passage of time in 2009, such negative trends are likely to become stronger as income effect takes over.

The emerging shipbuilding industry, which received an export order of USD 500 million for about 40 vessels to be delivered by 2010, is also at present experiencing difficulty not only in terms of receiving new orders consequent to slower growth of trade and significant fall in shipping traffic and freight incomes, but also because some of the orders placed earlier are now being cancelled. Production of ships, in terms of metric ton, has substantially declined in September, 2008 (273 metric ton) compared to that in August, 2008 (409 metric ton).¹²

A significant feature of export growth performance of Bangladesh is that this has been sustained mainly thanks to increase in volume (accounting for about 90 per cent of the

¹² If international buyers turn to giants like Singapore, China and Korea for small vessels, it will be a nightmare for the Bangladeshi manufacturers even to think of expanding into this business. The most discouraging fact is that some buyers, who had received their ships in late 2008 or early 2009, are having hard time to run on breakeven level let alone make profit. And with the huge loan on their heads, they are scraping brand new ships. Adding up all these facts, the next year will be really hard for the shipbuilders.

increase in export value) rather than price (by contrast, accounting for only about 10 per cent of the increase in export value). Exporters were able to sustain their market share by offering discounts, tolerating, in many instances, order deferment and cancellations, and by taking significant cuts in profit margins. Currency devaluation in competing countries such as India, Sri Lanka, Pakistan, to the extent of 10-40 per cent over the recent years, have also undermined competitive strength of Bangladeshi products, including apparels. The BDT has held steady over the past one year, depreciating only by 0.6 per cent between January 2008 and January, 2009 (indeed BDT has shown some signs of appreciation against the US dollar in the recent past which induced the Bangladesh Bank to intervene in the forex market through purchase of dollars). On the contrary, currencies of some of the other competing countries have depreciated significantly over the corresponding period: Indian *Rupee* by 26.3 per cent, Vietnamese *Dong* by 9.2 per cent, Pakistani *Rupee* by 27.1 per cent, Cambodian *Riel* by 4.7 per cent, Sri Lanka *Rupee* by 5.6 per cent and British *Pound* by 44.1 per cent.

It is to be recalled here that the 7.5 per cent cap on growth of Chinese export of apparels to the US market has been lifted recently, as of January 1, 2009. The 34 quota categories on which export caps were imposed in January 2006 have 29 common categories as far as Bangladesh was concerned; these accounted for about 79 per cent of Bangladesh's export of apparels to the USA. China has also recently reversed a number of measures which were aimed at encouraging producers to move up market (e.g. tax on lower end products). Exports of low-end apparels from Bangladesh had earlier benefited from such policies.

With all the stimulus packages being offered in the neighbouring countries, Bangladesh might face some difficulties.¹³ Bangladesh's backward linkage spinning sector, with an investment of about 27,000 crore taka, has already made its case as regards their weakened competitive strength vis-à-vis imported Indian yarn in view of the new price dynamics. The price of 30 count yarn at present ranges between USD 2.25 – USD 2.30 in India compared to USD 2.80 – USD 2.90 a few months back; to compare, the price of the same count in Bangladesh ranges between USD 2.55 – USD 2.60 (generally, a 15-20 cent difference induces Bangladesh's weavers to source locally). Knitwear sector and spinning sub-sectors will likely suffer most because of the emergent situation. Besides, importation of raw materials from overseas is likely to increase the lead time for apparels exporters. It will, perhaps, be not an exaggeration to state that being thrown out of the competition may result in a large number of domestic spinning mills becoming idle. The proposed new-EU General System of Preferences (GSP) scheme, when implemented in

¹³ Indeed, in a recent report WTO DG Mr Pascal Lamy has warned that various stimulus measures 'can easily be viewed as constituting some form of state aid or subsidy with negative spill over effects on other markets'.

2010, will also confront the country's knitwear-apparels sector with new challenges, since its crucially important sweater and pull-over sub-sector will be required to make use of local dyeing facilities if it is to continue enjoying preferential market access in the EU (local capacity currently can meet only about 50 per cent of the requirement).

All the above developments of recent times -- deceleration of Bangladesh's major export, apparels, with negative growth of most of primary exports and with adverse impact on backward linkage industries – are likely to have consequences for employment, labour market, wages and livelihoods of people associated with the affected sectors.

It needs to be noted, however, that inspite of the adverse impacts and potential dangers, there are some encouraging signs which Bangladesh should seize and try to utilise to work to her advantage. Bangladesh is only one of very few developing countries which is expecting to attain a six per cent plus GDP growth rate in the current fiscal year. Notwithstanding the measures taken by China to stimulate her export sector, leading buyers are exploring the possibility of shifting orders to Bangladesh because of the relatively low prices that Bangladeshi exporters are able to offer. The adverse affects of recession, pressure to appreciate the *Yuan* (appreciation of 5.2 per cent over the last one year), wage rates that are about 2-3 times higher than Bangladesh (though productivity is higher in China) make Bangladesh an attractive destination for major buyers of apparels inspite of China's dominant presence in the market.¹⁴ Bangladesh's strategy in these times of recession and falling global apparels demand should be to go for *higher share in a shrinking pie* by making best use of the emerging opportunities.¹⁵

IV. 3 Inflow of FDI in Bangladesh

Although flow of FDI in the country was higher during July-November, 2008 compared to the same period of the previous year, portfolio investment has registered deceleration while it has experienced liquidation of capital during July-November, 2008 period (Table 7). Similar scenario was reflected in terms of registration of FDI during 2008. Number of units registered with the Board of Investment (BOI) in 2008 was only 13 (with total

¹⁴ Only Vietnam's performance (16.9 per cent growth during July-November, 2008) is comparable to Bangladesh's record in this market (15.7 per cent). All major competitors have either seen negative growth (Cambodia: -2.9 per cent, India: -6.1 per cent, Sri Lanka: -1.1 per cent) or low growth (China: 3.6 per cent). Alongside China (accounting for 33.1 per cent of market share, by far the highest), Bangladesh (in fifth position with current share of 4.6 per cent compared to Vietnam occupying second position with a share of 7.1 per cent) should strive to secure the second position in terms of market share in US.

¹⁵ In this context, mention may also be made here about interest of Germany's *Multiline Limited* with potential investment in textile sector to the tune of USD 200 million and Taiwan's *Pao Chen* which has shown interest to build the world's largest footwear factory in Bangladesh.

investment being USD 60 million) while in 2007 it was 75 (with a total of USD 327 million investment).

TABLE 7: FDI IN BANGLADESH*(million USD)*

	FY2006-07	FY2007-08	FY2007-08 July-Nov.	FY2008-09P July-Nov.
Foreign direct investment	793	650	238	480
Portfolio investment	106	48	45	-34

Source: CPD-IRBD Database

IV. 4 Capital Market of Bangladesh

Integration of Bangladesh's capital market with the global capital market was rather weak -- foreign investment accounts for only 2.48 per cent of total market capitalization. During July, 2008 to January, 2009 a sluggish trend was observed in the capital market, which is partly related to global economic slow down (i.e. liquidation of portfolio investment). All the indices in the Dhaka Stock Exchange (DSE) experienced negative growth (Table 8).

TABLE 8: MOVEMENT OF SHARE PRICE INDEX AT DSE DURING JULY- JANUARY, FY2008-09

Share Price	July	August	September	October	November	December	January, 28
DSE (All)	2369.0	2389.2	2498.5	2278.2	2040.2	2309.4	2194.9
DSE (20)	2526.2	2441.5	2466.1	2351.9	2090.1	2328.7	2181.2
DSE (Gen)	2761.1	2791.2	2966.8	2748.6	2468.9	2795.3	2653.4
Market Capitalisation (USD billion)							
FY2009	13.95	14.15	15.18	14.37	14.01	15.21	14.76

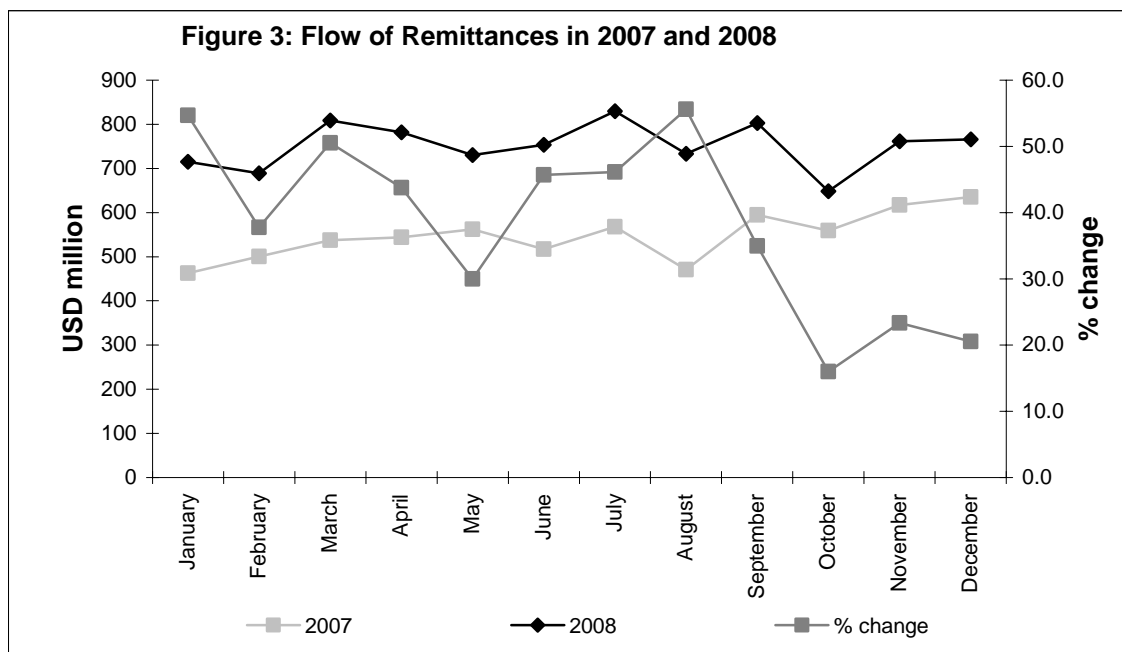
Source: CPD-IRBD Database; DSE website (www.dsebd.org) accessed on 30 January, 2009.

IV. 5 Inward Flow of Remittances

Over the last two years, a record number of Bangladeshi workers (1.7 million) had left the country in search of jobs abroad (total number of migrant workers are estimated to be about 6.1 million who are expected to remit about USD 10.0 billion in FY2008-09). In 2009, in all likelihood, the number of workers going abroad will be significantly lower, also particularly because some of the new destinations including those such as UAE, Saudi Arabia, Malaysia and Singapore have indicated caution in the face of sluggish

economic growth and lower demand for construction and other services.¹⁶ Although no reliable estimates are available with regard to returning migrant workers, anecdotal evidence suggests the need for attention to this issue as well.

In case of flow of remittances, though overall remittances in 2008 exceeded USD 9 billion, which was 37.3 per cent higher compared to the previous year; there is a deceleration in case of growth of remittance flow since August, 2008 owing to low outward migration of workers (Figure 3). Month on month, number of workers traveling overseas have come down in 2008 compared to 2007. Although inflow of remittance per migrant was relatively higher (USD 1694) in 2008 compared to that in 2007 (USD 1476), unless more workers emigrated in 2009 this amount of inflow of remittances is likely to slow down.



Source: Data collected from the Bureau of Manpower Employment and Training (BMET)

IV. 6 Foreign Aid

Bangladesh has, till now, been able to maintain the trend of inflow of foreign aid amid the ongoing economic recession in its major development partner countries. While total foreign aid during FY2007-08 was 20.4 per cent higher than that of FY2006-07, this increase for the July to October period of 2008 over the comparable period of 2007 has only been 1.6 per cent. It, therefore, gives a signal that if the recession continues, one may expect either a minimal rise in foreign aid over the remaining period of the current fiscal

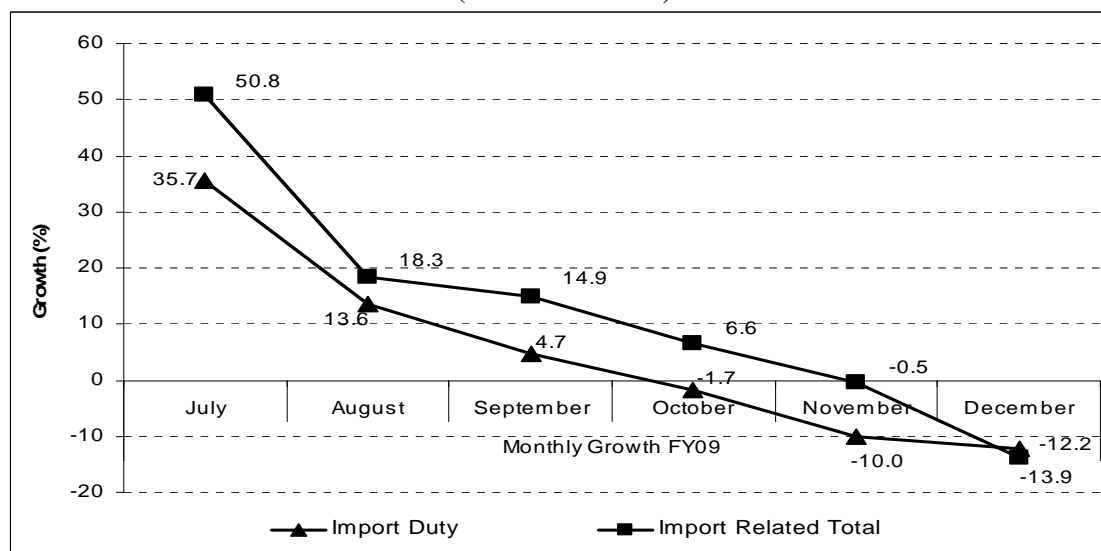
¹⁶ Estimates indicate that earnings of restaurateurs, a major source of remittance sent by Bangladeshis living in UK, has come down by about 15 per cent; the weakened British pound has not helped our exports to and remittance from UK.

or, perhaps not so unlikely, even a negative growth. Nevertheless, overall balance of payment situation is still found at a healthy state.

IV.7 Government Revenue Earnings, Domestic Resource Mobilisation and ADP Utilisation

A large part of government's revenue comes from duties collected from imported commodities. Import and import related duties mobilised during July-December, 2008 were respectively 4.3 per cent and 11.8 per cent higher than those of the comparable period of 2007. However, month-on-month growth trend during the July-December of 2008 over 2007 shows a downturn in import duty (starting from 35.7 per cent in July, 2008 to a negative growth of 13.9 per cent in December, 2008) and in import related duty earnings (from 50.8 per cent growth in July, 2008 to the negative growth of 12.2 per cent in December, 2008) (Figure 4).

FIGURE 4: GROWTH IN IMPORT AND IMPORT RELATED DUTY EARNINGS (2008 OVER 2007)



Source: CPD-IRBD Database

If National Board of Revenue (NBR) collection decelerates, less resource will be available to pursue development expenditure from domestic resources. Thus, slow down of revenue earnings could put pressure in terms of expenditure cut related to some of the development projects and social safety net expenditures with consequent negative impact on the poor. This will need to be carefully monitored.

V. IMPACT ON EMPLOYMENT AND LABOUR MARKET OF BANGLADESH

There is no real-time information with regard to the Bangladesh labour market; latest available data on employment and labour market was for FY2005-06. Based on this data set, a projection was made with respect to employment scenario in FY2007-08 by the BB (Table 9). According to the estimate, the size of the labour force was likely to be 51.8 million in FY2007-08; with 7.2 million in the industrial sector and 19.13 million in the services sector. Among the workers of the industrial sector, 5.27 million workers worked in manufacturing sector, and 1.7 million in construction sector. Among the workers in the services sector, 8.46 million workers worked in trade, hotel and restaurants, and 4.21 million in transport, storage and communication sector. According to the projection, unemployment rate in FY 2007-08 was estimated to be 3.98 per cent. Female workers' participation was about 12.1 million which was 29.2 per cent of the total female population under the same age category. Participation of workers in the informal sector was 37.2 million. However, it appears that under the changing scenario, with possible downward revision of growth of GDP, and changes in growth-employment elasticity, the composition of labour force in different sectors and the rate of unemployment may need to be reviewed. Possible impact of the crisis on the employment scenario with respect to some of the key sectors of the Bangladesh economy will be carried out in the second phase of this study.

TABLE 9: PROJECTED EMPLOYMENT IN MAJOR SECTORS IN FY2007-08

(in million)

Sector	FY2005-06	FY2007-08 (estimated)
1. Agriculture	22.83	23.41
Crops and horticulture	20.93	21.37
Forestry	0.74	0.79
Fisheries	1.16	1.25
2. Industry	6.90	7.20
Mining and quarrying	0.10	0.12
Manufacturing	5.20	5.27
Electricity, gas and water supply	0.10	0.11
Construction	1.50	1.70
3. Services	17.70	19.13
Trade, hotel & restaurants	7.80	8.46
Transport, storage & communication	4.00	4.21
Finance, business services and real estate	0.70	0.75
Health, education, public admin and defense	2.60	2.86
Community, social and personal services	2.60	2.85
Total	47.43	49.74

Source: Bangladesh Bank (2008), Recent Employment Situation and Labour Market Developments in Bangladesh, Policy Paper 0807, Policy Analysis Unit, June.

V. 1 Impact on Employment in Different Sectors

RMG: Readymade garments sector, which employs more than 2 million workers, has thus far been spared from the worst consequences of the crisis. Since most of the growth is volume-driven, employment in the sector has been sustained, more or less. Major setback in terms of retrenchment of workers and wage cut or withdrawal of some of the benefits they enjoy are yet to be seen in large scale. Because of positive level of growth in export of knit and woven products during July-December, 2008 period (27 per cent, and 21 per cent respectively), the demand for workers in RMG sectors is likely to be positive. There is no incidence of cut of workers' wage as a measure to reduce the overall cost of production, although various reports mentioned about buyers' pressure to lower the CM as buyers found it difficult to sell products even at discounted prices. Discussion with a chief executive of global retail chain, Dhaka office, revealed that because of downward pressure in the CM, apparel manufacturers took various initiatives to reduce the overall cost of production without reducing workers' wage, such as improvement of productivity of workers, and reduction of wastage of clothes. However, if the demand for import of Bangladeshi apparels decelerates or, even in extreme case, declines in the coming months, entrepreneurs may search for new ways for the reduction of cost of production. Further investigation will be required to understand the extent of impact of the crisis on enterprises and on workers in this sector.

Textile: In recent months, as was pointed out, yarn producers in Bangladesh have suffered erosion of competitiveness *vis-à-vis* imported yarn from India. Bangladeshi RMG manufacturers, particularly knitwear manufacturers, are procuring yarn from India instead of local mills. Consequently, yarn has been piling up in local spinning mills. This amounted to about 0.15 million tons, according to some newspaper reports. Consequently, 12 spinning mills out of 341 mills have been reported to have shut down; most of the mills currently in operation have reduced their level of operation by about 30 per cent. As a result, a good number of workers have lost their jobs, as reported in the national dailies. Further investigation will be needed in order to understand the extent of impact of this on workers in this sector.

Jute and Jute Goods: The slow down of the jute sector is particularly due to reduction of export of yarn. However, export of sacking has peaked up in recent times owing to increasing use of sacks for carrying crops; sluggish trend is observed with respect to export of hessian due to the slow down of the real estate sector. As a result, most of the jute enterprises have reduced their level of production by 25-30 per cent. In order to adjust with the situation, 10-20 thousand workers have been retrenched from different mills particularly from yarn and Hessian mills during July-December, 2008. These retrenched workers were working in jute mills under 'temporary' contract. According to

the leaders of Bangladesh Jute Mills Association (BJMA) and Bangladesh Jute Spinners Association (BJSJA), the loss of jobs may further increase and may reach at 50,000 by the end of June, 2009. Further investigation is needed in order to understand the extent of impact on workers working in this sector.

Frozen Food: Although export of frozen food, particularly shrimp, has declined during July-December, 2008 period, there is no evidence that shrimp processing factories have closed down due to the crisis. However, because of lack of availability of raw materials (57,000 m.ton of the total required 0.3 million m.ton in FY2007-08) and infection in cultured shrimps (known as ‘microforon disease’) only 77 mills are now operating out of the 140 mills, where about 77,000 workers are working.

Leather and Footwear: Export of footwear has performed well during July-December, 2008 period; however, export of processed and finished leather has sharply declined over time. There was no report in the national dailies as regards laying off of workers in this industry. Further investigation is needed in order to understand the extent of impact on workers working in this sector.

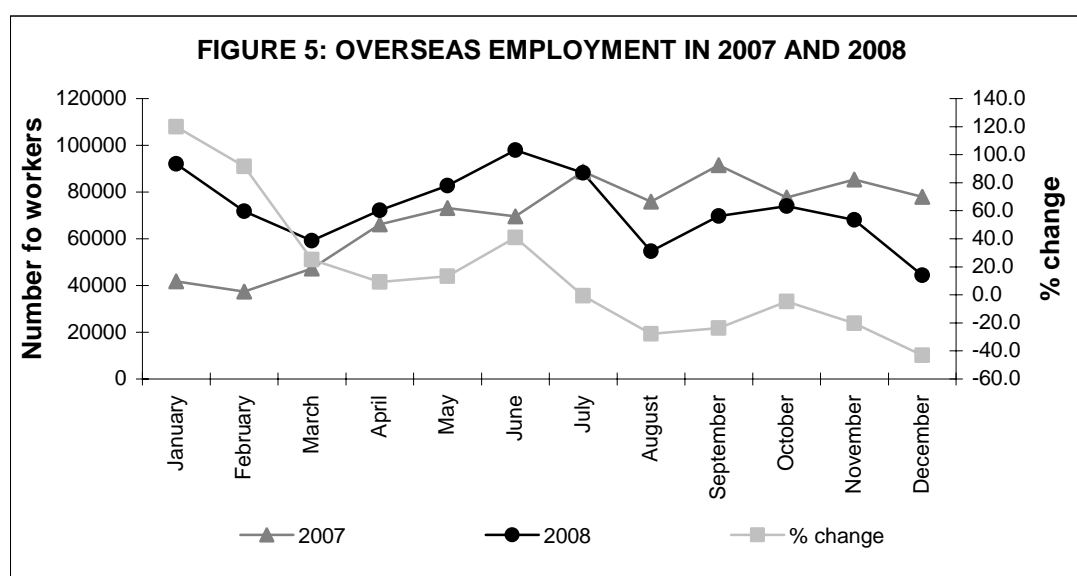
Ship Building: The shipbuilding sector is under pressure because of reduced orders and, in some cases, deferment/cancellation of some previous orders. What impact this is having will need to be investigated further.

V. 2 Impact on Migrant Workers

Migrant workers have tended to suffer from the ongoing financial crisis (Figure 5). Although number of workers going abroad in 2008 (875,055) was 5 per cent higher compared to the previous year, the number substantially declined when compared to the growth in 2007 over 2006 (118 per cent). More importantly, month-on-month number of migrant workers has started to decelerate from January, 2008 (140 per cent growth) and reached its lowest level in December, 2008 (-40 per cent) (BMET, 2008). Growth of migration in major markets is mixed. While in some of the Middle East and South East Asian countries it was substantially high in 2008 compared to 2007 (85.2 per cent in the UAE, 47.6 per cent in Singapore, 200.6 per cent in Oman, and 68.9 per cent in Qatar), in other markets of these region it was negative (-35.3 per cent Saudi Arabia, and -51.77 per cent Malaysia). Since 2006, UAE and Malaysia had been two key destinations for Bangladeshi workers followed by Saudi Arabia. It is important to mention here that currently Saudi Arabia and Kuwait have stopped issuing work permits to Bangladeshi workers, while these two destinations comprises of 39.7 per cent of total migrant workers

from Bangladesh. Thus, growth of outward migration will not be sustained unless recruitment of workers in Saudi Arabia and Kuwait can be ensured.

There is dearth of adequate information about return migrants, since information on return migrants are not maintained in a systematic manner. However, evidence suggests that workers in the affected countries are experiencing retrenchment (though on a limited scale).¹⁷ Malaysia has announced retrenchment of about 45,000 workers by January, 2009, of which a substantial number appears to be migrants; it was reported in the national dailies that retrenched migrant workers in Indonesia held processions in Jakarta demanding jobs in Malaysia. It would be a challenge for Bangladesh to retain the growth of migration in 2009. In all likelihood, the pace of growth will slow down.



Source: Data collected from the Bureau of Manpower Employment and Training (BMET)

¹⁷ Due to slowdown of the Singapore economy, especially in the shipping and construction sectors, 55 Bangladeshis employed by construction sub-contractor Tunnel & Shaft have returned home after working there for seven months or less. The workers were recruited last year in anticipation of two major projects estimated to be worth \$20 million, which were expected to be launched later.

VI. SUGGESTIVE MEASURES TO SAFEGUARD AFFECTED INDUSTRIES, THEIR WORKERS, AND WORKERS WORKING ABROAD

Large scale disruption of labour market of Bangladesh is yet to be experienced as a consequence of the financial crisis. However, slowdown of export growth and the problems faced by backward linkage industries do not augur well for the labour market. Negative growth rates experienced by export of many primary goods is also transmitting working signals. As was noted, textiles, jute, leather and frozen food sectors have registered lower or negative growth during July-December, 2008. Export of manpower may face serious challenges in the coming months. The impact of all these on workers, especially in terms of retrenchment of workers, wage-cuts, and reduction of benefits, and unemployment scenario will need to be closely examined through further indepth studies. Incidences of retrenchment of workers are still limited to a number of jute and cotton yarn mills. The probable negative growth in overseas migration in 2009 is very much likely to have serious repercussions in the form of falling inward remittance. In view of this, government will need to closely examine the developments and strategise accordingly and set short and medium term plans of action. Impact of crisis for workers working in sectors that have been most adversely affected needs to be examined with due urgency.

RMG: A close monitoring in the RMG sector is required in the coming months, both by the government and international organisations like the ILO. The priority areas of investigation could be receiving orders, trend of export, export price, composition of exported products, factory-level initiatives to adjust cost, employer-worker relationship, maintenance of workers rights etc. Concerned associations such as Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bangladesh Knitwear Manufactures & Exporters Association (BKMEA) and Bangladesh Textile Mills Association (BTMA) should jointly monitor the situation and discuss relevant issues with other stakeholders including government, international buyers and retailers, workers organisations and international organisations particularly ILO. Pressure to lower the level of CM may force the RMG manufacturers to further reduce their costs of production, with adverse consequences for workers. This may include enhancement of productivity of workers, and reduction of wastages in case of use of fabrics and other raw materials. As a medium term measure, the government should consider some budgetary support for the RMG sector in the upcoming national budget for FY2009-10. This may include introduction of a *Technology Upgradation Fund (TUF)* to support RMG firms to enhance use of state of the art technologies and, thereby, improve productivity and efficiency. Indian textile sector is receiving support under TUF from their government, and the process of getting this fund has been expedited under government directives after the crisis affected those industries. Introduction of a *Skill Upgradation Fund (SUF)* could be another initiative to

train workers in specialised machines which would contribute to their enhanced workers' productivity.

Textile: Cotton yarn manufacturing units need immediate support in order to ensure their competitiveness over imported yarn. As a short term measure, government may consider enhancement of cash incentive from the existing 5 per cent to 10-15 per cent. This facility should be on a temporary basis, though, to overcome the current crisis. As a long term measure, government should consider introducing special funds for textile sector such as a TUF and a *Fund for Research and Development* (FRD) to help the sector be at par with some of the neighboring competing countries such as India and Pakistan. Besides, interest rate on working capital could also be reduced, which is as high as 15 per cent, where as the Indian textile manufacturers receive 5 per cent rebate over the interest rate (12 per cent). Workers, who were temporarily out of work due to reduction in level of production, should be provided with some support for a limited period of time till they get back their jobs in the yarn mills. Government, with support from ILO, may consider taking budgetary measures for 'retrenched workers' affected by the economic crisis.

Jute: It would be difficult to enhance export of jute yarn unless fresh demand is created for yarn in the housing sector and other relevant industries in the developed and developing countries. Since domestic use of yarn is limited, there is little scope to expand use of yarn in the domestic market. Thus far, a large number of jute yarn manufacturing units are facing difficulty with regard to selling the already manufactured yarn and as a consequence, large amount of loan from commercial banks is remaining unpaid. As a short term measure, jute mills may need continuation of getting funds from commercial banks under 'CC' loan facility in order to have adequate capital to buy raw jute for the next season. Jute mills may get 'export cash credit' facility similar to leather industry. Jute industry may be considered as an 'agro-based industry' and thereby be provided with equal facilities like those enjoyed by agro-based one. The BB may give directives to commercial banks to provide the facility to jute mills, particularly yarn mills, which so far have good track record. As a medium term measure, reduction of interest rate on working capital is required. Workers, who lost their jobs, generally tended to work under temporary arrangements in the private sector jute mills. During the off-peak season, most of these workers are involved in informal sectors as rickshaw pullers, agricultural day-labourers, etc. Hence, these workers will perhaps not be targeted under any support programme. It is important to note that ensuring domestic use of jute and jute goods through proper maintenance of government rules and regulations in case of use of jute sacks in carrying goods and restrictions on using polypropylene bags could enhance local use of jute goods. In order to ensure higher level of raw jute production in the coming season and to encourage farmers to continue jute production, price of raw jute will need

to be higher than its production cost. Government procurement price will need to set the stage for this.

Frozen Food: Frozen food manufacturers have faced reduction in their sales in recent months. Consequently, a large amount of shrimp (black tiger) collected during May-July period is stock piled which cannot be stored for more than six months. If sells of this stock are not ensured immediately, a huge amount of working capital borrowed for purchasing this stock would be difficult to be recovered. If so happens, as a medium term measure the government may consider low-interest credit facility to affected firms. Frozen Foods Exporters Association has requested a credit support similar to what they received during the time of economic slow down in 2001.

Leather: Since footwear industries are performing well in the international market compared to that of finished leather, use of higher amount of finished leather at local footwear industries needs to be encouraged through incentives. As a short term measure, government may consider providing additional cash incentives to finished leather producers in order to be competitive *vis-à-vis* China, Morocco and India. However, such support should be for a limited period of time.

Ship Building: Because of the recession, demand for ships has declined in the international market; consequently prices offered by importers have declined. According to one shipbuilder, export order for a 7,500 deadweight tonne (DWT) was USD 12 million in 2007, which came down to USD 9 million at the end of 2008 (25 per cent reduction of export price). Without reducing the cost of production it will be difficult for the shipbuilders to take orders at such reduced prices. In this context, shipbuilders have demanded reduction of the commission charge of bank guarantee which is as high as 10-12 per cent. The BB could look into the matter.

Migrant Workers: It would be a challenge to maintain the same level of growth of outward migration of workers in 2009; consequently inward flow of remittances could suffer. One of the disquieting developments of recent times have been temporary restriction imposed on issuance of visa to Bangladeshi workers by Saudi Arabia and Kuwait; these two markets comprise of 39.7 per cent of total migrant workers from Bangladesh. As a short term measure, government should immediately send a high level delegate to Saudi Arabia and Kuwait and try to resolve issues raised against Bangladeshi workers working there. Another key factor here is to undertake pro-active measures to ensure retention of good diplomatic relations with the existing markets such as UAE, Malaysia, Oman, and Qatar through affirmative actions. As a medium term strategy, government should emphasise on further diversification of market and explore new ones.

In this case, government may send delegates to such countries as Iraq, Bahrain, Mauritius, Sudan, Libya, and South Africa. As a medium to long term strategy, ILO could provide technical and financial support to the Government of Bangladesh (GoB) and facilitate signing of bilateral memorandum of understanding (MoU) between Bangladesh and worker-importing country. Such MoUs may include provisions under which workers would receive full wage every month as per contract, safe and decent living in working destination and legal support in case of disputes between workers and employers. ILO, under its DWCP programme, could observe whether international agreements signed by labour-importing countries (if any) as regards full and timely payment of workers' wage as per contract, various fringe benefits to be received by workers as per contract, working environment at the work-place etc., are properly maintained.

VII. VARIOUS MEASURES TAKEN BY THE GOVERNMENT TO STIMULATE DOMESTIC DEMAND, INCOME AND EMPLOYMENT

VII. 1 Measures Taken by the Government

In January 2009, the government decided to constitute a broad-based national committee to follow the developments related to the ongoing economic crisis and suggest measures to address the adverse impacts on Bangladesh economy. A high-powered technical committee was earlier formed in early November, 2008 to closely monitor the impact on the country's economy from the fallout of the current global financial crisis and take instant remedial measures. Government undertook a seven-point strategy to ensure the well being of the Bangladeshi workers abroad and to explore new manpower export markets.

VII. 2 Measures Taken by the Central Bank (Bangladesh Bank)

The BB has set up a *Forex Investment Committee* to monitor and manage the currency composition of forex reserves. BB prudently withdrew about 90 per cent of its total investment from international banks which were perceived to be at risk. When the early signals started to blip on the radar screen in 2008, the BB took speedy and energetic steps to safeguard the country's reserves (USD 5.98 billion in October, 2008), and also those of the commercial banks of the country (about USD 490.0 million kept at the time with overseas financial institutions). BB has advised commercial banks to be cautious about such investments. BB has recently instructed banks to take measures to reduce the time and cost of transferring remittances by cutting down time and costs of transferring remittances, bringing remittances through legal channels, creating opportunities for investment of remitted money, and ensuring welfare of expatriates. It directed the bank branches or exchange houses overseas to keep their organisations open on holidays to help expatriates remit funds. In addition, BB has continued with its policy of intervention in the inter-bank foreign exchange market by selling and buying US dollar directly and providing short term facilities to the banks aiming to keep the market stable. BB has allowed settlement of import payments in Euro alongside the US dollar among the Asian Clearing Union (ACU) member countries. In view of the losses incurred by importers as a result of the fall in global commodity prices (e.g. wheat, edible oil and pulses) and the difficulties faced by importers in honouring L/Cs, BB has relaxed the conditions for opening fresh letters of credit (L/Cs) from the existing 90 days' time to 150 days. BB will continue its foreign currency support to the commercial banks mainly for making payments of fuel oils, fertiliser and food grains import.

The BB, in its *Monetary Policy Statement* for July-December, 2008 and that of January-June 2009, has provided its policy stance envisaging possible impact of global economic meltdown on the domestic economy.¹⁸

The BB has mentioned that it will give priority to unhindered flow of private sector credit to productive sectors, with agriculture, SMEs, and the rural economy being the prime targets. Engagement in agriculture lending has been made mandatory for all private and foreign banks. Growth in private sector credit would be watched carefully and if the situation warrants, necessary policy adjustments would be introduced. BB will continue monitoring the liquidity situation in the banking system and adopt appropriate measures to overcome any temporary pressure on liquidity. Desired exchange rate stability would be maintained to keep the pressure of imported inflation under control. BB has also indicated that it would conduct 'surprise inspections' on banks and exchange companies to ensure compliance with foreign exchange regulations and provisions of the Anti-money Laundering Act. BB report mentions that measures would be taken to divert increasing amount of remittances toward investment in productive sectors to ease the potential demand pressure and expand the economy's productive capacity. For facilitating more efficient import of essential goods, BB has made available forward hedging mechanism to importers. In view of collapse of house price bubbles in major economies, BB has taken up an initiative to construct a house price index using time series data.

VII. 3 Measures Protecting the Poor and the Vulnerable

Under the public food distribution system (PFDS), government provides in-kind support to poor people and those affected by natural calamities and disaster. Total food grains distribution in FY2008-09 (01 July-20 November) through PFDS was 697.89 thousand metric tons. Government has recently introduced the *Rural Employment and Road Maintenance Programme* for the ultra poor and destitute women of some of the crisis prone districts, namely *Panchagarh* and *Rangpur* districts. At the end of five years' guaranteed employment, each will get cash worth of Tk.70,000 (USD1,020). During the project period, 52,000 destitute women will be employed to work in the maintenance of 90,000 kms of road network in the northern part of the country. Under the national budget for FY2008-09 government has introduced a new programme titled '*100 Days Employment Generation Scheme*' with an allocation of Tk.2,000 crore (USD291.5 million) to generate employment for 20 crore man-days (2.92 million) to combat *Monga* (seasonal chronic food shortage among the absolute poor in selected areas) in greater

¹⁸ <http://www.bangladesh-bank.org>

Rangpur and *Dinajpur* districts. The new government is considering an employment guarantee scheme to provide 100 days employment to one youth per family.

VII.4 Supporting Productive and Sustainable Enterprises to Safeguard Employment

A new programme has been introduced under the national budget for FY2008-09 with a monetary support of Tk.20 crore (USD 2.92 million) to provide support to low-income workers particularly for working mothers of the garment factories. Under the national budget for FY2008-09, government has continued Second Primary Education Development Programme (PEDP-II); as part of which 5.5 million primary students are receiving stipends on annual basis. Total outlay for this programme is Tk.1,800 crore (USD 262.4 million). Under the national budget for FY2008-09, government has allocated an endowment fund (known also as 'credit whole selling') of Tk.100 crore (USD 14.6 million) for the *SME Foundation* to provide credit to SMEs through private commercial banks. The *SME Refinancing Scheme* of BB has been allocated Tk.500 crore (USD 72.9 million) in FY2008-09 from Tk.300 crore (USD 43.7 million) in FY2007-08.

VIII. CONCLUDING REMARKS: FURTHER INVESTIGATION NEEDED

This initial review portrays some of the trends in the Bangladesh economy which could be associated, directly and indirectly, with the ongoing global financial crisis. Some of the social safety net programmes have also been reviewed. However, how all these are impacting on the labour market and the lives and livelihoods of workers will need to be further examined. There is a strong possibility that as global recession deepens in 2009, some of the adverse developments and their implications will become more evident in the course of the coming months. A more clear picture with regard to retrenchment, recruitment, wage levels, level of participation of female workers in export-oriented sectors, social compliance at work place, and adherence to workers' rights etc. was likely to emerge. Investigation along these lines will be carried out in the second phase.

As part of the next phase of the study, CPD will carry out further indepth analyses to identify the extent of sector specific impact of crisis on Bangladesh's labour market. The objective will be to come up with suggestions to policy makers and ILO. *Firstly*, CPD will re-estimate the projection of structure of labour market for 2008 and 2009 based on the latest available estimates of GDP growth and growth-employment elasticity. This analysis will help identify possible losses of jobs owing to the financial crisis in major sectors of the economy, particularly export-oriented sectors. *Secondly*, a limited sample survey will be carried out in order to understand the extent of impact on different export oriented sectors particularly in terms of orders from buyers, CM charge, sales, investment, employment, level of wage, benefits received by workers, necessary adjustment measures taken by firms, and role of trade unions. *Thirdly*, a number of debriefings will be conducted with relevant stakeholders including the government, international organisations (i.e. ILO), various associations and trade bodies, trade unions, and NGOs working on workers' rights. Based on the information culled from these sources and relevant analyses, a detailed report will be prepared with policy suggestions.

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