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From the Editor

The shooting of South African striking mine workers

The end to modern day slavery?

Lesley Pocock, Chief Editor
Publisher and Managing Director
medi+WORLD International

The month has ended with the striking African miners at South Africa’s Lonmin platinum mine receiving a 22% wage rise, after an extensive campaign that saw the striking workers charged with murder of their fellow strikers in a bizarre twist of values where the system briefly supported the exploiting mine owners over the lives of men.

Factory fires in two major cities in Pakistan have killed at least 314 people and injured dozens more, including some who had to leap from windows to escape the flames, officials and survivors have said.

The most deadly blaze broke out in a garment factory in the southern port city of Karachi, where at least 289 bodies have been recovered so far, according to Roshan Ali Sheikh, a senior government official. With many victims caught in a basement with locked doors and no fire exits. At least 25 others were killed hours earlier in a shoe factory in the eastern city of Lahore.

These two scenarios reflect a residual slave labour mentality in some areas of business.

The modern day slavery mentality exists where some businesses seem to still think it is okay to pay their workers disproportionately to the value of their work as regards rates of pay for the same work in other areas. Rather the lower standard of living for some is deliberately exploited by situating certain industries where rates of pay can be lower than in other areas, as workers are more desperate for employment.

Not that these are the only examples - children still live in slavery on coffee plantations, carpet factories, domestic service and cigarette rolling industries for example.

The most sinister form of modern day slavery is the ongoing trafficking of women and boys and girls in the global rape market, everywhere:

- Human trafficking is the third most profitable criminal activity, second after drugs and arms trafficking.
- An estimated 600,000 to 800,000 men, women, and children are trafficked yearly across international borders, and the trade is growing (Department of State. 2004. “Trafficking in Persons Report.” Washington, D.C.; U.S. Department of State.)
- Of the 600,000-800,000 people trafficked, 70 percent are female and 50 percent are children; the majority of these victims are forced into the commercial sex trade (ibid)
- As many as 7,000 Nepali girls as young as 9 are sold annually into India’s red-light districts, 200,000 in the last decade.
- Afghani women are sold into prostitution in Pakistan for around 600 rupees – less than $4 a pound, depending on their weight.
- Ten thousand children between the ages of 6 and 14 are in Sri Lankan brothels.
- About 1,000 women from the former Soviet Union became prostitutes in Israel in exchange for legal documentation.
Introducing our new Associate Editor

Prof. Eric Van Genderen
Email: EricVanGenderen@mejb.com.

We are proud to introduce our new Associate Editor, Professor Eric Van Genderen.

Dr Van Genderen will write a regular column as from Volume 8, Issue 1. His focus is on International Business and Organizational Leadership and Dr Van Genderen welcomes feedback from the region.

Prof. Eric Van Genderen holds an undergraduate degree in International Economics. Postgraduate studies include an MBA (USA), Thunderbird, the American Graduate School of International Management; MIM (USA), an advanced postgraduate diploma in Management Consultancy (ADipC), and a, DBA from Henley Management College (aka Henley Business School); Oxford, (UK). Prof. Van Genderen also completed his teaching certification through the University of Cambridge (UK), and was a select member on a specialized research course for local historians/cross-cultural specialists; Oxford University (UK).

Honors include graduating at the top 5% of his undergraduate and graduate classes, as well as memberships in “Phi Sigma Iota”, the International Foreign Language Honor Society, and “Beta Gamma Sigma”, the International Business Honor Society, for academic distinction in these areas. In 2008, Prof. Van Genderen was inducted as a lifetime fellow of the prestigious Royal Society for the Encouragement of the Arts, Manufactures, and Commerce (FRSA), (UK), for contributions to his profession and discipline.

Prof. Van Genderen began his career in the financial services industry. First, as a Junior Underwriter with Lloyd’s of London (London, England), then moving into banking as a Global Funds Specialist with Wells Fargo Bank (San Francisco, USA), only to eventually pursue his own entrepreneurial interests, starting a travelers’ support company in one of America’s most popular resort areas (the Grand Teton National Park region), which proved to be extremely successful.

For 10+ years, Prof. Van Genderen worked in strategic management consulting in Russia, four of which were at the Associate Partner level. Projects mainly focused on the Government, Telecommunications, Tourism/Hospitality, Construction, and Education industries. More recently, Prof. Van Genderen assumed the role of investment specialist with the US government (Overseas Private Investment Corporation; OPIC) overseeing/approving energy industry related contracts for US MNCs, and a credit advisory board member/senior consultant with the Integra-Eurasia Group.

Eric’s current position is:
Professor, Int’l Business/Strategic Management, at the Institute of Management Technology (IMT), Dubai, UAE.

• About 50,000 Asian, Latin American and Eastern European women and children are trafficked into the United States for sexual exploitation, the going rate between $12,000 and $18,000 each.

Elsewhere, children, young men and women are lured from villages, towns, and cities, where the plea for survival strikes the very poor, creating a desperation in people who will do anything to survive. These young victims are promised jobs and labor, but instead, are forced to work in quarries and sweatshops, farms, as domestics, as child soldiers and other forms of involuntary servitude, such as forced prostitution or sexual slaves.

In 1975, the United Nations created the Working Group on Slavery. The group has focused on the prevention of the sale of children, child prostitution and child pornography, as well as the eradication of child exploitation and labor. Yet, because slavery also entails labor, child soldiers, and other forms of involuntary servitude, the time must be divided amongst all aspects of slavery.

"No one shall be held in slavery or servitude: slavery and the slave trade shall be prohibited in all their forms." - United Nations: Universal Declaration of Human Rights
Climate Change and Corporate Environmental Responsibility

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Abstract

Climate change, as an international environmental issue, is getting a lot of attention. The negative effects of climate change have become one of the most talked about issues among Governments, scientists, environmentalists and others. It is said that business activities are affecting the climate negatively. In order to minimize the negative effects of climate change, the activities of the businesses should be controlled and encouraged to perform in a socially responsible manner. The article focuses on the responsibilities and the responses of businesses on climate change issues. The article first highlights on two prominent issues: Corporate Social Responsibility and Corporate Environmental Responsibility. Then the article introduces climate change as an international environmental concern. Then, by going through several published literature, the article highlights various responsibilities of business towards climate change issues. The article also highlights the several strategies the businesses are following to respond to the climate change issues.

Introduction

Any business is a social unit. It is said that business and society have a symbiotic relationship. On one hand, businesses help society by creating employment and providing better products or services to the people of the society and thus increasing the quality of the life of the people. On the other hand, society also supports the businesses by providing them with various resources (raw materials, labor and many other inputs) for their development and survival. As a part of the society, business has to deal with the people of the society and generate profit out of the resources provided by the society.

As businesses cannot survive without the help of the society, they have to fulfill the expectations of the society. Business should not do any harm to the society through their activities and in order to survive, they will have to give importance to the changing needs and values of the people in the society (Krishnan, 1977). It is now said that today a business lives in a ‘glass house’ and that is why a business has a greater ‘public visibility’ (the extent that an organization’s activities are known to the persons outside the organization) in comparison to other institutions in the society (Davis, 1975). Now, the society is becoming interested to know the activities of business and the growing popularity of ‘social welfare’ is also compelling the businesses to perform social responsibilities (Hossain, 2004).

In the business literature, the issues like ‘corporate citizenship’ and ‘corporate social and environmental responsibility’ are not new anymore. According to Carroll (1977), innumerable managers and organizational theorists are in agreement that the radical and sweeping changes which are altering the contemporary social fabric have had a myriad of effects on business organizations. A growing body of literature in the field of business highlights the fact that an increasing number of corporate managers are accepting the need to serve society in ways that go well beyond the performance of a narrowly defined economic function (Buehler and Shetty, 1977; Monsen, 1974; Rockefeller, 1974, Committee of Economic Development, 1971).

There remained a continuous debate among the researchers, academicians and professionals on what should be the scope of corporate social responsibility. One of the most prominent views was that of Friedman (1970). According to this view, there is one and only one social responsibility of business and that is to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which means, remaining engaged in open and free competition without deception or fraud. Wheelen, Hunger and Rangarajan (2004) explained Friedman’s view by saying: a businessperson who acts responsibly by cutting the price of the firm’s products to prevent inflation or by making expenditures to reduce pollution, or by hiring hard-core unemployed, is spending the shareholder’s money for a general social interest. Though this remained a prominent view in the business literature, later, some other views also got popularity. For example, Carroll (1979) did not support this view in total. Carroll’s view extended the responsibility of the business beyond only economic responsibility. According to Carroll, the managers of business organizations have four responsibilities.
and these are economic, legal, ethical and, discretionary. Firstly, Carroll identified the economic activities as the ‘must do’ activities. That is, businesses must produce goods and services of value to the society so that the firm can repay its creditors and shareholders. Then come the legal activities that are characterized by ‘have to do’ activities that are related to Government laws that management is expected to obey. After that, there comes the ethical activities or ‘should do’ activities that include following the generally held beliefs about behavior in a society. Lastly, there are some discretionary activities that an organization ‘might do’. These are purely voluntary obligations a corporation assumes (Examples are philanthropic contributions, training the hard core unemployed, and providing day care centers). Another author, Frost (2001) argued that companies have two kinds of responsibility - commercial and social. On one hand, commercial responsibilities involve running a business fruitfully, breeding profit and satisfying shareholder expectations. On the other hand, social responsibilities involve taking on responsibilities as an actor in the society and the community by engaging in activities that go beyond making a profit - such as protecting the environment, looking after employees, addressing social issues, and being ethical in trade.

Just like the debate on the scope of the social responsibility activities of businesses, there are also some prominent arguments on whether business should be allowed to perform social responsibilities or not. Davis (1977) compiled several views in favor and against corporate social responsibility.

Davis (1977) presented several arguments in favor of the social responsibility activities. Some of these arguments are discussed here. Firstly, it is mentioned that, the firm which is most sensitive to its community needs will as a result have a better community in which to conduct its business and it is argued that a better society produces a better environment for business. Secondly, as social goals are now a top priority with members of the public, the firm which wishes to capture a favorable public image will have to show that it also supports the social goals. A good public image may help a firm to get more customers, better employees and other benefits. Thirdly, the businesses should maintain the socio-cultural norms. The businessmen are operating under a set of cultural constraints in the same way that any other individual in the society is doing. If the society shifts toward norms of social responsibility as it is now doing, businessmen should be guided by those norms also. Fourthly, it is said that as many other institutions have failed in handling social problems, and as many people are frustrated with the failure of other institutions, why not turn to business now and ‘let business try’. Fifthly, it is argued that as businesses have valuable resources which could be applied to social problems, society should use them.

Davis (1977) combined several arguments against the thought of businessmen performing social responsibilities. Firstly, it is argued that social involvement may become costly. If businesses are pushed into social obligations, these additional costs may result in economic impotence of business. Secondly, many businessmen may lack the perception and skill to perform social responsibilities. They might also be philosophically and emotionally unfit for the job. Thirdly, it is argued that involvement in social goals might dilute business’ emphasis on economic productivity. Fourthly, it is said that businesses already have enough social power and the society should not take any steps which would give it more power. If the business performs both social and economic activities, this might result in excessive concentration of power. Lastly it is argued that businessmen have no line of responsibility to the people, and therefore, it would be unwise to give businessmen responsibilities for areas where they are not accountable.

Whatever may be the issues of debate, the fact is that, the businesses in the world are trying to perform social responsibility activities. Businesses are trying to move forward from just an economic view of operations. This recognition of social responsibility issues from the part of the business world can be explained by a well-renowned theory called ‘legitimacy theory’. This theory asserts that organizations continually seek to ensure that they are perceived as operating within the bounds and norms of their respective societies, that is, they attempt to ensure that their activities are ‘perceived’ by outside parties as ‘legitimate’ (Deegan and Unerman, 2006, p. 271). So, by performing social responsibility activities (in many cases on a voluntary basis), the organizations actually seek for the legitimacy of their existence in the eyes of the society. For any company, giving a high priority to social responsibility issues is no longer seen to represent an unproductive cost or resource burden, but, increasingly, as a means of enhancing reputation and credibility among stakeholders - something on which success or even survival may depend (Holme and Watts, 2000).

The issue of ‘social responsibilities of business’ has got immense popularity over the last few years in several economies. As a consequence, the companies have picked up wide-ranging exercises that cover different levels of activities that have an effect on corporate governance, employee relations, supply chain and customer relationships, environmental management, community involvement as well as key business operations. Corporate responsibility covers a number of aspects of the dealings of the business. Skinner and Ivanchevich (1992) argue that consumers, special interest groups, and the general public are aware of business’ impact on the society and demand firms to do more than try to create profit, and as a result, at present, nearly all managers view social responsibility as a required duty of doing business. They also comment that business organizations have an impact on consumers, employees, the environment and on those who invest in the firm.

**Corporate Environmental Responsibility (CER):**

Among these several issues, environmental responsibility is getting huge attention over the last few years. Environmental protection, along with the related costs, revenues and benefits, is of increasing concern to many countries and organizations around the world (Jasch, 2009, p. xxi). Corporate Environmental Reporting (CER hereafter) as a part of Corporate Social Responsibility
has drawn immense attention from the part of researchers, academicians, professionals and activists:

“In the past two decades, CER has changed and continues to rapidly evolve to keep pace with new markets in the global economy. Several forces are driving the evolution of CER, including consumer activism, shareholder and investor pressure, and competitive advantage (Jamison, et al, 2005).”

Protecting the environment from pollution and maintaining an ecological balance have become burning questions these days. Several Governments, policymakers, and environmental activists are working hard to mitigate the environmental problems worldwide. Preventing land, water and air pollution, conservation of energy, protecting plant and animal resources, finding solutions to the problems caused by global warming have become the most talked about issues these days.

Almost from the beginning of this movement, businesses were blamed for the environmental pollution. In the process of producing products, businesses have to go through manufacturing processes that may result in emitting harmful gases in the air, throwing effluents in land and water and thus creating air, water and land pollution. Though environmental pollutions are created by the individuals and other social institutions also, as businesses have a greater public visibility than any other institutions in the society, they were highly targeted mainly by the several environmental activist groups of the society. As a result, the demand for environment friendly manufacturing processes, environmental audits, environmental management accounting and environmental reporting increased day by day.

In order to meet the social expectations, business organizations tried to include all these matters in their activities. But these actions created a dilemma all over. Because of the introduction of environment friendly manufacturing processes and environmental audits, the cost of production increases by a good proportion and as a result, prices of the products also increase. Historically the usual assumption among most of the managers has been that improving environmental performance represents only extra costs for the organization with no corresponding benefit other than to ensure compliance with laws and regulations and thus avoid possible precaution or fines (Schaltegger et al, 2008). But over the years, several researches and case studies have shown different picture which is a bit different than this usual assumption. Many company examples have shown that adopting environmental protection measures can often substantially reduce costs and a growing number of companies have demonstrated the potential to reduce both their costs and their environmental impacts at the same time (Schaltegger et al, 2008). Thus, these days, transnational companies turn their attention to environmental issues in a more coherent and active manner than was previously the case (Perry and Singh, 2001).

Business organizations respond to environmental challenges because of three motives: to gain strategic advantage; to avoid strategic disadvantage and to act responsibly (Eden, 1996; Bansal, 1997; Perry and Singh, 2001). In terms of getting strategic advantage, it is said that being environmentally cleaner can bring cost savings and pollution prevention can pay through saving resources, recycling materials at a lower cost than using new materials, and reducing clean up costs (Perry and Singh, 2001). Moreover, recently it was noticed that, here is a budding market for environmentally friendly products. Companies often adopt environmentalism to avoid strategic disadvantage:

“They may, for example, attempt to match the behavior of competitors, in order to avoid placing themselves at a strategic disadvantage. This disadvantage may be a loss of market share if the strategies of competitors prove effective, or it may be a loss of reputation or standing. The impact of poor publicity can be seen in the reaction of individual company share prices to good and bad environmental news… Corporations often view environmentalism as a means of deflecting or preempting new legislation, which is seen as detrimental to market advantage. To deter demands for legislation, TNC (Transnational Companies) self-regulation needs to attain a high degree of credibility (Perry and Singh, 2001).”

Other than these, organizations are finding not becoming environmentally conscious can act as a legitimacy threat for them. Environmentally sensitive business organizations are facing new demands to demonstrate their legitimacy as their global reach increases (Grolin, 1998; Rodgers, 2000; Perry and Singh, 2001). So, they are almost becoming bound to act responsibly.

Over the years, the world is being challenged by new environmental problems and these newer issues are affecting the business world with the social demand for being more environmentally responsible. Among all the environmental issues, the issue of global warming and climate change is getting high significance from different parties at this moment. Again, businesses were blamed because of their contribution to climate change and the environmental degradation. New responsibilities were assigned on the business world.

Climate Change as an International Environmental Issue:

There is no doubt that the earth is getting warmer and the weather pattern is getting more unpredictable and according to most of the scientists, the reason that is mostly acting behind this is the concentration of Greenhouse Gases (GHGs hereafter) (Schultz and Williamson, 2005). The most important of these GHGs is carbon dioxide. This gas is emitted into the air mainly when fossil fuels like oil, natural gases, coal etc. are burnt.

Other than carbon dioxide, the other GHGs include methane, chlorofluorocarbons, nitrous oxide, aerosols etc. The main sources of GHGs are (Rahman, Robins and Roncerer, 1998) - see Table 1:

From this table, it can be said that industrial production and business activities generate a good amount of these GHGs. As these gases are harmful for
The earth is warming and scientists are increasingly confident that this is due to the rise in man-made greenhouse gas emissions caused by industrialization. Higher temperatures are leading to widespread melting of snow and ice, and rising sea levels. Their effects can be felt in changing global climate, whether as increased rainfall and more frequent storms in some parts of the world, or more intense and longer droughts in others. Continued emissions at or above current rates will cause more warming and bigger climate changes in the years ahead. The impact on fresh water access, food production and health will vary across the globe, but is likely to be destructive and to grow over time. (CBI, 2007).

The potential economic impacts of climate change were brought into sharp focus in late 2006 with the publication of the Stern Review on the Economics of Climate Change. The report states that our actions over the coming few decades related to climate change could create risks of major disruptions to economic activity, and that costs of extreme weather alone could reach 0.5-1% of world GDP per annum by the middle of the century. The report states that at higher temperatures, developed economies face a growing risk of large-scale shocks, and provides examples such as increasing hurricane speeds, floods, heat waves and costs of insurance. It warns that if climate change is not addressed, it could create risks of major disruption to economic activity on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century.

The United Nations’ Framework Convention on Climate Change (UNFCCC, 1992) had the following objective:

“...stabilization of greenhouse-gas concentrations in the atmosphere at a level that would prevent dangerous atmospheric interference with the climate system. Such a level should be achieved within a time frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened, and to enable economic development to proceed in a sustainable manner.”

<table>
<thead>
<tr>
<th>GHG</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon Dioxide</td>
<td>The two main sources of the increase in atmospheric Carbon Dioxide are the combustion of fossil fuels and land use changes; cement production is a further important source. This gas is released every time fossil fuel is burnt to obtain energy.</td>
</tr>
<tr>
<td>Methane</td>
<td>Methane is produced from a wide variety of anaerobic (i.e., oxygen deficient) processes with emission from both natural sources and human activities. Anthropogenic sources seem to account for about two-thirds of the total emissions. A good amount of methane results from human activities of fossil origin, largely from coal, oil and natural gas industries. Rice agriculture, biomass burning in tropical and subtropical regions, enteric fermentation in ruminant animals, animal and organic domestic wastes in landfills also release methane.</td>
</tr>
<tr>
<td>Chlorofluorocarbons (CFCs)</td>
<td>CFCs are used in various forms in refrigerators and air conditioning units, as aerosol propellants, as solvents, and as foam blowing agents. Unlike other GHGs, they are not produced naturally and their presence in the atmosphere is due solely to industrial production, which started in 1930s.</td>
</tr>
<tr>
<td>Nitrous Oxide</td>
<td>This gas is produced as a result of microbial activity in the soil. Its rate of release is accelerated if mineral fertilizers containing nitrogen are used in agriculture. It is also released by fossil fuel burning and nylon production.</td>
</tr>
</tbody>
</table>


Table 1: Sources of GHGs
Over last few years, climate change, as an international environmental concern, has radically attracted business attention. This awareness among the corporate world mainly started after the adoption of the Kyoto protocol in 1997 (Grubb, et.al, 1999 and Kolk and Pinkse, 2004). Kyoto Protocol is an international voluntary agreement signed by 141 countries of the world. These countries include the European Union, Japan and Canada and the agreement aims at reducing GHG emission by 5.2% below 1990 levels by 2012. Most environmentalists see the Kyoto Protocol as the last best hope to counter global warming (Ruiz-Marrero, 2005). The Kyoto Protocol suggested three separate market-based mechanisms that assist the countries to achieve the targets: Clean Development Mechanisms (CDM), Joint Implementation Projects (JI) and Emissions Trading.

Among these three, the issue of emissions trading got attention in the business world. The Kyoto Protocol establishes a legally binding obligation for industrialized countries to reduce their emissions of GHG and in order to do this, emissions are to be reduced in aggregate by at least 5% below 1990 levels by 2008-2012 (International Energy Agency, 2001). The protocol embraces a number of flexibility mechanisms, including a system of international emissions permit trading and various credits for the international transfer of clean (low-carbon) technologies (Goulder and Nadreau, 2002). Egenhofer (2007) comments that emission trading is likely to be a crucial pillar of future climate change policy. According to UNEP Finance Initiatives (2004):

"Under International Emissions Trading, industrial countries can trade part of their emissions budget, known as Assigned Amount Units (AAUs), which will be allocated to the Kyoto Protocol signatory states. A party with high marginal costs of reduction can acquire emission reductions from another party with lower costs of reduction. This helps both the buyer and the seller reduce their emissions at minimal cost. Legislators implement emission reductions by decreasing the number of certificates available in the market. This provides incentives for companies to invest in emission abatement technologies. In principle, this trading regime applies to nation states, although the participation of companies is not entirely excluded."

Actually, a central authority (mostly a Governmental authority) signifies a limit, usually called cap, on the amount of a pollutant that can be emitted. Companies or other groups are given ‘emission permits’ that indicate allowances (or credits) which signify the entitlement to release a specific amount of pollutants. The entire amount of allowances and credits cannot go beyond the cap. Companies that are required to emit more pollutants than their credit need to buy credits from those who pollute in a lesser amount. So, it can be said that after the introduction of ‘emission trading’, businesses are facing a new challenge that is to be faced by them strategically.

Moreover, the awareness on climate change issues among the investors and other stakeholders has also increased these days. Kolk and Hoffmann (2007) cited an example by extracting news from the Financial Times published on 24 May, 2007. This was related to Exxon-Mobil and it says that the US and the European institutional investors led a charge to oust an Exxon-Mobil board member for ‘inaction’ on climate change.

The United Nations Climate Change Conference of 2009 known as the Copenhagen Summit was held in Denmark from 7 December to 18 December and this summit ended up with lots of questionable unresolved matters. Developed and highly industrialized countries were blamed by a lot of activists for harming the climate to a greater extent and not helping in the GHG emission reduction movement.

A few months before the Copenhagen summit, the global business leaders presented “The Copenhagen Call” at the end of the World Business Summit on Climate Change on May 26. The objective of the World Business Summit on Climate Change, Copenhagen was as follows:

“The goal of the Summit is to demonstrate how policy, coupled with innovative business models, can drive a sustainable transformation of the economy and stimulate job creation and low-carbon solutions.” (Found in the summit brochure in http://www.copenhagenclimatecouncil.com/world-business-summit.html)

In the official web site of the Copenhagen Climate Council, a comment made by Connie Hedegaard, Minister of Climate and Energy, Denmark draws attention:

“We, the politicians of the world, have a responsibility to reach a truly global climate change agreement in Copenhagen in December 2009. But it is the business society that can deliver the tools to turn our vision into reality. Businesses can provide the clever solutions to make it possible to live in both a modern and sustainable society.” (Found in http://www.copenhagenclimatecouncil.com/world-business-summit.html)

From various research results, it was found that the industrial sector emits a good amount of GHGs in the air. Data from IPCC Fourth Assessment Report of 2007 reveals that electric generation, industrial processes and transportation account for more than half of the planet’s GHG emissions (Southworth, 2009):

IPCC Fourth Assessment Report of 2007 data also reveals that transportation fuels, fossil fuel retrieval, processing and distribution, industrial processes and power stations account for 80% of the carbon emissions (Southworth, 2009) – see Table 2.

IPCC Fourth Assessment Report of 2007 data also reveals that transportation fuels, fossil fuel retrieval, processing and distribution, industrial processes and power stations account for 80% of the carbon emissions (Southworth, 2009):

The Copenhagen Summit got huge media attention all over the world. As a result, there grew a consciousness on the negative effects of climate change among the people of the world. From the data presented in Table 3, it can be
understood very clearly that businesses are affecting climate to a greater extent. The public consciousness has again thrown a huge range of challenges on the activities of the corporate world.

**Business Responsibilities and Responses to Climate Change:**

Over the last few years, climate change, as an international environmental concern, has radically attracted business attention. It is because climate change poses strategic dilemmas for companies across a range of industries, affecting those that produce fossil fuels (e.g., oil, utilities), depend on these fuels directly (e.g., chemicals, airlines) or indirectly (automobile and aircraft manufacturers), and those that want to develop new market opportunities arising from risk coverage or emerging emission trading systems (e.g., banks and insurance) (Kolk and Pinkse, 2004).

After the Kyoto Protocol meeting, a good number of big multinationals concentrated highly on influencing (both from an individual level and from business association level) their government’s position on international climate treaty and emission reduction policies (Kolk and Pinkse, 2004). Kolk and Pinkse (2004) mention that:

> “Compared to 1997, when the discussions on the Kyoto Protocol were taking place, and doubts about the science and feasibility of climate measures played a large role in the public debate, this really represents a salient change. In the current situation, the market benefits receive considerable attention and there is an overall interest on the part of investors to not only minimize the risks associated with climate change but also seek the opportunities.

As discussed previously, as the issue of climate change got immense attention from the part of the world media and different research results identified the activities of the businesses as one of the most significant reasons of climate change and environmental degradation, the businesses around the globe were attacked with legitimacy threat. Moreover, the Governments of different countries are also taking this issue as a burning question. As a result, the corporate world started to take this issue seriously:

> “Many businesses have taken steps to reduce greenhouse gas emissions voluntarily. Many are taking into account some of the impacts of climate change-potential state and federal regulations, shareholder perceptions, and changes in consumer and supplier markets, for example, on the cost of doing business now and in the future. Fewer businesses, however, are incorporating the risks and opportunities associated with the physical effects of climate change in their business planning (Sussman and Freed, 2008).’

For the business world, two of the very prominent topics that came into existence after the climate change issue became a burning question are:

a. **The issue of Cleaner Production (CP),**

and,

b. **The issue of environmental reporting,**

<table>
<thead>
<tr>
<th>Sector</th>
<th>GHG Emission (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Bio products</td>
<td>13</td>
</tr>
<tr>
<td>Fossil fuel refining, processing and distribution</td>
<td>11</td>
</tr>
<tr>
<td>Residential and commercial</td>
<td>10</td>
</tr>
<tr>
<td>Land use</td>
<td>10</td>
</tr>
<tr>
<td>Transportation fuels</td>
<td>14</td>
</tr>
<tr>
<td>Industrial processes</td>
<td>17</td>
</tr>
<tr>
<td>Power stations</td>
<td>21</td>
</tr>
<tr>
<td>Waste treatment and disposal</td>
<td>4</td>
</tr>
</tbody>
</table>

**Table 2: GHG Emission by Sectors**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Carbon emission (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fossil fuel retrieval, processing and distribution</td>
<td>12</td>
</tr>
<tr>
<td>Residential and commercial</td>
<td>14</td>
</tr>
<tr>
<td>Transportation fuels</td>
<td>20</td>
</tr>
<tr>
<td>Industrial processes</td>
<td>22</td>
</tr>
<tr>
<td>Power stations</td>
<td>32</td>
</tr>
</tbody>
</table>

**Table 3: Carbon Emission by Sector**
CP can be described as a preventive, integrated strategy in which costly end-of-pipe pollution control systems are replaced by measures which reduce and avoid pollution and waste throughout the entire production cycle, through the efficient use of raw materials, energy and water (Schaltegger et al, 2008). According to Schaltegger et al (2008), the main objectives of CP are to:

a. Minimize the use, as well as optimize the reuse and recycling, of hazardous and non-hazardous materials.

b. Use materials in the manufacturing process in a more efficient way, reducing the amount of inputs needed and the amount of non-desired output.

c. Minimize risks and improve human capital through worker hygiene and safety programs.

d. Improve monetary returns by minimizing energy consumption and reducing material and handling costs. This may often require capital investment.

CP can play a crucial role in achieving eco-efficiency and CP represents not merely a technical solution for the production department, but also an internal corporate strategy which requires all decision-makers in a company to assess the potential to adopt cleaner technologies and techniques in all parts of the organization (Schaltegger et al, 2008; Yacooub and Fresner, 2006).

Deegan, Rankin and Voght (2000) showed that companies did appear to change their disclosure policies around the time of industry related major events. Deegan, Rankin and Tobin (2002) identified positive correlation between media attention for certain social and environmental issues and the volume of disclosure on these issues. So, it can be expected that the companies will disclose more about GHG emission issues in order to reduce the legitimacy threat.

Though still there is no important law regarding the disclosure of climate change issues in the annual reports; there are growing concerns about this issue. Feichtner (2009) comments in respect of the US context that:

“Securities law requires publicly-traded companies to report material risks. Does the Securities Exchange Commission (SEC) currently stipulate that material climate risks be disclosed under existing law? No — at least not yet. Should publicly-traded companies evaluate whether climate change is reasonably likely to impact their future financial performance? Yes — especially as the Obama administration attempts to position the U.S. for a low-carbon future. While the SEC has yet to draft specific guidelines for assessing and measuring climate-related issues, companies can perform a basic assessment of the environmental risks and opportunities that could materially affect their operations.”

Sellers, Strait and Thrower (2009) found a sign of increasing climate change disclosure by the US companies:

“Climate change disclosure practices of U.S. public companies have been gradually changing over the past several years. Possible explanations include the increasing likelihood of national regulation of greenhouse gas (GHG) emissions, and growing attention to the topic by investors and the media. Another influence may be the insurance industry, which at the prompting of its regulators, is planning to seek information on this topic from its customers and investees.”

O’Riordan (2000) suggested the following actions in relation to the climate change issue, from the part of the businesses:

- Businesses should develop their own view on the accuracy and reliability of the science, and the significance of the “best guess” predictions.
- Businesses should create their own response through the inventory of greenhouse gas emissions and set clearly defined emissions reduction targets.
- Businesses should commit a range of in-house efficiency options plus scope for trading carbon permits, jointly implementing carbon reducing schemes, and building in a business opportunity for renewables and energy servicing.

The evidence suggests that despite the absence of enough legislation and regulations from the part of the governments of the world, corporations are trying to respond to the climate change issues and are behaving in a responsible manner in many ways. Using empirical information from the largest multinational companies worldwide, Kolk and Pinkse (2004) identified that corporations are taking several kinds of actions on climate change. These actions include strategies like target setting,
process improvement, product development, supply chain measures, market mechanisms and partnership. Organizations set several kinds of targets in order to respond to the climate change issues. Target setting includes targets to reduce or stabilize GHG emissions or to diminish energy consumption. Organizations are also trying to respond to climate change issues by process or product development. They are trying to develop improved energy efficient products. The process improvement is mainly targeted towards energy efficiency improvements. Process improvement activities are also directed towards the reduction of carbon dioxide emission. Many companies try to integrate GHG emission issues in the design phase of their products.

Corporations are trying to consider emissions of their supply chain also. Many companies select their suppliers based on their environmental programs. Many companies expect their suppliers to have the same environmental standards. Companies, now, are also able to achieve GHG emission reduction in cooperation with other companies or Governments either by trading emission credits or by a partnership in an offset project. The research of Kolk and Pinkse (2004) shows the following corporate actions on climate change per sector (see Table 4 above):

Southworth (2009) found several voluntary actions in response to the climate change issues from the part of the American corporations:

a. Some American corporations have voluntarily agreed to participate in annual reporting of GHG emission and pledged to reduce overall carbon footprints.

b. Corporate boards and oversight committees have adopted corporate sustainable development plans and climate change mitigation strategies.

c. American corporations are investing in research and development of green energy technologies and climate friendly industrial processes. They are searching for inefficiencies in resource use.

d. Corporations are also developing green products to satisfy a growing consumer base and are preparing for shifts in public perception of environmental responsibility.

e. But it is important to understand that these developments have occurred in a context where regional and international mandates are also affecting corporate actions.

Southworth (2009) also mentions: “Forward thinking corporations see both the opportunities and risks presented by climate change. The opportunities include bottom line improvement through efficiency and alternative energy supply, reduced petroleum dependence and a more reliable energy market, boosting shareholder and investor confidence, preventing or preparing for the physical effects of climate change, improving industry reputation, access to new markets, lowering insurance costs and preparing or preempting restrictive carbon emission legislation. The risks include inefficient business models, uncompetitive products and industrial processes, a fluctuating energy market, loss of institutional investors and

<table>
<thead>
<tr>
<th>Sector</th>
<th>N</th>
<th>Target setting (%)</th>
<th>Process improvement (%)</th>
<th>Product Improvement (%)</th>
<th>Supply chain (%)</th>
<th>Market Mechanisms (%)</th>
<th>Partnerships (%)</th>
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<tr>
<td>Automotive</td>
<td>4</td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>25</td>
<td>75</td>
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<td>100</td>
<td>86</td>
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<td>56</td>
<td>56</td>
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<td>57</td>
<td>5</td>
<td>52</td>
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<td>Food and beverages</td>
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<td>44</td>
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<tr>
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<td>75</td>
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<td>83</td>
<td>83</td>
<td>100</td>
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<td>Mining</td>
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<td>100</td>
<td>67</td>
<td>100</td>
<td>0</td>
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<tr>
<td>Oil and gas</td>
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<td>60</td>
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<td>Pharmaceuticals</td>
<td>10</td>
<td>80</td>
<td>90</td>
<td>20</td>
<td>70</td>
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<td>Utilities</td>
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<td>54</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Kolk and Pinkse (2004)
shareholder support, liability for contribution to climate damage, physical impacts of climate change, a bad reputation in the market’s consumer base, and high insurance costs.”

Southworth (2009) also found that the rise in global energy costs and increasing consumer demand for sustainable energy are making energy efficiency and renewable energy sources more attractive to corporations that depend on inexpensive energy for production and transportation of goods. It was found that increased involvement in renewable energy projects and investment correlated with industries that are already subject to regulation or that are predicted to be subject to regulation in the near future. A good number of automobile companies were found to be developing their products in an environment friendly manner (General Motors, BMW, Chrysler etc.).

Conclusion

From the discussions of this article it can be said that there is no doubt of the fact that business activities are affecting the environment a lot and thus contributing negatively toward climate change. As a part of society businesses have to respond to climate change issues in a responsible manner. Thus, businesses should perform their activities in a way that does not harm the environment. Moreover, if their activities harm the environment, they must compensate society for that. As, these days, there is a continuous demand from the various pressure groups for making the businesses behave in a responsible manner, businesses are challenged with a new kind of burden. Performing activities in an environmentally friendly manner involves more rigorous planning, difficult activities to perform and huge cost. This can affect the financial performance of the businesses negatively. But as the businesses will have to perform their activities in the society, they must meet social expectations and behave in an environmentally responsible manner. That is why, although still there is no much effective regulation to control and guide the activities of businesses in order to reduce the negative effects on climate and environment, businesses of the world are trying to behave in a responsible manner. In many cases it was also seen that business are thinking that behaving in an environmentally responsible way can help them to generate a good image in the eyes of the public.

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The relationship between financial development and economic growth convergence

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1. Introduction

One of the oldest controversies in the economics world, if it were true, implies that poverty should disappear by itself in the long-run. The idea that is known as the convergence hypothesis, has attracted the attention of many economists, especially since the mid-1980s. The convergence hypothesis is based on the neoclassical growth model (Solow, 1956 and swan, 1956). Neoclassical theory posits that because of diminishing return, if different countries are at different points relative to their balanced growth path, a lower-income economy tends to be associated with a higher subsequent growth rate in income per capita than the rich economies.

Endogenous growth theory, launched by Romer (1986) and Lucas (1988), has primarily focused on the convergence theory and challenged the strong cross-country implications of the neoclassical model. In the endogenous growth theory investment (for Romer in physical capital and Lucas in human capital) embodies spillover effects that offset the tendency towards diminishing return. Therefore, initial differences may exist and grow without limits over time. As a result, convergence hypothesis can be used to differentiate between the two leading approaches to economic growth, namely the neoclassical growth theory and endogenous growth theory (Huang, 2005: 234).

In the convergence debate, the empirical literature distinguishes two concepts: the absolute convergence and the conditional convergence. The hypothesis of absolute convergence maintains that in the long-run the incomes per capita of all economies converge to the same level as well as to the same growth path. The hypothesis of conditional convergence implies that a country’s income per capita converges to a country-specific long-run growth path, which is determined by the basic structural characteristics of countries. Income per capita therefore converges to the same level across countries conditional on the countries being structurally alike (Sorensen and Jacobsen, 2005: 49). One of the most generally accepted results is that while there is no evidence of unconditional convergence among countries, the conditional convergence holds when the determinants of the steady-state are controlled for (Bernard, 1986, Barro and sala-i-Martine, 1992, and Mankiw, et al, 1992)(1).

As Bamoul (1986), Abramovitz (1986), and Bernard and Jones (1996) pointed out, two main sources exist for income convergence process: diffusion of technology or technology convergence and convergence in capital-labor ratio. Nonetheless, we don’t know enough about “how much of the convergence that we observe is due to convergence in
technology versus convergence in capital-labor ratio” (Bernard and Jones, 1996: 1043). Although, the question remains unanswered, in theoretical and empirical works, the effects of factors such as international trade and financial development on income convergence have been investigated. The vast theoretical and empirical researches confirmed the relationship between international trade and income convergence, e.g. Ben-David (1993, 1996, and 2000), Suchs and Warner (1995), and Felbermayr (2005)(2).

Shu (1999) and Aghion, Howitt, and Foulkes (2005) study the finance-convergence nexus. Shu (1999) uses intra-distribution dynamics approach to investigate whether financial development is a mechanism determining club formation. The results of papers show that countries in the high degree of financial intermediation group tend to converge to the top end of the income distribution while countries from the low level of financial repression group converge to the lower end. Aghion, Howitt, and Foulkes (2005) introduced a multicountry Schumpeterian growth model with imperfect creditor protection. Their theoretical model predicts that the lower the current productivity of a firm, the more costly it is for that firm to catch up with the technological frontier, and therefore the lower the probability of technological catch up. Hence, in an economy with low financial development, firms that are initially closer to the technological frontier will tend to grow faster. They used cross-country regression with cross-sectional data for 71 countries over the period 1960-1995. Their empirical results suggest that financial development is a convergence factor and the lack of financial development accounts for the failure of some countries to converge to the growth rate of the global technological frontier. The present paper aims to contribute to the relevant literature in the following ways:

i) We introduce a simple classic Solow (1956) growth that is based on the insights in Pagano (1993) and Cho (2007). Accordingly, we incorporate the financial sector as an intermediation factor in the Solow model. Solving the model in the steady state shows that financial development accelerates income per capita (as well as capital per capita) convergence.

ii) On the econometric front, we use GMM dynamic panel estimator, which eliminates two sources of inconsistency in cross-country empirical work on growth, i.e. correlated individual effects and endogenous explanatory variables.

The rest of the paper is as follows: section 2 presents a simple theoretical model; section 3 discusses model specification, estimation issues, dataset, sample and variables. Section 4 presents the main results and section 5 concludes the paper.

2. A Simple Theoretical Model

We begin with the “textbook version of the Solow model” introduced in Mankiw, Romer and Weil (1992). This model features the Cobb-Douglas production function with labor-augmenting technological progress:

\[ Y(t) = K(t)^\alpha H(t)^\beta [A(t)L(t)]^{1-\alpha-\beta} \]  

Where Y is output, K and H are physical and human capital; L is labor and A denotes the level of technology. L and A are assumed to grow exogenously at rates n and g so that:

\[ L(t) = L(0).e^{nt} \]

\[ A(t) = A(0).e^{gt} \]

Let \( s_k \) and \( s_h \) be the fraction of income invested in physical and human capital. The neoclassical growth model assumes that the intermediation process is completely efficient, so that physical investment (I) equals saving (S). However, this need not always be the case and financial institutions may not transfer all savings to investment. Therefore, instead of assuming I=S, we specify:

\[ I = \phi S \]  

Where \( \phi \in (0,1) \) measures the efficiency of financial intermediation(3). \( \hat{y}, \hat{k}, \hat{h} \) denotes output, stock of physical capital, and human capital per unit of effective unit of labor. In the reduced form of production function, we divide both inputs by AL, which yields:

\[ \hat{y}(t) = \hat{k}(t)^\alpha \hat{h}(t)^\beta \]  

The dynamic equations for \( \hat{k} \) and \( \hat{h} \) are given by:

\[ \dot{\hat{k}} = \phi s_k \hat{y}(t) - (n + g + \sigma) \hat{k}(t) \]

\[ \dot{\hat{h}} = s_h \hat{y}(t) - (n + g + \sigma) \hat{h}(t) \]

Where \( \sigma \) denotes the constant rate of depreciation in this model. Financial development is characterized by continuous increases in the efficiency of financial intermediation, \( \phi \).

In the balanced growth path, \( \hat{k} \) moves toward the steady state level of capital per effective labor (\( \hat{k} \)). Approximating around the steady state, the pace of convergence is given by:

\[ \dot{\hat{k}} = -\lambda [\hat{k}(t) - \hat{k}] \]

Equation (6) implies that in the balanced growth path \( \hat{k} \) moves toward \( \hat{k} \) at a speed approximately proportional to its distance from \( \hat{k} \).
That is, the growth rate of \( \hat{k}(t) - \hat{\tilde{k}} \) is approximately constant and equal to \( \lambda \), which implies:

\[
\hat{k}(t) = \hat{\tilde{k}} + e^{-\lambda t}[\hat{k}(0) - \hat{\tilde{k}}] \quad (7)
\]

Where \( \hat{k}(0) \) denotes the initial value of and the speed of convergence equals:

\[
\lambda = (\alpha + g + \eta)(1 - \frac{\alpha}{\phi}) \quad (8)
\]

Equation (8) implies that as the efficiency of financial development increases, the speed of convergence \( \lambda \) will increase. One can show that \( \hat{\tilde{k}} \) approaches \( \hat{k} \) at the same rate that \( \hat{k} \) moves toward \( \hat{\tilde{k}} \). That is:

\[
\hat{y}(t) = \hat{\tilde{y}} + e^{-\lambda t}[\hat{y}(0) - \hat{\tilde{y}}] \quad (9)
\]

According to equation (9), income per labor (\( Y \)) growth equation equals:

\[
\ln(y(t_2)) - \ln(y(t_1)) = (1 - e^{-\lambda t})(\frac{\alpha}{1 - \alpha - \beta} \ln s(x(t)) + \ln \phi(t)) + \frac{\beta}{1 - \alpha - \beta} \ln s(x(t)) - \frac{\alpha + \beta}{1 - \alpha - \beta} \ln[n(t) + g + \sigma] - \ln y(t_1)) + (1 - e^{-\lambda t}) \ln A(0) + g(t_2 - e^{-\lambda t} t_1) \quad (10)
\]

Equation (10) reveals that there is a positive relationship between financial development (or efficiency) and income per labor growth rate.

3. Model Specification, Estimation, Data and Variables

3.1 Model Specification

Given the model presented above, we specify the following equation in which the growth in income per capita is computed over a five-year period.

\[
\frac{1}{5} \left[ \ln(y_{i,t}) - \ln(y_{i,t-5}) \right] = \eta_i + \xi + \mu_y \ln(y_{i,t-5}) + \gamma_y FIN_{i,t} + \theta_y X_{i,t} + \epsilon_{i,t} \quad (11)
\]

Where \( y_{i,t} \) is GDP per capita in country \( i \) in period \( t \), \( X_{i,t} \) is a row vector of determinants of economic growth, \( \eta_i, \xi \) and \( \epsilon_{i,t} \) are respectively country specific effect, period specific effect, and error term. \( \ln(y_{i,t-5}) \) is the log of GDP per capita in the first year of any sub period.

In order to find out whether financial development is a convergence factor, in equation (11) we replace \( FIN_{i,t} \) with interaction terms, \( [FIN_{i,t} \times \ln(y_{i,t-5})] \). This results in equation (12):

\[
\frac{1}{5} \left[ \ln(y_{i,t}) - \ln(y_{i,t-5}) \right] = \hat{\eta}_i + \hat{\xi} + \mu_y \ln(y_{i,t-5}) + \gamma_y [FIN_{i,t} \times \ln(y_{i,t-5})] + \theta_y X_{i,t} + \nu_{i,t} \quad (12)
\]

Financial development can accelerate the speed of income per capita convergence through channels, represented by the interaction terms which capture the effect of the financial development on the convergence process:

\[
\beta_i = \frac{\partial G y_{i,t}}{\partial \ln(y_{i,t-5})} = \mu_y + \gamma_y FIN_{i,t} \quad \text{where,} \ G y_{i,t} = \frac{1}{5} \left[ \ln(y_{i,t}) - \ln(y_{i,t-5}) \right] \quad (13)
\]
As equation (13) shows, country-specific convergence parameters depend on financial development. Financial development accelerates convergence process if and only if \( y' \frac{\partial}{\partial y} < 0 \).

### 3.2 Estimation Issues

Equations (11) and (12) have a dynamic structure as follows:

\[
\ln \left( Z_{i,t} \right) = \eta_i + \xi_t + \mu \ln \left( Z_{i,t-5} \right) + \alpha \omega_{i,t} + \epsilon_{i,t} \tag{14}
\]

Where \( Z \) is income per capita and \( \omega \) includes the control variables. Islam (1995) and Caselli et al. (1996) have argued that using the pure cross-section analyses for estimating these equations generates inconsistent results because of omitted variables (or correlated individual effects) and the endogenous explanatory variables. Following Caselli, et al. (1996), employing a GMM procedure eliminates the inconsistencies by taking first differences in the dynamic model and instrumenting all the right-hand side variables.

In the first-differenced equations we use lagged levels under the assumption that the time-varying disturbances in the original levels equations are not serially correlated. In the empirical work on cross-country growth, two kinds of GMM panel estimator (namely, first-differenced and system-GMM) are employed. Arellano & Bound (1991) propose first-differenced GMM estimator and use lags of dependent variables as instrumental variables. But Blundell and Bound (1998) and Bound et al. (1995) show that the lags of the level values are weak instrument when the regression equation is expressed in first-differences. For example, Bound, et al. (1995) note, "When the individual series have near unit root properties, the instruments available for the equations in first-difference are likely to be weak instrument variable estimators and can be subject to serious finite sample biases where the instruments used are weak." To solve the problem, Blundell & Bound (1998) propose a GMM-system estimator which combines the regression in differences with the regression in levels. The result of their simulation shows that when the coefficient on the lagged dependent variable is close to 1, the efficiency of using the GMM-System estimator is greatly improved. The consistency of GMM estimator depends on the assumptions about the validity of the instrument and the error term. Therefore, we use two kinds of test: instruments validity test and no-serial correlation in error term test. To test instrument validity, we use the Sargan test in which the null hypothesis is:

\( H_0 \): Over-identifying restrictions are valid.

For the first and second order serial correlation of the differenced residuals, we use \( m_j \) statistic where \( j \) is the order of autocorrelation. This statistic has an asymptotically normal distribution \( N(0,1) \).

### 3.3 Data and Sample

All data sets used in the analysis are taken from the World Development Indicators (2006). A sample of 64 countries is employed. The panel of the countries includes almost all different income categories. The time period covers the years from 1975-2004, the longest time period for which variables were available for the maximum number of countries under investigation. Table A lists the countries used in the regression. We average data over non-overlapping five-year periods, so we obtain a total of six panels: 1975-1979, 1980-1984, and 2000-2004. Thus, the subscript \( t \) in equations (11) and (12) designates one of these five-year averages.

### 3.4 Variables

In order to analyze the effect of financial development on economic growth and convergence process, we use a proxy for financial development. We also use physical investment (as a share of GDP), a proxy for human capital, trade openness, population growth, government expenditure (as a share of GDP), a proxy for democracy, and the log of GDP per capita and capital per capita in the first year of the any sub period.

In order to capture different channels that financial development affects on physical capital accumulation and economic growth, we used four financial development proxies. The first one is the ratio to GDP of liquid liabilities (\( M_3 \)). It is considered in accordance with the inside money model of McKinnon (1973), where the accumulation of real money balances is a required condition for investment. An increase in this ratio may be interpreted as an improvement in financial deepening in the economy. This measure is also considered as less convenient with the debt-intermediation approach developed by Gurley and Shaw (1955) and Shaw (1973), where the accumulation of real balances is not seen as a sine qua non condition for investment. The second indicator is liquid liabilities less narrow money divided by GDP (\( M_3 - M_1 \)) or financial savings that removes the pure transactions asset. The subtraction of the money stock (\( M_1 \)) aims at getting the quasi-liquid assets considered as the main source of investment financing. Likewise, liquid monetary assets (\( M_1 \)) are generally more destined to finance current
transactions and are held, in developing countries, outside the banking system. Thus, a better proxy should rule out the liquid assets in circulation to be more representative of financial activity. A rising ratio of financial savings to GDP may reflect an improvement in bank deposits and/or other financial resources outside the banking sector, which are likely to be used for accumulation and growth. The third indicator that measures the extent of financial activity is the credit allocated to the private sector in the GDP (PRIV). This proxy is in line with the McKinnon-Shaw inside money model, where financial intermediation is responsible for the quality and quantity of capital accumulation and, therefore, of economic growth. The recent empirical literature (De Gregorio and Guidotti, 1995; Demetriades and Hussein, 1996; Levine and Zervos, 1998; Rajan and Zingales, 1998; and Beck, et al. 2000) emphasizes this indicator as one of the relevant indicators of the magnitude and the extent of financial intermediation broadly defined. Fourth indicator, bank credit (BANK), is defined as credit by deposit money banks to the private sector divided by GDP. According to theoretical model, we expect that financial development carries a positive coefficient.

Human capital has been proxied by average years of school. Human capital affects on economic growth through two channels: the domestic innovation component and the technology diffusion component, which directly enhance a country’s ability to innovate and indirectly through technology adoption, i.e. to foster technology ‘catch-up’ with the leading country (Engelbrecht, 2003: 40). Hence, we expect it to be positively correlated with economic growth.

Openness trade has been proxied by the ratio of exports plus imports to GDP. A more outward-oriented economy tends to grow faster because openness promotes the efficient allocation of resources, and allows the diffusion of knowledge and technological progress. We expect physical investment, by increasing physical capital accumulation, to promote economic growth. Population growth, by decreasing income per capita, should reduce economic growth.

The effect of government expenditure on economic growth is ambiguous. According to Keynesian argument, if a budget deficit is financed by borrowing, interest rate will rise and exert a negative impact on private investment economic growth. On the other hand, government investment can be used as a proxy for government involvement in capital accumulation that may affect growth positively. In the present study, government expenditure has been proxied by government consumption ratio to GDP. Democracy has been proxied by political rights that ranged from the lowest level of democracy (6 points) to the highest (1 point). Thus if democracy increases growth, in our equation its coefficient will have a negative sign. Political rights generate the social conditions most conducive to economic development. Political and economic freedom requires the protection of property, and enhances market competition, which enhance economic growth.

The log of GDP per capita in the first year of the any sub period captures the advantage of backwardness, emphasized by Abramovitz (1986). A negative \( h_y \) is interpreted as support for the convergence hypothesis because it would mean that after controlling for variables that influence growth, those with lower income per capita have grown faster over the sample period.

4. Results and Discussion
Table 1 (opposite page) presents the empirical results of equation (11) with trade openness, government consumption (% GDP), and democracy index as additional determinants of GDP per capita growth. All equations are estimated using SYS-GMM estimator.

In all specifications, we capture time effects by including year dummies. Furthermore, we treat all explanatory variables as predetermined and instrument them using lagged values.

Columns 1, 2, 3, and 4 in Table 1 present the empirical results of equation (11) with the liquidity liability, \( M_1 \) (%GDP), financial savings, \( M_1-M_i \) (%GDP), credit to private sector (PRIV), and credit provided by bank sector (BANK) respectively.

Regarding the specification tests, the \( m_1 \) and \( m_2 \) serial correlation and Sargan tests show that the serial autocorrelation among error terms are gone and the choice of instruments seems to be correct.

We find that in all cases (except liquidity liability) financial development matters for growth and has a significantly positive sign. The estimated coefficient indicates that growth in the financial development variables i.e. \( M_1-M_i \), BANK, and PRIV by 1% is associated with an increase 0.01, 0.01 and 0.01 percent in the GDP per capita growth rate, respectively.

The results show that in all cases, there is a clear tendency toward conditional convergence in the sample, with a significant and negative sign on the initial level of GDP per capita. Ceteris paribus, countries experienced faster growth rate if their population growth and government consumption to GDP were lower or investment in human capital and physical capital to GDP, openness trade, and democracy level were higher. A 1% growth in the average government consumption to GDP and population growth decreases the GDP per capita growth rate by 0.01% and 0.01% respectively, whereas a 1% growth in openness, physical and human investment and 1% decrease in democracy proxy increase per capita GDP growth rate by 0.03, 0.02, 0.005, and 0.003 respectively. Also, comparing the coefficients of variables that have the positive impact on per capita GDP growth indicate that the growth effect of financial development is lower than others. The period shifts indicate that the international trend in economic growth experienced a declining trend over 1975-2004.

In order to investigate the accelerator effect of financial development on income convergence process, we estimated the equation (12). Table 2 (page 20) presents the empirical results of the equation (12). The results show that the estimated coefficients on the interaction between initial GDP per capita and the financial development indicators
1) Dependent variable: Growth rate of real GDP per capita.


3) *, **, and *** denotes statistical significance at the 1, 5, and 10 percent level respectively.


5) In all regressions, we treat right-hand variables (except period shifts variables) as endogenous in all regressions and instrument them using from lags t-3 in the first-differenced and the level equations.

6) Source: Author’s calculations.

Table 1: Panel estimates of the growth equation (11)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Financial development variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$M_3 - M_1$</td>
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<tr>
<td>Initial GDP per capita (in logs)</td>
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<tr>
<td>Investment (% GDP, in logs)</td>
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<tr>
<td>Human capital investment (average years of school, in logs)</td>
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<tr>
<td>Trade openness (export plus import to GDP, in logs)</td>
<td>0.02*</td>
</tr>
<tr>
<td>Population growth (in logs)</td>
<td>-0.01*</td>
</tr>
<tr>
<td>Government consumption (% GDP, in logs)</td>
<td>-0.01**</td>
</tr>
<tr>
<td>Freedom (political rights)</td>
<td>-0.002*</td>
</tr>
<tr>
<td>Financial development</td>
<td>0.01*</td>
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<td>Financial development (in logs)</td>
<td></td>
</tr>
<tr>
<td>Period shifts</td>
<td></td>
</tr>
<tr>
<td>1980-1984 period shift</td>
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<td>1985-1989 period shift</td>
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<tr>
<td>1990-1994 period shift</td>
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<tr>
<td>1995-1999 period shift</td>
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<tr>
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<td>Countries/observations</td>
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Conclusion

This paper re-examined the impact of financial development on income per capita convergence and growth in a panel of countries using the system GMM estimator proposed by Blundell and Bond(1998). This method eliminates inconsistencies that exist in cross-country empirical work on growth. We find that financial development has a positive effect on GDP per capita growth and accelerates the income per capita convergence process. Thus, we cannot reject the hypothesis that financial development is a converging factor.

Overall, our results regarding the effect of economic policies on GDP per capita growth are standard. In all cases, the sign of initial value of log GDP per capita is negative, that shows a tendency toward conditional convergence. The positive effect of investment captures the effect of saving on the steady state and the negative sign of population growth captures the detrimental effect of over population. The effect of economic policies, e.g. financial development and openness trade on GDP per capita growth is positive and the effect of government spending is negative. The negative effect of the democracy index underlines the impact of a healthy political environment.

Footnotes:

1. This paper re-examined the impact of financial development on income per capita convergence and growth in a panel of countries using the system GMM estimator proposed by Blundell and Bond(1998). This method eliminates inconsistencies that exist in cross-country empirical work on growth. We find that financial development has a positive effect on GDP per capita growth and accelerates the income per capita convergence process. Thus, we cannot reject the hypothesis that financial development is a converging factor.

Overall, our results regarding the effect of economic policies on GDP per capita growth are standard. In all cases, the sign of initial value of log GDP per capita is negative, that shows a tendency toward conditional convergence. The positive effect of investment captures the effect of saving on the steady state and the negative sign of population growth captures the detrimental effect of over population. The effect of economic policies, e.g. financial development and openness trade on GDP per capita growth is positive and the effect of government spending is negative. The negative effect of the democracy index underlines the impact of a healthy political environment.

Footnotes:

Dependent variable: Growth rate of real GDP per capita.


3) *, **, and *** denotes statistical significance at the 1, 5, and 10 percent level respectively.


5) In all regressions, we treat right-hand variables (except period shifts variables) as endogenous in all regressions and instrument them using from lags t-2 and t-3 in the first-differenced equation and using from lags t-1 and t-3 in the level equation.

6) Source: Author’s calculations.

Table 2: Panel estimates of the growth equation (12)

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<td>Investment (% GDP, in logs)</td>
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<td>Initial human capital investment (average years of school, in logs)</td>
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<tr>
<td>Trade openness (export plus import to GDP, in logs)</td>
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<tr>
<td>Population growth (in logs)</td>
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<tr>
<td>Government consumption (% GDP, in logs)</td>
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<td>Freedom (political rights)</td>
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<td>Financial development</td>
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<td>Financial development (in logs)</td>
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Interaction

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<th>-0.006**</th>
<th>-0.006*</th>
<th>-0.007*</th>
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Period shifts

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<th>BANK</th>
<th>PRIV</th>
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<tr>
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<td>-0.002***</td>
<td>-0.014*</td>
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<td>1990-1994 period shift</td>
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Countries/observations

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<th>1.000</th>
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Appendix
Sample of countries

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<th>Rwanda</th>
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<td>Senegal</td>
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<td>Gambia, The</td>
<td>Malaysia</td>
<td>Swaziland</td>
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<td>Botswana</td>
<td>Ghana</td>
<td>Mali</td>
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<td>Guyana</td>
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<td>Nicaragua</td>
<td>Trinidad and Tobago</td>
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<td>Chile</td>
<td>Iceland</td>
<td>Niger</td>
<td>Tunisia</td>
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<td>India</td>
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<td>Turkey</td>
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<td>Denmark</td>
<td>Jamaica</td>
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<td>Venezuela, RB</td>
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<tr>
<td>Dominican Republic</td>
<td>Japan</td>
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<td>Zambia</td>
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</table>


Modern HR/IR practices and monitoring surveillance system could improve labour standards in the Bangladesh Ready-made Garment Sector

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Introduction
The Readymade Garments (RMG) sector has a greater potential than any other sector to contribute to the reduction of poverty in Bangladesh. The sector rapidly became important in terms of employment, foreign exchange earnings and its contribution to GDP. Despite the phenomenal success of the RMG sector, poor working conditions in the factories and a lack of Social compliance(1) are serious concerns which have, since 2006, led to labour unrest and damage to institutions and property (Ahamed F., 2011). As a result, there is a rising fear in Bangladesh that the readymade garments sector may face a decline in demand. Social compliance in the RMG industry is a key requirement for most of the world’s garments buyers. It ensures labour rights, labour standards, fair labour practices and a Code of Conduct.

Problems and Challenges of the Bangladesh RMG Industry
Labour is the main potential resource required to operate a business. Without workers, employers cannot run their business but they must follow some rules and regulations that lead to the establishment of a labour standard. Standard employment contracts should include flexible working conditions, job enrichment, freedom of association, respect for workers’ rights, and the provision of compensation and other benefits are the prerequisites of any business. However, in most cases, employers do not practice these fair labour principles; as a result workers are not satisfied. In Bangladesh, working conditions are often deplorable. Although the garments industry belongs to the formal sector(2), the recruitment procedure is largely informal(3) compared to western practice.

Working conditions in the RMG sector are below the ILO standards. Recruitment policies are highly informal compared to western standards and do not have formal contracts and appointment letters. There is no weekly holiday, job security, social security, and absence of maternity leave, gratuity or provident fund for the garments workers. Moreover, late or irregular payment and gender discrimination are common in this sector. Added to this, garments workers are not entitled to any fringe benefits, including an accommodation allowance, health care, emergency funds, or transportation (Muhammad A, Rashid M.A, 2006). The majority of workers are young women frequently physically and sexually abused by their supervisors and security guards (Rashid M.A., 2006).

Violation of health and safety regulations is frequent in the RMG sector. As a result, workers suffer from constant fatigue, headaches, anaemia, fever, chest, stomach, eye and ear pain, coughs and colds, diarrhoea, dysentery, urinary tract infections and reproductive health problems. Most of the factories do not meet minimum standards, as prescribed in building and construction legislation (Factory Rules 1979). Injury, fatality, disablement and death are due to notorious conditions for fire and building collapse are frequent in the RMG sector (Begum N., 2001).

There are many other labour sectors; unlikely child labour is a serious and growing problem within this sector (Muhammad A, Rashid M.A, 2006). Indeed most of the private garments factories have no trade union presence. Export Processing Zones (EPZ) particularly ban union activities in their premises. These bans constitute a serious violation of workers’ rights and there are many other practices, which violate international labour standards, and Codes of Conduct (Quddus and Uddin S., 1993; Dasgupta S., 2002). Furthermore law enforcement is poor and government and entrepreneurs’ poor judgment has led to labour unrest in the sector. Consequently, Bangladesh RMG products have less appeal to international buyers who demand compliance with their own Codes of Conduct before placing any garments import orders. These issues are fundamental to the workers’ interests but there are the additional costs consequent on these compliance demands (Rashid M.A., 2006). As a result, Social compliance(4) has emerged as a major issue to the RMG sector.

Most of the garments factories also have no well-defined HR department, but where present, human resource managers play an important role in the industry. In the RMG sector, a work supervisor always controls workers. He is the highest authority in the factory reporting to the factory owner. However, work supervisors often have no training in leadership, human resource policies, law and legislation, and health and safety policies. As a result workers’ rights are minimal.
In order to protect labour rights, job security and other benefits, workers should be provided with appointment letters detailing the conditions of employment. Fair labour, modern HRM practice and IR activities are needed to improve working conditions in the RMG sector. Usually HR operates by scheduling vacations, managing sick leave, and development of bereavement policies that apply to all employees. It also monitors performance improvement that leads to employee satisfaction and solving problems.

Although the Bangladesh government formed a Social Compliance Forum (SCF) along with a Compliance Monitoring Cell (CMC) to encourage compliance in the RMG sector, it is limited. Therefore monitoring and enforcement are required through institutions such as trade unions, employer associations, industrial tribunals, state-sponsored regulatory bodies and the civil courts to establish Social compliance in the RMG sector.

Conclusion

Working conditions in the RMG sector are below standard and do not meet the ILO standards. Labour standards and rights are commonly ignored in the RMG factories in Bangladesh; poor practices include the absence of trade unions, informal recruitment, and irregular payment, sudden termination, wage discrimination, excessive work, and abusing child labour. Moreover workers suffer various kinds of diseases due to the unhygienic environment and a number of workers are killed in workplace accidents, fires and panic stampedes. Absence of an appropriate mechanism to ensure the enforceability of the available laws for protecting workers’ rights and maintaining workplace safety continues to be a concern in the RMG sector. As the sector is an important foreign exchange earning component, some changes are required.

The research suggests that there are many benefits from the introduction of modern HR and IR activities through the establishment of a HRM or personnel management unit in the RMG sector. The government needs to pay much more attention to monitoring compliance. A modified Code of Conduct and an effective Compliance Monitoring Cell (CMC) are also required. In line with the Bangladesh Government, the ILO, international agencies and other stakeholders should work in synergy under the supervision of an effective monitoring and surveillance system.

Footnotes

1. Compliance is defined as code of conduct, specification and or standard that must be followed by business organizations. Compliance issues are recognised by ILO and WTO mechanisms (Anand, 2006).

2. Formal sector which encompasses all jobs with normal hours and regular wages, agreed levels of pay, and sometimes pensions and social security rights and are recognized as income sources on which income taxes must be paid. All Government and semi-Government sector employment as well as Private sector employment with Institute of work or registered Business or enterprise that has regular employees greater than or equal 10 and follow minimum labour standard.

3. The informal sector that is neither taxed nor monitored by a government, and is not included in that government’s Gross National Product (GNP), as opposed to a formal economy. The ILO/ICFTU international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labour, home workers and paid domestic workers.

4. Compliance means conformity that is acting according to certain accepted standards. It is a Code of Conduct that includes minimum labour standards, occupational safety measures and environmental concerns.

References:


Muhammad Anu (June-2006). “Why the Workers became so Audacious?” Megbanta


Could a tripartite wage commission remove labour unrest in the Bangladesh Ready-made Garment Sector?

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Abstract

This article examines employee’s dissatisfaction and identifies the major cause of labour unrest in the Bangladesh Ready-made Garment Sector. The research examines and identifies the premise that low wage or irregular payment is the main employee dissatisfaction in the Ready-made Garment sector. As a result labour unrest is common and can lead to demonstrations, processes, strikes, termination and layoffs. Therefore this research suggests that a commission comprising government representatives, RMG owners, buyers, TU representatives and other stakeholder groups, set a fresh minimum wage structure.

Keywords: Ready-made Garment (RMG), ILO, HR/IR, BGMEA, TU, Compliance Cell, Stakeholder and Export Promotion Bureau (EPB)

Introduction

Wage is compensation, usually financial, received by workers in exchange for their labour. Workers in the Bangladesh RMG sector often work long hours for unusually low pay, regardless of laws mandating overtime pay or a minimum wage. The RMG wage level is one of the lowest in the world. Even by South Asian Standards, it remains very low with average hourly wage in Bangladesh being 42%, 50% and 33% of those in India, Nepal and Sri Lanka (BBS, 1999; Absar S.S. and Kumar A., 2001). In contrast with US apparel labour charge per hour (wage and fringe benefits) of US$ 16.00, the RMG worker receives a minimum wage of US$ 0.15 (Rahman, 2004; Chowdhury, 2006). Whereas unit labour cost of $0.22 per hour is the lowest in Asia, behind Cambodia ($0.33), India ($0.51) and China ($0.55) (Stuart, and Kirsten, 2010). See tabletop of next page.

Recently, the Bangladesh RMG sector has been beset by very serious labour unrest. Since May 2006, large-scale vandalism of garments factories by the workers had, at times, appeared to threaten the very existence of this industry (BUP, 1990; Muhammad A., 2006). To illustrate the scale of events in the past two years: around 4,000 factories in Dhaka have had a wildcat strike, 16 factories were burnt down and hundreds ransacked and looted; pitched battles were fought with police and private security forces. Police actions against workers have resulted in several deaths with many more injured and even more arrested and resulted in closures of factories and plants (Iqbal, 2008). The major disagreement between the RMG factory owners and the workers has been the allegedly low level of wages paid in this industry particularly wages paid to unskilled workers, other contributing issues are late and irregular payment of wages, lack of security of workers resulting from absence of a formal contract between the worker and the employer, non-payment of maternity and other benefits to female workers who are mostly young women (Kabeer N., 2000), an acutely difficult working environment, gender discrimination, long hours (beyond 8 hours a day), forced labour, child labour, sexual harassment, transport

Methodology

This section examines the potential benefits of HR and IR practices and relates labour standards to the Factory Act, ILO labour standards and western labour standards. It also examines national law as to whether it is effective or not. It also identifies the lack of government interest to resolve labour unrest issues. The research technique has relied on secondary data, collected through Literature review, Case studies in other countries, Journals, Research articles, Thesis papers, Newspapers, Online news and survey reports, Garment Manufacturing Industries Annual reports, BGMEA Yearly report and Files and Focus group discussions. Input with some information or data collected through NGOs working with the garments industries on Social compliance issues was also used.
Table 1: Inter-country comparative average hourly wage in the RMG industry

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<td>Nepal</td>
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<td>5.</td>
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<td>7.</td>
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<td>99</td>
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<td>325</td>
<td>Leather footwear (except rubber and plastic)</td>
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<td>Drugs and pharmaceuticals</td>
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<td>Industrial chemicals</td>
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<td>Other chemical products</td>
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<td>Petroleum refining</td>
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<td>Misc. petroleum, cool products</td>
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<td>Pottery, china and earthenware</td>
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<td>Glass and glass products</td>
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<td>Non-metallic mineral products</td>
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<td>Iron and steel basic industries</td>
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<td>Non-ferrous metal basic industries</td>
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<td>Fabricated metal products</td>
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<td>Non-electrical machinery</td>
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<td>Electrical machinery</td>
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<td>386</td>
<td>Scientific measuring instruments and equipment</td>
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<td>387</td>
<td>Photographic and optical goods</td>
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<td>393-394</td>
<td>Photographic and optical goods</td>
<td>89</td>
<td>84</td>
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<td><strong>Total</strong></td>
<td><strong>All industries</strong></td>
<td><strong>112</strong></td>
<td><strong>96</strong></td>
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Source: C.M.I., BBS (Rashid M.A, 2006)

Table 2: Real wage Indices of Industrial Workers (all employees)
(ILO, 2004). Legal provisions demonstrate specific rules for employment such as women shall have equal rights with men in all spheres of the state and public life. The Act provides for the payment of equal remuneration to men and women workers and for the prevention of discrimination, on the ground of sex, against women in the matter of employment and for matters connected therewith or incidental thereto (Ali, 2003). In general, the level of wages in the RMG sector is low for both males and females. Low wages go a long way in illuminating the attractiveness of Bangladesh readymade garments to foreign buyers. Mostly abundant cheap labour and its low opportunity cost lead to low wage levels, providing a comparative advantage to female labour in particular operations in the RMG production sector. In the RMG sector female workers are considered low-skill, low workers (Kabeer N., 1991). Table 2 shows the differential in wages between female workers and their male counterparts.

Moreover, women are generally discriminated against in terms of access to higher-paid white colour and management positions. They are generally considered only for helpers, machinists, finishing helpers and sewing helpers frequently and as line supervisors and quality controllers. It is rare to find women working as cutting masters, production managers, supervisors, finishing and machine operators, or as in-charges who draw salaries varying from 2-10 times that of the average operator (Absar S., 2001). Although Table 3 is 10 years old, the situation has changed little in the intervening period.

With respect to wages, gender discrimination is prohibited by Japanese law under the LSL (Art. 4). Female and male employees are subject to the same regulations in terms of overtime, night work and rest days (Source: Fair Work Australia, 2010, http://www.fwa.gov.au). The government of Bangladesh must undertake an effective initiative to eliminate discrimination based on gender, particularly in the RMG sector where 90% of the workers are women (EPB, 2008).

Under pressure from international buyers, civil society as well as government, employers have agreed to tripartite negotiations on the wage issue but to date attitude have been less than supportive. If the negotiations can start a healthy process of industrial relations, all parties involved would eventually win. In this manner, collective bargaining can be advantageous for both workers and employers. For workers, collective bargaining, moreso than individual employment relations, ensures standard wages and better working conditions by providing them with a collective voice. It also allows them to influence personnel decisions and to achieve a fair distribution of gains from technological progress and productivity increases. For employers, collective bargaining helps to stabilise industrial relations by maintaining industrial peace that otherwise may be disrupted by labour unrest (Ozaki, M. 1999).

However, the government has formed a wage board to re-fix an acceptable minimum wage in the backdrop of recent unrest at the RMG units in the country. So far, the government fixed the minimum wage four times, first at Taka 600 (US$ 8.5), second at Taka 975 (US$ 14), at Taka 1662 (US$ 25) and recently at taka 3000 (US$ 43.7) (30 July, the Prothom Alo, 2010: 03 August, Janakantha, 2010). But the present minimum wage is not only inadequate but also has been described as inhuman. The level of pay is the most significant source of dissatisfaction for workers in the RMG industry. For example recent garments workers unrest in the RMG sector resulted from poor and irregular wages. Therefore, a moderate wages fixing process is required.

Many countries in the world have a satisfactory system for fixing wages. For example, in Australia, a Minimum Wage Panel in Fair Work Australia (FWA) is responsible for setting minimum wages for employees in the national workplace relations system. Fair Work Australia performs its function by reviewing modern award minimum wages as well as making a national minimum wage order for award-free employees each year (FWO Factsheet-Australia, 2010; Macanochie, Glenda J., Goodwin and Miles, 2009). Similarly, in Cambodia, the government factory association, the labour unions and international institutions have all played an important role in improving wage rates and labour conditions in Cambodia. The government has also made progress in enforcing ILO core labour standards in clothing factories (Morshed, 2007).

**Conclusion**

Labour is the main potential resource required to operate a business. Without workers, employers cannot run their business but they must follow some rules and regulations that lead to the establishment of a labour standard. Standard employment contracts should include flexible working conditions,
job enrichment, freedom of association, respect for workers’ rights, and the provision of compensation and other benefits are the prerequisites of any business. However, in most cases, employers do not practice these fair labour principles, and as a result workers are not satisfied. Therefore this research suggests that a commission comprising government representatives, RMG owners, buyers, TU representatives and other stakeholder groups, to set a fresh minimum wage structure. In addition the Compliance Cell should also monitor whether the wage paid complies with that set by the commission.

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The Retail Banking Sector in an Oil-Rich Economy

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Abstract

This research evaluates the practices of banking operations in the Kuwaiti sector. The financial sector in general and the banking sector in particular, have taken on a proactive role in this oil-rich economy and accordingly, are vulnerable to external and internal reforms, policies and economic performance. Analyzing this banking sector is especially important as it reflects the activity and policies of Kuwaiti governing bodies. Such developments have greatly impacted sector-specific competitive tactics and strategies. Al-Eisa and Alhemoud (2009) note that empirical studies on topics related to retail banking services in Kuwait is sparse. This study provides an introductory evaluation of the government’s activities and regulatory bodies in relation to the Kuwaiti banking sector.

Keywords: Retail banking, conventional banks, Islamic banks, financial sector, Kuwaiti economy, Gulf region, economic recession.

Kuwait: Overview

Historically, the Gulf region has held much significance as a path between continents that travelers would pass through. With these features in mind, travelling across Kuwait for nomadic tribes with caravans made routes and trade comfortable and accessible (Kuwait Statehood and Boundaries, 1999). Although the area of Kuwait is quite small, with a land area of 17,818 sq km (Basic Data, 2012), due to its strategic position between Iraq, Saudi Arabia, and its long coast along the Arabian Gulf, Kuwait has always posed as being an entry to the region and of much strategic importance.

Great Britain maintained authority over Kuwait until 1961. Due to this ruling, Kuwait’s legitimate system is interpreted as being an assembly of British common law and French law. The French law was formed by the participation of foreign jurists, who were accountable for the country’s legal work (Chazi et al. 2010). Today, the Kuwaiti government is considered as a constitutional emirate, and the Amir is chosen from the ruling family. The parliament has been resolved twice in the last few years due to its lack of performance in dealing with current economic and social challenges as well as political instability (CIA, 2012).

The state of Kuwait has a population of 3.44 million. While Kuwaiti’s make up 1.09 million, expats account for an astounding 2.35 million (Basic Data, 2012). Furthermore, the total population of the labor force during 2011 was 2.243 million, with approximately 60% of employees being non-nationals (CIA, 2012).

In comparison with other Arab economies, Kuwait has numerous features that situate it uniquely. Firstly, in contrast to other countries in the region, Kuwait’s history has visibly shaped it to be accustomed to different beliefs and concepts (Al-Kazemi and Ali, 2002). This is due to Kuwait being a chief oil producing and exporting country. Business relations, as a result of this valuable resource, have contributed to Kuwait developing exceptional relations with Western and developed nations. While
Kuwait has exceptionally good relations with these countries, it remains a nation with deeply rooted traditions regarding those in power (Ali, 1988).

**Economy**

The majority of Gulf countries’ industrial sectors focus on petroleum, oil, minerals and other natural resources (Rehman, 2006). Similar to its neighbors, there is no doubt that Kuwait’s rate of economic growth, infrastructure, living standards, services and culture have been affected by the discovery of oil. The Kuwaiti economy has grown rapidly as a result of large deployments of oil revenues. Therefore, it is no surprise that oil exports have become Kuwait’s biggest export.

The Kuwaiti economy is heavily reliant on its oil revenues and this sector is exceptionally dominant. An astonishing 95% of the government’s revenues derive from this oil sector alone (Kuwait Country Monitor, 2011). With rich oil reserves, Kuwait has managed to build stability in its budgets. This is due to the improvement of international oil market conditions, outstanding oil prices and high global demand which is predicted to continue to rise.

Due to the importance of the oil sector, the government has proven to be dedicated to its development. The government has granted the Ministry of Oil to be committed to a strategic plan to develop a hydrocarbon industry in Kuwait. Funds have been invested in the refinery, transportation and petrochemicals in order to further develop and diversify this sector. Due to such developments and support, the oil sectors in the Kuwaiti economy are currently regarded as the most developed (KAMCO Research, 2011). The Kuwaiti economy consists of three chief segments:

- public sector, government-owned establishments and companies
- private sector, privately owned companies (such as retail banks)
- joint sector, organizations owned by a combination of both public and private sectors

Public spending in Kuwait has been increasing steadily during past years, as a result of factors such as an increasing population. Due to increased spending as a result of oil prices, this is proving a risk if reductions on production of oil occurs. Therefore, it is seen as necessary for the government and private sector to work together as a partnership towards diversifying the public revenue base. Kuwait’s heavy dependence on its oil exports has proven challenging for other economic activities to jointly play an active role in the economy. Therefore, it can be thought that the Kuwaiti economy is functioning and active mainly due to its exports of oil. It has been expressed in the Council of Ministers Annual Plan that public enterprises should be privatized, and that both public and private investments should expand in current and new areas of investment in order to achieve a more secure financial system and status. The government’s expresses its efforts to diversify the Kuwaiti economy through the Capital Market Authority, which have strategies and development plans to take measures towards making this a reality (Al Shamali, 2008).

The Mid-range Development Plan of the State of Kuwait (2009) reports that one of the main factors that affects the general demand, output and growth of Kuwait are population trends. In the case of Kuwait, the population has either tremendously grown or decreased, as a result of non-Kuwaitis leaving, or entering the country. Because of rapid economic growth and the availability of jobs in recent years, this has caused the expatriate population to outgrow the Kuwaiti population (Kuwait Country Monitor, 2011). The expatriate population has been accounted for more than the Kuwaiti national population by some 68.2% of the total population, as recorded during June 2010 from the Public Authority for Civil Information (PACI).

However, the Kuwaiti population is also persistently increasing and a large number joins the public workforce. This trend has proven to be a burden on the government, demanding the continuous creation of new job prospects, even when maximum capacity has been reached in certain workplaces. This occurs mainly because of the benefits Kuwaiti nationals are guaranteed whilst being employed in public sectors. These benefits include; better working conditions, shorter working hours and less competition. Given that nationals are offered an appealing government occupation, which includes generous pay, this availability has created an imbalanced ratio in the workforce (Al-Wugayan and Alshimiiri, 2010). Consequently, large numbers of nationals prefer to work in this sector, in comparison with the private sector. Due to the reality of the public sector being the primary destination for the Kuwaiti workforce, governmental sectors reach maximum capacity. Many citizens result being on waiting lists creating unemployment.

In a region where unemployment is high amongst nationals, particularly the youth, it is essential that governments must concentrate on creating new opportunities in the private sector. This will require drastic reforms to the regions labor markets, financial systems and legislative systems. Consequently, Kuwait’s private sector depends prominently on employing from the large numbers of expatriates. The outcome of this is risk of high elasticity in the labor market, as well as the general population (Kuwait Country Monitor, 2011).

Because expats make up such a massive part of the overall population in Kuwait, numerical adjustments must be taken regarding the structure and ratio makeup of the Kuwaiti labor market. Ultimately, this will help restore the structure of the Kuwaiti populace and help ease the dependence on foreign expats. Furthermore, succeeding will improve the arrangement of the workforce to be in favor of citizens (Mid-range Development Plan of the State of Kuwait, 2009).

It was during late 2011, that Kuwait experienced one of its first ever turbulence amongst its public sector workers. Employees in several ministries started demonstrating strikes, demanding an increase in wages and improved working conditions. (Set To Outperform Its Neighbours, 2012). An average of 25% of wages were issued for all government employees, as well as a 15% increase in pensions privileges (A Robust Consumption, 2012). Overall, the government authorities
were quick to fulfill such requests. It has been expressed that due to such outcomes, it is important that government expenditures within the government sector not provide exceedingly high incentives for employees. This can be seen as a means to aid the balancing of the ratio of government to private sector Kuwaiti employees (International Monetary Fund Kuwait, 2011).

In conclusion, Kuwait’s main guarantee of stability in the future would be that of decreasing its reliance on oil, gradual recovery from the global economy crisis and developing the government to have strong initiatives. Furthermore, the government requires clear and effective plans in order to improve the financial component makeup.

Recent Economic Developments

As oil prices in recent years have increased and reached record prices, the GCC have endorsed copious amounts of oil revenues. This income has allowed some countries in this region to produce resilient economic development and growth. Besides, revenue from oil exports; the GCC authorities have also cultivated their business environments by accomplishing numerous methods, strategies, and laws to increase efficiency and quality of investment surroundings (Ibrahim et al. 2012).

Due to revenues from high oil prices in international markets, and positive socio-political factors, different financial sectors have gotten the leverage and support they have needed in order to be introduced as effective competitors in local and international markets. Such conditions have assisted the growth of the economy’s diversification and the high quality of products and services offered within it.

Kuwait’s high economic performance prior to 2008 was mainly due to the revenues attained by worldwide high oil prices and increasing private sector. On Friday 4th of July 2008, Kuwait crude oil price registered at its highest historical level on, as it reached a triumphant $136 per barrel. During this period, oil prices soared and government spending increased in almost all sectors. The private sectors’ activity and size was also increasing, especially in real estate and financial services (General Secretariat of the Supreme Council for Planning and Development, 2010).

However, during 2009 the economic outlook for this oil-rich country took a different turn. A severe plunge in oil prices was recorded at around a $37.5 per barrel, an almost devastating $100 difference. This affected the economy severely, as previous wealthy investments such as real estate plummeted, losing value. The government was also undoubtedly hit hard, as account surplus decreased from KD 17.4 billion in 2008 to KD 8.2 billion in 2009 (KAMCO Research, 2011).

During the time of the financial crisis, the Kuwait stock exchange also suffered. The numbers of listed companies have showed steady growth in the past decade with statistics of listed companies growing from 86 in 2000, 105 in 2003 and 202 in 2009. However, many listed companies failed to submit financial reports to regulators such as the Central Bank of Kuwait (CBK), which resulted in the postponement of these companies trading on the stock market. Such events ultimately generated more investor hesitance. Furthermore, low investor confidence, slow real estate activity and a lack of liquidity in the market, all contributed to the average daily value low at KD 51 million (USD 179 million) during 2010, this proving to be a far cry from its former high of KD 88 million (USD 308 million), which was previously recorded in 2009 (KAMCO Research, 2011).

The parliament intervened, sanctioning a KD 30 billion four-year economic plan that would help initiate increasing returns for private companies (Background Notes On Countries Of The World: Kuwait, 2011). Market titans such as ZAIN managed to produce positive developments, which gave the market a temporary boost. These activities contributed to the gaining of 10.3% during Q1-10 as measured by the KAMCO TRW Index.

The development plan was approved by the parliament, issuing a five-year KD 30 billion ($110bn) project, funded by oil revenues, operating from 2010 to 2014. One of its many goals includes plans for massive funding and projects to enhance and utilize the private factor to its former active and gradually dominating glory. This was an attempt to empower the sector and make a shift a reality (Non-Oil Sector Continues to Disappoint, 2012).

This funding will also be directed towards the building and updating of infrastructure and some 1,000 projects as a means to improve private sector activity. Involving a public-private partnership (PPP) package, the privatization of selected state assets is anticipated to stimulate these private organizations activity in government plans, which will be supervised by the Partnerships Technical Bureau. Furthermore, other plans include (Kuwait Country Monitor, 2011):

- $77-billion business-like capital known as Silk City
- inner city train railway
- colossal port for vessels
- oil sectors activities, reserves and production,
- coast boardwalk 25-kilometer long,
- new healthcare facilities,
- expansion on houses,
- enhanced educational services
- development of Kuwait University City and Sabah Al-Salem University

The Kuwaiti government is also financially endorsing entrepreneurs, doing so by offering entrepreneurs’ financial packages. One of these packages included a contract between government sectors, such as Kuwait Small Projects Development Company, National Technological Projects Company, Industrial Public Authority and a private company to capitalize some 15 million KD in small ventures created by Kuwaitis as a form of stimulus (Al-Wugayan and Alshimmini, 2010). It is expected these plans will reflect the government’s determination for the revival of the Kuwaiti economy (Set To Outperform Its Neighbors, 2012). However, it will also test the government’s ability to deliver results within a given timeframe, and restoring its image to the public.
Since the occurrence of the global financial crisis of 2008-09, government officials and policy makers have increased protocols and procedures in an act to spread the transluence of business processes and financial doings. It is hoped that undertaking such actions will help construct a more durable and substantial financial structure (Kuwait Country Monitor, 2011). During the fiscal years of 2010-2013, projections predict that the economy will make a gradual recovery and sees the private sector struggling to regain its former position as a growing sector. Much of the economy’s performance depends on the government’s plans of spending that included the expansion of prospects and areas of investment, and its abilities to carry out and implement spending plans.

Methodology
This research is rooted in interpretive research paradigm with in-depth interviews as the research strategy. It has been argued that the in-depth interview is an adaptable method, which can be used in contrasting settings, and has the ability to generate detailed data (King, 1994). In-depth interviewing can be used to examine certain research issues that are considered exploratory and are still considered in premature stages, or whereby not an adequate amount of information is known (Hastings and Perry, 2000). Essentially, the application of in-depth interviews is thought of as a suitable technique when the objective of a study is acquiring much detail through honest dialogue (O’Donnell and Cummins, 1999). Furthermore, Welman et al. (2005) describes the interview as a versatile mode of data collection.

Bearing in mind the objective of this study, and the mentioned benefits of in-depth interviews, such realities rationalize why the in-depth interview was chosen among other methods of data collection. Hence, interviews were prearranged with management of banks and took place in their offices. Other interviews took place with government officials who play an active role in the regulations and policymaking process of this regarding sector. From the data gathered, an understanding of the structure, protocols, methods, objectives, and other important attributes that contribute to the functioning of banks operating in Kuwait were sought out.

Retail Banking Sector: Components & Main Competition
The CBK, which was established in 1968, offers financial advice to the government in order to administer the banking system, numerous exchange and investment companies and other monetary and credit policies. CBK has budgetary authority regarding these companies. Operating as a last resort lender, the banking sector and representatives of the government seek out alternative funding from CBK when necessary (Doing Business in Kuwait, 2010).

In recent years, CBK has taken on a livelier role in the supervision of the financial operations, with the objective to reestablish assurance in the Kuwaiti economy. CBK has also put much effort into generating liquidity to be invested back into the Kuwaiti banking system and decreasing interest rates as a method to increase development and growth amongst non-oil.

Filbeck et al. (2011) reports that banks in general have performed well over the past two decades. This has applied to Kuwait, as public spending has been a main factor pushing the Kuwaiti economy and has supported increasing economic expansion. Consumer spending has mainly been directed towards the service sector, imports, exports, transportation, banking services and other consumer wants.

Such Regulatory bodies operating within Kuwait have been successful at housing local and foreign companies, making the financial market an attractive and established business environment. The government has also been keen to show its support towards the banking sector. Ministries such as the Kuwait Ministry of Awaqaf and Islamic Affairs provide complete guidance and supervision needed for Islamic Sharia supervisory boards. These boards operate as policymakers in Islamic financial institutions, and without them, they cannot function. Additionally, CBK has introduced new laws as a measure to ensure that organizations operating within the sector have highly regulated and translucent financial practices (Khan and Bhatti, 2008).

Emerging Markets Monitor (2010) report that financial services regulators are in the process of overseeing activity by imposing new fines and new guidelines. Contributing to additional transparency, it is hoped this will result in more investor confidence. Rehman (2006) explains Kuwait’s wealth as being one of the highest numerical regarding vehicles per capita.

Kuwait has a firm banking and financial sector that has been fueled by its oil exports although, its financial sector is reasonably smaller and less varied than those established in other gulf countries, such as Bahrain and Dubai (Kuwait Country Monitor, 2011). This can be viewed as a result of the Kuwaiti government obliges foreign business owners to have a Kuwaiti citizen or company as a sponsor or subscriber in order to permit operations. The objective of this agreement is to see that the numbers of foreign operations are controlled, avoiding exploitation and giving nationals a chance to compete in a fairly equal competitive market (Al-Kazemi and Ali, 2002).

After the dominant oil sector, the banking sector is viewed as one of the most significant sectors in Kuwait. Although regulations used to bar foreign banks from operating in retail banking, today the Kuwaiti banking sector has proven to be prosperous. Due to increasing international oil prices and high demands, the Kuwaiti economy acquires surplus incomes to support the banking sector, with the aim of it playing a key role in economic activities. Therefore, it is understandable that this country has robust financial service sectors such as: banking, insurance and investments.

As of May 2009, numerous investment and finance companies operated locally and internationally in the Kuwaiti financial market. Additionally, Kuwait has one of the fiercest service sectors in the financial region, focusing on areas such as banking, insurance and investments (Rehman, 2006).
The products and services offered by Kuwaiti banks are similar to those in Western and developed economies. Offering an array of products and services, companies are involved in activities such as:

- Sight and issuance letters of credit in any major currency
- Foreign exchange hedging lines
- Funding
- Bond issuing
- Estate development

Zawya (2008) report that during 2008 the Kuwaiti retail-banking sector conceded a total of 17 banks. They include, domestic conventional, Islamic and foreign banks. Although traditionally conventional banks have dominated listings in the Kuwait stock exchange, in recent years more Islamic banks have been established. Even more unexpectedly, conventional banks have been transforming their identities into Shariah-abiding banks. This has changed the conventional banking sector to not only halt in growth, but also even decrease in size. Today, there are more than 50 organizations in the Kuwaiti market functioning according to Islamic principles of finance. Islamic banking has appeared as a sturdy financial system and has been upholding steady growth (Awan, 2009). The popularity of Islamic finance and banking has taken on a global scale; this reputation has also undoubtedly captivated the Kuwaiti market. Conventional banks are now in the process of changing their operations to abide by Shariah laws, or purchasing Islamic banks.

Although the Kuwait’s population is relatively small, eight retail banks alone (six conventional and two Islamic banks) have set up over 262-branch system. Moreover, the majority of Kuwaiti customers have fairly high salaries, paid by both the public and private sectors. All conventional and Islamic banks in Kuwait provide these customers with many technological tools (such as 24-hour call centers, ATMS, mobile and internet banking) as a means to better satisfy and serve their clients. While a number of conventional and Islamic banks operate in Kuwait, the marketplace has been dominated by two commercial banks (Zawya, 2008). Therefore, new entrants have the task of seizing a percentage of consumer market from fierce competition.

When studying Kuwaiti retail banking sector, one cannot help but notice the level of excessive concentration that exists. The dual banking system, which compromises of conventional and Islamic methods, operates in the financial market. Within the banking system two banks, one conventional bank and the other Islamic, together account for more than half of the deposits in the country (Zawya, 2008). This demonstrates the sheer size of these banks and their enormous market share (Doing Business in Kuwait, 2010).

Founded in 1952, by leading Kuwaiti businessmen, National Bank of Kuwait (NBK) was the first conventional joint stock company to be established not only in Kuwait, but also in the Gulf. Currently, NBK still maintains this leading position and is the largest bank in Kuwait and one of the principal banks in the Gulf area. NBK is also viewed as a national symbol, and the government has provided it with copious support. NBK has accomplished chief market share in Kuwait, it has also been prosperous in expanding and steadily growing overseas, operating business centers in 16 countries. NBK has been presented with some of the highest ratings, from chief international ratings agencies over the years. Furthermore, NBK has captured between 30% and 40% of local commercial bank loans and deposits. Being one of the highest rated banks in the Middle Eastern region, NBK reported net profits of USD 523 million for the first half of 2012, an improvement in comparison with the same period in 2011 of USD 431 million.

On the other hand, Kuwait Finance House (KFH) was established in 1977 and is the oldest and most recognized Islamic bank in Kuwait. Since it’s founding, KFH has developed into a resilient organization in the Islamic financial industry, specializing in the field of banking and finance. Operating in Kuwait’s dual-baking system, KFH provides customers with a variety of Shariah compliant products and services covering banking, real estate, trade finance, investment portfolios and corporate, commercial and retail financial markets. Besides being a pioneer and frontrunner in this industry, KFH has proven in the past it can compete with organizations outside its Shariah compliant realm.
Aziz (2006) reports, that in Malaysia, Kuwait Finance House (KFH), a Kuwaiti Shariah-compliant bank, along with other foreign owned banks, form roughly 8.2 percent of the total assets in the banking system. This demonstrates that Kuwaiti banks have the competency to compete at an international level in financial markets composed of worldwide heavyweights.

Before 2004, Kuwait Finance House (KFH) dominated the banking sector. Since then, laws have been developed and restructured to include specific guidelines pertaining to Islamic Banking Practices, placing the sector completely under CBK’s administration. Since these decisions were undertaken, Islamic banking licenses have been issued to other banks.

The remaining banks operating in the market compete for approximately 30% of market share. These banks in particular are focusing much of their resources on the quality of customer services. Newer banks view this customer-centric strategy as being one that could possibly assist them in increasing their market share and competing successfully with market titans. The remaining banks that manage numerous types of banks such as specialized banks. The Industrial Bank of Kuwait (IBK) operates on a limited banking license, which enables it to offer medium term loaning to companies classified in industrial and agricultural sectors. IBK’s shareholders include both public and private shareholders. Public investment has profited the bank with widespread government support.

Another license was recently issued to International Bank of Kuwait. Initially a specialized conventional bank, named Kuwait Real Estate Bank (KREB), it concentrated on offering financial services to real estate companies. KREB transformed into an Islamic bank, which was finalized during July 2007.

On the other hand, laws that previously banded foreign banks from launching branches in Kuwait were reviewed by the CBK. Today, foreign banks such as; HSBC Bank Middle East, BNP Paribas, National Bank of Abu Dhabi, and Citibank have been permitted to opening one office, managing an array of services, with a minimum capital of KD 5 million (Doing Business in Kuwait, 2010).

### Findings

Consumption patterns among Kuwaiti consumers have increased and are mainly a result of the majority of the Kuwaiti working force being employed by the public sector. In contrast, these statistics are mismatching regarding private sector performance, where gradual recovery since the global finance crisis is still underway. Unfortunately, due to sluggish political and government performance, execution of development strategies to inject funding, expansions and new policies into the private sector is also overdue.

However, as an outcome of new regulation policies, the Kuwaiti banking sector has witnessed a surge of new Islamic banks admittance. This new and expanding arena of competition is giving way to innovative strategies. Due to increasing entrances, banks are serving their customers with state-of-the-art strategies, competing with those of an international standard.

Interviews have revealed the practice of banks being controlled by investment groups. During the 1950’s, when only conventional banks operated, it is noticed that they were strategically positioned to support the business ventures of an investment group. This has unfortunately also become a trend in Islamic banks, as investment groups are also controlling more of these banks. This practice can lead banks to financial concentration risks.

### Further studies

It is noted that there is a lack of research in the field of the Kuwaiti retail-banking sector, and financial sector in overall. It is suggested that further studies regarding this topic could contribute to the areas of customer care, relationship management, stakeholder’s management, Islamic banks and other products. It is advised to have empirical investigations carried out on studies regarding these subjects, which could lead to models that can aid a better holistic and complete understanding of the industry.

### Conclusion

Middle Eastern financial markets have proven that they can facilitate and foster appropriate environments for conventional and Islamic finance. Islamic finance in particular, has grown immensely in and around the surrounding regions of the Middle East. Nevertheless, the GCC’s thriving markets are still viewed as the epicenter for Islamic finance (Ibrahim et al. 2012).

As for Kuwait, this relatively small country plays a big role in economic positions and strategic importance in world affairs (Al-Kazemi and Ali, 2007). This country has showed that it can foster and support one of the financial world’s fastest growing and ethical-related business systems, which has been competing with major players in the industry such as Malaysia and Bahrain. As the government and Shariah-compliant companies have had a positive interaction, it is predicted that this industry will continue to flourish particularly in this highly competitive environment. Recent activity in the banking sector has shown positive outcomes, with deposits increasing in early 2012, which could possibly lead to amplified commercial bank loaning and additionally motivate investment (A Robust Consumption).

During 2012, oil production has been accounted at an estimated US $ 110/barrel. This will contribute to decent growth for the Kuwaiti economy, and investments in the gas sector will also aid this development (Basic Data, 2012). Revenue from foreign investments of the Kuwait Investment Authority, the country’s sovereign wealth fund, is projected to grow solidly. External conditions such as the decrease of Libyan oil production during 2011, leading to Kuwait producing additional volumes of oil to compensate, will also contribute to added income. Therefore, it is predicted that real GDP will increase due to such elements.

### References


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The Art of Ali Towfik

As early as the age of six Ali knew he wanted to paint. He had wonderful role models around him who also enjoyed to create various works of art. His main influences were his father and siblings. Growing up Ali had the opportunity to travel with his family to many different countries and experience the various settings, environments, cultures and landscapes that has influenced his work to this very day. His fondest memories of his travels as a young boy were of Italy. As he grew older he went on to study chemical engineering in his home country of Iraq. During this time he had met his girlfriend who further fuelled his passion for art, her main style was on Surrealism; “which is a style of art and literature developed principally in the 20th century, aimed at expressing imaginative dreams and visions free from conscious rational control” (Dictionary.com). With her inspiration and encouragement they both went on to exhibit their work. Being born in Iraq a man is required by law to serve in the army, thereby at the age of twenty three (23) he went to serve for his country. With his degree in chemical engineering the army then enlisted his services to undertake work in the ammunition factories. Over this period of time as the war raged on in Iraq, Ali was losing his family and friends to this horror and found an opportunity to leave and start a new life and chapter in Australia. He has now been living in Australia for seven (7) years. In this time he has rediscovered his love of art as it helps him through his darkest moments when thinking of his past. Painting for Ali takes on a different meaning as he “feels the colour more than the subject.” Ali has lived with the pain of many experiences which has shaped him as an individual and has also influenced his work on the canvas. He lives with Post Traumatic Stress Disorder, depression and anxiety. The world of art has had a positive impact on him allowing him to focus and channel his emotions through the paint brush onto the canvas providing a therapeutic process to take place.
Scratching the surface

Journey to the Kingdom (II)

Ladies Night Out (II)
Orange by the Bay

For further details on the work of Ali Towfik, contact:
Diahann Lombo (diahann@archsign.com.au)
Book Review

James Anderson is a thinker, writer, philosopher and a dreamer. His work is also highly motivating.

A resident of Saltspring Island, Canada, Jim writes for local and global outlets and I’ve personally taken many journeys via his writings, soared by his inimitable spirit and his quest for what is right and good.

With so many many mental portals opened by his words and insights I am not sure I always arrive at the right destination,; that I don’t get waylaid at some tangent for a while, but the journey is always worth it.

As Jim says in his Foreword: “This book and these words represent the culmination of a lifetime spent dreaming of unprecedented, revolutionary ideas that lead towards a New Human World for us all. It is dedicated to the courageous, embattled and long time suffering Human life force on this Earth. In desperate, impoverished and enslaved lives in day to day unyielding courage, languishing beneath hopelessly unbearable burdens, with bloodied and unbowed heads, they rage to awaken the potential for a truly Human, compassionate and evolved world and set it free. They are the unsung, impossible dreamers in this world who somehow carry on, and stand and stay in living Hell. They are the true hope and incredible legends of our time.

Give them a vision and a dream to hold on to and stand upon and they will simply move this world. These words are for them.

If we are to change this world, we need an incredible, profound new vision leading to a New Way to be Human on this Earth that is founded upon radical, revolutionary and unprecedented ideas that change forevermore the human mindset, create a metamorphosis of the Human mind and at last and finally bring every Human life on this planet together, to become One glorious and Unified Life Force on the Earth. If we falter and succumb to the brutal forces of terror and ignorance and become lost in rage, violence, hatred and vengeance instead of humanism, love and the faith and hope in a New Human Dream, we will perish and careen into extinction and oblivion. Simple, common and unyielding human beings in these dark and desperate times reaching out for each other will create the Unity and the invincible force that will carry the Human Dream and the Human species into the light.”

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