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Killing the Goose

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2012 was a year of great change on planet earth. Much of it inevitable, nearly all of it necessary and most of it affecting all humanity. It was a year in which much truth has been aired.

As we go to press we were waiting to hear if the US has ‘fallen off the fiscal cliff’. The US economy is in a terrible state, their debt massive and the general economy set to fall by 5%. This is partly due to lack of measures being taken during the 2008 GFC caused by the collapse of Lehman Brothers on September 14, and also a legacy of lack of effective response to the GFC it itself generally and on going to press the White House and congressional lawmakers have reached a deal to avoid the “fiscal cliff” that would delay harsh spending cuts by two months, however hardline republicans are now threatening the deal.

Europe is little better. Several countries, (Italy, Spain and Greece) are in economic meltdown and the outlook is not good in the immediate or short term.

Second and third world countries are also directly affected, with first world markets decreasing due to the general down turn.

Multinational companies have had to face a bit of reality - Murdoch (News Limited) where the UK populous rose against the media giant which has succumbed to the worst excesses of reporting and not for the purpose of information dissemination - purely for profit by catering to the lowest common denominators of society.

BP has had to make amends for gross pollution in the Mexican gulf and as we go to press a Shell drill ship has run aground in Alaska, threatening the environment.

Wikileaks aired a few truths of their own, and while these were political and military truths, in essence, it has made the general population more aware of the business propaganda they are fed and less forgiving. Anonymous is another group aimed at airing truth.

The Arab Spring has seen the rise of the ordinary middle easterner and others globally, against oppression, dictatorships, military juntas and the like in the search for a more fair and equitable society in their own counties. Social media has played a large part in the timely dissemination of information.

Aung San Suu Kyi was released from political imprisonment making us hopeful that the Burma situation may improve.

The ‘Emperors’ are being seen more often as naked. In Australia, after similar disclosures worldwide, the Catholic Church particularly has seen generations of abused children, mainly young boys speak up finally in a climate of enquiry open to the truth after centuries of cover up and until just a couple months ago both major political parties opposed such an investigation.

Finally the America National Rifle Association (NRA) look ridiculous by responding to a shooting of small children with a statement that failed to understand the ways in which the gun control debate is leaving them behind.

But perhaps the most shocking revelation has been that expounded at the recent Doha climate change conference in Qatar December - that we are destroying our planetary home.

As a child I was given a book of Aesop’s fables. Aesop was a slave in ancient Greece between 620 and 560 BC. Still I have found every one of those stories ring true to the point that I now trust Aesop’s point of view and constantly observe his wisdom played out in the world - indeed it has all been said before and each generation of thinkers observes and says it again. If a stone age man (homo sapien) was born today and educated in the same manner as the rest of us, they would be indistinguishable in society.

I follow with a short outline of one of Aesop’s simple tales:

The Goose with the Golden Eggs

“One day a countryman going to the nest of his Goose found there an egg of pure gold. Every morning the same thing occurred, and he soon became rich by selling his eggs. As he grew rich he grew greedy; and thinking to get at once all the gold the Goose could give, he killed it and opened it only to find nothing.”

The shocking Doha Climate Change Conference has made us more aware than ever that we are killing the goose.

In December 2012 in Doha, Qatar about 200 nations met for annual UN talks on global warming with little prospect of a breakthrough and recriminations over how to keep alive hopes of a new, global UN deal to fight climate change meant to start up in 2020.

The simple analogy here is we have been given something most wonderful - a planet of riches that provides food and other material sustenance, as well as beauty and awe and wonder, yet many of the financially richest elements of society, multinational big business, and the most powerful nations are engaging in primitive power mongering and wealth accumulation and are consciously and willingly destroying the environment, killing the goose, with no compunction or care whatsoever. Rather they try to discredit those who speak the truth.

Currently the top 6 biggest national polluters of this fragile jewel we dwell upon are in order:

1: China is the largest producer of emissions in the world, according to the latest ranking from risk management consultancy Maplecroft. China emits about 6,018 million tons of greenhouse gases per year.

-•-
we have to re-think how we tackle climate change - the second floor of houses.

The melting of Arctic permafrost, which is irreversible in human time scales is triggering the release of even more greenhouse gases the United Nations has warned. Already we have to re-think how we tackle climate change - and we have barely started.

“We're sleepwalking off a cliff,” Alden Meyer of the Union of Concerned Scientists said. There was a lack of ambition to confront rising world greenhouse gas emissions at the two-week meeting, the first in an OPEC nation, he said.

US deputy climate envoy Jonathan Pershing said that President Barack Obama was sticking to his 2009 goal of cutting emissions by 17 percent below 2005 levels by 2020. That target was not approved by the US Senate.

The United States resisted pledging steeper cuts in greenhouse gas emissions by 2020 despite calls by poor nations at the start of a U.N conference for tougher action to avert storms, droughts and rising seas.

India and China have failed to address their environmental problems and the Yangtze Kiang (along with most other rivers globally) releases devastating pollution into the seas, every second of every day. Fish cannot live in acid and chemical baths and humans and many other species rely on the bounty of the sea for survival, everywhere.

It seems no matter what truth you speak the psychopathic mentality of the big destroyers and polluters remains, indeed worsens and the greed heightens.

It has been seen as a psychological problem: human greed and the search for more, the more you have, and the saying power corrupts and ultimate power corrupts ultimately, is evidenced by all the dictators and military rulers still manipulating the people of their countries when they have forfeited any moral right to rule.

Indeed, one of the main problems is lack of truth and lack of information. Given proper information, humanity could have grasped the problem and moved much earlier, but the ways of the big polluters are to spread propaganda and lies as well as to influence governments and corrupt authorities, to continue their quest for even more.

Social media will continue to play a vital part and perhaps proffer its own prejudices with continuation of lack of accountability at the top levels.

Even then the public have tried to fight back for their planet - the Wall street movement, the 99% movement and consumers (due to ethical consumerism) have indeed already managed to fight back on some of the worst excesses of business, for example, most of us have learnt, when buying coffee, to avoid the brands that use child slavery/labour in its production.

Ethical consumerism, where the people of the planet choose to avoid buying goods from both companies and countries that unconsciously putrefy and destroy the planet may be the only way to survive. It also works on the same playing field as big business - the free market principle.

So in this new world where the truth dares to be told and dares to counter the propaganda of the powerful and privileged where are we to head in 2013.

The simple truth is that if we all do not stop this stupidity and greed then we all pay the ultimate price. The message is primarily one for governments and international regulatory bodies but the lack of action everywhere puts the onus on all: individuals, businesses (themselves consumers of other’s products), governments and primarily the destroyers.

The main polluters of course are mostly private companies of all sizes, protected by governments; depleting resources and putrefying the planet for private wealth. While there was a groundswell of anger and disappointment by ordinary citizens in 2012 - lack of national action or concern about the viability of both the planet and the human and other species has encouraged and abetted this ignorant state of affairs and it would seem the people are unaware or incapable of countering such political and monetary power, often afforded to some of the lowest entities on the planet.

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Environmental reports from the UN and global climatological experts during the Doha conference (December 2012) have shown a devastating state of affairs (literally): oceans acidified, sea levels have risen 17 cm in the past 100 years and devastating rises predicted in the next 20 years and due for an incremental increase in the next hundred, growing numbers and intensity of natural disasters due to climate change - the recent floods in New York saw the seas rise to the second floor of houses.

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The Trendy World in Which we Live: ‘Flat’, ‘Spiky’, or ‘Wavy’?

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1. Introduction

Globalization has become one of the most controversial subjects at the forefront of academic literature, the media, and lay discussions today. This paper investigates three prominent – but vastly different – mindsets on the subject, in addition to offering a newer, and perhaps more judicious perspective on the matter. Specifically, this paper contributes to the discussion about Globalization by ‘reframing’ how we perceive the concept, and refocusing the conversation where it belongs. The three world views presented all acknowledge the magnitude of importance inherent to Globalization and the peripheral impact attributed to it, but fail to convince, primarily due to limitations within at least one of the following areas: definition, world view, and supporting assumptions and/or evidence.

It is difficult to have a valuable discourse on a subject without first clarifying and setting boundaries i.e., defining the concept. In general, the most commonly utilized definitions of Globalization articulate ‘the integrated internationalization of companies and markets’ as being central to the concept, which, by definition, more than implies a profound interaction between political, economic, and intensely cultural variables. For the purposes of this paper, the author employs the above definition for the term ‘Globalization’ (Wheelen and Hunger, 2012). Other definitions include:

Growing economic interdependence among countries as reflected in increasing cross-border flows of three types of entities: goods and services, capital, and know-how. Govindarajan and Gupta (2001, p. 4).

... a process of convergence of cultural, political, and economic aspects of life. Giddens (1999, reported in Inkpen and Ramaswamy, 2006, p. 13).

2. A Fully Globalized World?

In Thomas Friedman’s best-selling book The World is Flat (2005), he contends that the world is fully integrated (i.e., globalized), and that culture, physical distance, and geographic location no longer inhibit the flow of goods/services, capital, technology, innovation and ‘know-how’. Moreover, the ‘flatness’ of Friedman’s perceived world has eliminated any previous advantages one country or region might have over another i.e., an even playing field. Friedman (2005) attributes the ‘flattening’ of the world to ten ‘flatteners’: the collapse of the Berlin Wall, Netscape, workflow software, the ability to ‘upload’ to the Internet/Worldwide Web, outsourcing, offshoring, developments in supply chain capability, insourcing, informing (e.g., the power of search engines), and the digitalization of communication, analog material, and the personal support technologies associated with them.

Friedman’s world view is very much based on his own personal experiences, anecdotal evidence, and conceptual ‘analysis’ of the most ethnocentric kind (markedly that of the United States and several other Western countries). Although entertaining, The World is Flat (2005), instigated strong responses. Rapidly becoming a New York Time’s ‘best seller’, and receiving accolades from both Goldman Sachs and the Financial Times, others were less convinced. The Nobel-prize winning economist, Joseph Stiglitz (2006), cedes that Friedman is correct in his account that the global economy has changed dramatically, and that in some directions the world has become ‘flatter’, whilst, ultimately, maintaining that the world is not flat – underscoring that in significant ways our planet is less so than ever before.

Florida (2005) takes issue with Friedman’s perspective that technological innovation is free from geographic locale (i.e., creativity and development knows no bounds, and therefore can occur anywhere), presenting a thesis that ‘the world is spiky’; and that true innovation occurs in a relatively few locations around the world, which he terms ‘peaks’; namely, urban areas that attract creativity and innovation, writing:

When it comes to actual economic output, the ten largest US metropolitan areas combined are behind only the United States as a whole and Japan. New York’s economy alone is about the size of Russia’s or Brazil’s …. Together New York, Los Angeles, Chicago, and Boston have a bigger economy than all of China. If US metropolitan areas were countries, they’d make up forty-seven of the biggest 100 economies in the world. (Florida, 2005, reported by Hagel, 2005)

Whilst Florida’s point is valid, and the metaphors applied illustrative and creative, his point is most elementary and unoriginal. For centuries, cities have attracted great minds, due to urbanization, education, industrialization, and the concentration of wealth and advancement they cultivate – without exception - whether it be London, New York, Moscow, or Beijing. Florida, (2005), describing the
world in terms of ‘peaks’ (‘the cities that generate innovations’), ‘hills’, (‘the industrial and service centers that produce mature products and support innovation centers’), and ‘valleys’ (‘places with little connection to the global economy and few immediate prospects’), offers a topographical perspective completely void of timelines and change.

Within the context of Florida’s metaphor, perhaps speaking in terms of ‘waves’; ‘crests of waves’, the space between waves, and the ever-changing ‘ebb and flow’ of the tide better illustrates his point, whilst emphasizing the more important aspect of it all – trends and movements over extended periods of time. The world may well have some bits that are ‘flatter’ than others, and most certainly produces ‘peaks’, ‘hills’ and ‘valleys, but these momentary observations bear little value and insight when compared with the ‘waves’, ‘troughs’; and timely ‘ebb’ and ‘flow’ of the entire process itself.

3. Culture as a Catalyst (and Obstacle)

More importantly, culture is not highlighted as a rebuttal to the ‘flat’ mindset. Increasingly, and on a global scale, these ‘peaks’ and ‘hills’ are the ultimate destinations for a wealth of talented innovators, sparking brain-drains in various countries and regions of the world. Naturally, talent and innovation is attracted to those environments that will best accommodate, foster, and unlock the potential they hold. Therefore, whilst Friedman (2005) and Florida (2005) present interesting points – with varying degrees of persuasiveness – they both fall short of the mark when it comes to framing the discussion and identifying the key variables.

Scholars, such as Javidan (2010) and Ghemawat (2011), quite convincingly counter Friedman’s world view based on the critical role of national culture in creating barriers to Globalization. Javidan, (2010) writes:

In a recent survey of senior executives in 100 global corporations, conducted by Worldwide ERC, 95% of the respondents reported that national cultures of the places they do business in play an important or very important role in the success of their business mission. So much for a “flat world”. (Harvard Business Review blog, May 19, 2010)

Former Harvard Business School professor, Pankaj Ghemawat (2011), historically documented ‘the origins and evolution of Globalization’. Whilst Ghemawat (2011) accepts that the current world is ‘semi-globalized’, like Javidan (2010), Ghemawat highlights physical and cultural ‘distance’ as posing barriers that significantly impinge upon the integration of countries and regions. Ghemawat (2011) quite successfully supports his propositions, unlike Friedman (2005), with cases and statistics, mentioning:

The obvious reason for globaloney is that much of the debate about globalization takes place in a data-free zone… something other than data must account for the success of The World is Flat, since the 450-plus pages contain not a single table, chart, or footnote to back up its pronouncements. I still find that comfort of Friedman’s many fans with this data-free approach the most flabbergasting aspect of this flattening. (pp. 34-5).

As much as the author sympathizes with Ghemawat’s position pertaining to the need for ‘evidence’, Ghemawat’s data is rather selective, and as such reflects yet another ‘extreme’ mindset to that of Friedman’s. In his book (2011), and worldwide seminars on the subject of Globalization versus ‘globaloney’, (referring to the Friedmanite position), Ghemawat presents statistics from several of the most localized and culture-specific industries: e.g., education, telephone communications, business markets, trade, investment, and immigration, most likely to illustrate the very real roles, as mentioned previously, played by cultural and physical distance in obstructing global integration. Such static statistics fail to reveal any trends or patterns.

4. Conclusion: Reframing the Question

Although Friedman (2005), Florida (2005), and Ghemawat (2011) all have interesting and valuable insights into the world in which we live, all three world views are significantly flawed in their ‘framing’ of the question. Globalization is a process, and as such needs to be approached by looking at time periods and trends – not points in time. In agreement with Javidan (2010) and Ghemawat (2011), the author finds Friedman’s perspective of the world being fully integrated and ‘globalized’ (i.e., ‘flat’) to be unpersuasive Western ethnocentric wishful thinking.

Perhaps the following statistics offer a more accurate and appropriate perspective on global trends (Globalization):

i. In 1970, there were 7,000 transnational enterprises.

ii. In 1995, there were 40,000 transnational enterprises.

iii. In 2003, there were > 63,000 transnational enterprises, and > 700,000 affiliates worldwide; this number is growing exponentially.

iv. Nearly two-thirds of the world’s goods/services come from these TNEs.

v. >80% of the world’s technology is owned by these TNEs

vi. China will soon be the number one English-speaking country in the world.

vii. If MySpace were a country, it would be the 11th largest in the world.

viii. Spanish and Korean are the second and third languages in Los Angeles (USA).

(Moran, Harris, and Moran, 2011)

Ghemawat (2010) correctly writes about the critical role culture plays in the retarding and limiting of Globalization. For example, in 1994, 10,000 senior executives in N. America, Europe and Asia responded to the Economist Intelligence Unit that ‘management’s handling of diversity posed the most significant challenge to
corporate success...’ going into the 21st century (Harris and Moran, 1996, p. 3). In the author’s mind, this is the discussion and the challenge for the global community – optimizing cross-cultural exchanges and creating value from cultural interfaces:

Consider any complex, potentially volatile issue—Arab relations, the problems between Serbs, Croats, and Bosnians, corporate decision-making, getting control of the US deficit, or health-care costs, labor/management relations, and so on. At the root of the issue, we are likely to find communication failures and cultural misunderstandings that prevent the parties from framing the problem in a common way, and thus make it impossible to deal with the problem constructively. (Schein, 1993, p.40)

Consider also the following discourse concerning one of the most tragic and influential events of the 20th century:

Colonel Quach Hai Luong: I want to ask you: What do you think the American objectives were in Vietnam?

Colonel Herbert Schandler: Our objectives in Vietnam, as stated by our various presidents, were the following: First, to establish an independent, non-communist, South Vietnam, whose people had the ability to choose their own leaders and form of government. A second objective was to convince North Vietnam—not to defeat or crush or obliterate North Vietnam—but to convince North Vietnam not to impose its will on the South by means of military force. We had no burning desire ever to harm North Vietnam in any way. We just wanted to demonstrate to you that you could not win militarily in the South.

Colonel Quach Hai Luong: But Colonel Schandler, if I may say so, this was a critical difference between your understanding of the situation and our understanding of it. Let me put it this way: your fundamental assumption was that Vietnam is two distinct—two rightfully independent—countries. On that basis, your objectives and strategies follow. We did not make that distinction. We saw only one country. All our strategies were based on this basic premise: that Vietnam is our country, unfortunately, and artificially divided in two. Our war was for the purpose of protecting our independence and maintaining our national unity. (Moran, Harris, and Moran, 2011, p. 4)

Catastrophic implications resulted from a failure to properly ‘frame’ the issue. In the author’s mind, the central issue is not whether the world is ‘flat’, ‘spiky’, or even ‘wavy’, but rather, if we are to prosper as a global community, how do we deal with cultural differences, so that there can be a healthy level of Globalization – a process and pursuit that adds value to all sides, deprives and exploits none, recognizes the value and contributions of all global citizens, proceeds with patience and empathy, and therefore can be embraced by all?. Whether or not we ever become a ‘flat’ or fully ‘globalized’ world is incorrectly framed the issue. Learning how to live in a ‘culturally synergistic’ (Adler, 1985) world community – that is the question to be addressed.

References


Abstract

Bangladesh is a developing country. The banking sector has a big role to run the economy smoothly to continue this development. As an investor or depositor or director more or less every stakeholder should know about the bank they are using to develop a relationship with it. So, disclosure of information of the bank helps a stakeholder to make any decision related the bank. This survey is about the extent of disclosure of IAS/BAS in some selected banking companies in Bangladesh. Recommendations are provided for these disclosures of IAS/BAS in banking companies in Bangladesh. Banking companies do not disclose all of the IASs. This paper has examined 10 Banking companies in Bangladesh to disclose IAS/BAS.

Key Words: IAS, BAS, Stakeholder, Historical cost, IFRS.

Introduction:

Bangladesh is a developing country. The economy of this country has faced a lot of problems in ensuring its growth and the growth of the financial sector is an important element to ensure the strength of the economy. Among the financial institutions, the banking sector has a great role in building up the economy of a developing country like Bangladesh. Not only is money circulation ensured by banks but they also create loans and advances for industrialization. In the capital market of this country, the banking sector is an important sector for the investors. So any information about this sector or about an individual bank is very valuable to the customers, clients, investors, credit rating companies, Government etc.

The annual report is basically a financial statement and gives a clear picture about the bank to facilitate decisions related to the bank. For this reason, disclosure of IAS/BAS has a significant impact on the stakeholders.

The elements of financial statement have been measured on “historical cost” convention in a going concern concept and on an accrual basis in accordance with generally accepted accounting principles and practice in Bangladesh in compliance with the companies act of 1994, the securities and exchange rules 1987, listing regulation of Dhaka stock exchange Ltd. (DSE) and Chittagong stock exchange Ltd (CSE) and international accounting standards (IAS) as adopted by the institute of chartered accountants of Bangladesh (ICSB), as Bangladesh Accounting Standard (BAS).

Objective of the report:

• To identify a clear idea of disclosure of IAS/BAS in some selected banks in Bangladesh.
• To ascertain the lack of Disclosure of IAS/BAS in some selected banks in Bangladesh.
• Describe the challenges to maintain standards of the Disclosure of IAS/BAS in some selected banks in Bangladesh.

Methodology:

Most of the primary information has been collected through interviewing a few bank personnel. This study briefly highlights the various benefits of implication of Disclosure of IAS/BAS in some selected Banking Companies in Bangladesh.

Data sources:

Bankers including Assistant Vice President, Head of Retail Banking, Financial Analyst, Accountant and Management level persons.
Data collection:
To produce the article, both primary sources of data, and secondary sources of data are used.

Review of literature:
According to Ramanna and Sletten (2009), in case of opportunity and switching cost, adaptation of IFRS decreases the accountability of domestic governance institutions where the economy focuses on foreign trade and investment.

Floros (2007), focuses on stock market volatility which is one of the key concepts of finance that shows the movement of the market for the effect of using IAS. There is a negative effect on the stock price and very little impact on stock return volatility. In the case of Greece, adaptation of IAS market volatility has become lower.

According to the Basel committee (1999), disclosure about a bank’s credit is very important to the stakeholders for evaluating the bank’s position. Quality credit reduces credit risk. Credit risk profile of a bank focuses on nature, quality, and return of the credit. Poor credit quality twins into poor credit management and increased credit risk, so that information should be disclosed by the bank for all to assess the overall condition of the bank and banking system.

Firoz and Ansari (2011), state the Indian banking industry has started the assessment of the loans and advances of the organization as per the IFRS standard. The banking sector has also started the measurement of credit risk management and the practices for the adequate provision of the loss for the derivatives and financial instruments. Such practice shall keep the banking industry sound.

Karim & Ahmed (2005) found in a study on a listed company in Bangladesh that after adopting of IAS in BD some factors like corporate size profitability, SEC category (Z category or not), size and international links of company’s auditor, and multinational subsidiary all have a significant impact to ensure the level of disclosure in the Annual Report. Financial institutions (Bank, Insurance Company, Investment Company) are different in their items of financial report information, than other non-financial companies. But they have completed a study on both groups; those are listed by DSE. In the case of financial companies they get a negative association with disclosure level. In Bangladesh, a developing country, FI including some banks have performed poorly in the maintenance of transparency and disclosing the information by maintaining IAS.

Islam and Hepp have done a study on 13 banks and 3 lease financing Institutions of Bangladesh. In the case of Banks they have found that the banks are fulfilling all requirements of IAS 30 for non-performing loans and about losses or risk of loans that they may happen in the future. Banks disclose balance of loans to the directors but are reluctant to inform about terms and conditions as well as transactions of those loans. More or less all banks showed inconsistency in investment’s information, cost accounting policy and analysis of liquidity.

Hossain (2008) has focused on two types of disclosure items; one is mandatory items: (from Balance Sheet (13), Profit & loss account (7), Director’s report (5), management discussion and analysis(44), Circular issued (24) total 101 information) and the other one is voluntary items: (From back ground about the bank (6), Corporate strategy -3, Corporate governance-11, Financial performance-13, General risk management-7, Credit risk exposure-8, Market risk exposure-4, Interest rate risk-3, Currency risk-3, liquidity risk exposure-3, Accounting policy review-2, Corporate social disclosure-4, Key non financial statistics-8, and other-8 with a total of 83 items under 14 categories. Disclosing these items helps to maintain transparency and high standards of the bank. On the other hand it also ensures the investors’ and depositor’s confidence in the bank.

History of the IAS:
Historically, there have been four accounting standards models in the industrialized countries: The United Kingdom, Continental Europe, and the United States and Latin American models. The International Accounting Standards Committee (IASC) has taken the lead in the standardization of these models. The IASC is the result of efforts begun in 1973 by the United States, Canada and the United Kingdom toward internationalism in accounting standards. Currently there are representatives from accounting bodies in 106 countries and there have been 31 standards issued to date.

Most of these opinions correlate with American Institute of Certified Public Accountants’ (AICPA’s) Accounting Principles Board and Financial Accounting Standards Boards (FASB) statements.

In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS. Up to year 2008, IASB adopted 8 IFRS.

Conceptual Framework:
The IASB’s Framework for the Preparation and Presentation of Financial Statements describes the basic concepts by which financial statements are prepared. The Framework serves as a guide to the Board in developing accounting standards and as a guide to resolving accounting issues that are not addressed directly in an International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS) or Interpretation.

In the absence of a Standard or an Interpretation that specifically applies to a transaction, management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, IAS requires management to consider the definitions, recognition criteria, and
measurement concepts for assets, liabilities, income, and expenses in the Framework.

This elevation of the importance of the Framework was added in the 2003 revisions to IAS 8.

THE IASB FRAMEWORK

The Framework:

Defines the objective of financial statements; identifies the qualitative characteristics that make information in financial statements useful; and defines the basic elements of financial statements and the concepts for recognizing and measuring them in financial statements.

General Purpose Financial Statements:

The Framework addresses general purpose of financial statements that a business enterprise (including a state-owned business enterprise) prepares and presents at least annually to meet the common information needs of a wide range of users external to the enterprise.

Users and their Information Needs:

The principal classes of users of financial statements are present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the general public. All of these categories of users rely on financial statements to help them in decision making.

The Framework also concludes that because investors are providers of risk capital to the enterprise, financial statements that meet their needs will also meet most of the general financial information needs of other users. Common to all of these users is their interest in the ability of an enterprise to generate cash and cash equivalents and of the timing and certainty of those future cash flows.

The Framework notes that financial statements cannot provide all the information that users may need to make economic decisions. For one thing, financial statements show the financial effects of past events and transactions, whereas the decisions that most users of financial statements have to make relate to the future. Further, financial statements provide only a limited amount of the non-financial information needed by users of financial statements. While all of the information needs of these user groups cannot be met by financial statements, there are information needs that are common to all users, and general purpose financial statements focus on meeting these needs.

Responsibility for Financial Statements:

The management of an enterprise has the primary responsibility for preparing and presenting the enterprise’s financial statements.

The Objective of Financial Statements:

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

Financial Position:

The financial position of an enterprise is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates.

Performance:

Performance is the ability of an enterprise to earn a profit on the resources that have been invested in it. Information about the amount and variability of profits helps in forecasting future cash flows from an enterprise’s existing resources and in forecasting potential additional cash flows from additional resources that might be invested in the enterprise.

The Framework states that information about performance is primarily provided in an income statement. IAS 1 adds a fourth basic financial statement, the statement showing changes in equity.

Changes in Financial Position:

Users of financial statements seek information about the investing, financing and operating activities that an enterprise has undertaken during the reporting period. This information helps in assessing how well the enterprise is able to generate cash and cash equivalents and how it uses those cash flows.

Notes and Supplementary Schedules:

The financial statements also contain notes and supplementary schedules and other information that

(a) Explains items in the balance sheet and income statement,

(b) Discloses the risks and uncertainties affecting the enterprise, and

(c) Explains any resources and obligations not recognized in the balance sheet.

Underlying Assumptions:

The Framework sets out the underlying assumptions of financial statements: (see Table top of next page)

Qualitative Characteristics of Financial Statements:

These characteristics are the attributes that make the information in financial statements useful to investors, creditors, and others. The Framework identifies four principal qualitative characteristics (see below):

Understandability | Relevance | Reliability | Comparability
Understandability:
The information should be presented in a way that is readily understandable by users who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently.

Relevance:
Information in financial statements is relevant when it influences the economic decisions of users. It can do that by both:

(a) Helping them evaluate past, present, or future events relating to an enterprise and by

(b) Confirming or correcting past evaluations they have made.

Materiality
Materiality is a component of relevance. Information is material if its omission or misstatement could influence the economic decisions of users.

Timeliness
Timeliness is another component of relevance. To be useful, information must be provided to users within the time period in which it is most likely to bear on their decisions.

Reliability:
Information in financial statements is reliable if it is free from material error and bias and can be depended upon by users to represent events and transactions faithfully. Information is not reliable when it is purposely designed to influence users’ decisions in a particular direction.

There is sometimes a tradeoff between relevance and reliability - and judgment is required to provide the appropriate balance.

Reliability is affected by the use of estimates and by uncertainties associated with items recognized and measured in financial statements. These uncertainties are dealt with, in part, disclosure and, in part, by exercising prudence in preparing financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Comparability:
Users must be able to compare the financial statements of an enterprise over time so that they can identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises. Disclosure of accounting policies is essential for comparability.

The Elements of Financial Statements:
Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements.

The elements directly related to performance (income statement) are:
- Income
- Expenses

The cash flow statement reflects both income statement elements and changes in balance sheet elements.

Recognition of the Elements of Financial Statements:
Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the following criteria for recognition:

1. It is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
2. The item’s cost or value can be measured with reliability. Based on these general criteria:
   - an asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably.
   - a liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.
   - Income is recognized in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income

---

**Accrual Basis:**
The effects of transactions and other events are recognized when they occur, rather than when cash or its equivalent is received or paid, and they are reported in the financial statements of the periods to which they relate.

**Going Concern:**
The financial statements presume that an enterprise will continue in operation indefinitely or, if that presumption is not valid, disclosure and a different basis of reporting are required.
occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).

• Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of equipment).

Measurement of the Elements of Financial Statements:

Measurement involves assigning monetary amounts at which the elements of the financial statements are to be recognized and reported.

The Framework acknowledges that a variety of measurement bases are used today to different degrees and in varying combinations in financial statements, including:

- Historical cost
  - Net realizable (settlement) value
  - Present value (discounted)

- Current cost
  - Historical cost is the measurement basis most commonly used today, but it is usually combined with other measurement bases. The Framework does not include concepts or principles for selecting which measurement basis should be used for particular elements of financial statements or in particular circumstances. The qualitative characteristics do provide some guidance.

Banks in Bangladesh

Bangladesh is a developing country. After liberation the country has to battle to reform its economy. The Banking system is one of most important tools to build and continue the economy smoothly. For this mission there are 44 banks providing services excluding Bangladesh Bank (the Central Bank of Bangladesh) and 10 Foreign Commercial Banks. For this paper, 10 leading banks are used for analysis of the statement among these 44 banks.

The name of the banks are:

- Prime Bank Limited
- Dutch-Bangla Bank Limited
- South East Bank Limited
- The City Bank Limited
- Dhaka Bank Limited
- Eastern Bank Limited
- Standard Bank Limited
- Bank Asia
- AB Bank Limited
- One Bank Limited

Data Analysis

Prime Bank Limited

IAS/BAS of the reporting

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Prime Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

- Presentation of Financial Statements 1 Applied
- Inventories 2 Applied
- Cash Flow Statements 7 Applied
- Accounting Policies, Changes in Accounting Estimates and Errors 8 Applied
- Events after the Balance Sheet Date 10 Applied
- Construction Contracts 11 N/A
- Income Taxes 12 Applied
- Segment Reporting 14 Applied
- Property, Plant and Equipment 16 Applied
- Leases 17 Applied
- Revenue 18 Applied
- Employee Benefits 19 Applied
- Accounting for Government Grants and Disclosure of Government Assistance 20 N/A
- The Effects of Changes in Foreign Exchange Rates 21 Applied
- Borrowing Costs 23 Applied
- Related Party Disclosures 24 Applied
- Accounting and Reporting by Retirement Benefit Plans 26 Applied
- Consolidated and Separate Financial Statements 27 Applied
- Investment in Associates 28 N/A
- Disclosures in the Financial Statements of Banks and similar Financial Institutions 30 Applied

Prime Bank Limited

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Prime Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:
The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Dutch Bangla Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

| Bangladesh Accounting Standard                  | Complied |
| Presentation of Financial Statements 1          | Complied |
| Inventories 2                                   | Complied |
| Cash Flow Statements 7                          | Complied |
| Events after the Balance Sheet Date 10          | Complied |
| Construction Contracts 11                       | N/A      |
| Income Taxes 12                                  | Complied |
| Segment Reporting 14                             | Complied |
| Property, Plant and Equipment 16                | Complied |
| Leases 17                                       | Complied |
| Revenue 18                                       | Complied |
| Employee Benefits 19                            | Complied |
| Accounting for Government Grants and Disclosure of Government Assistance 20 | N/A      |
| The Effects of Changes in Foreign Exchange Rates 21 | Complied |
| Borrowing Costs 23                               | Complied |
| Related Party Disclosures 24                     | Complied |
| Accounting and Reporting by Retirement Benefit Plans 26 | Complied |
| Consolidated and Separate Financial Statements 27 | Complied |
| Investment in Associates 28                     | N/A      |
| Disclosures in the Financial Statements of Banks and similar Financial Institutions 30 | Complied |
| Interests in Joint Ventures 31                  | N/A      |
| Financial Instruments:Disclosure and Presentation 32 | Complied |
| Earnings per share 33                           | Complied |
| Interim Financial Reporting 34                   | Complied |
| Impairment of Assets 36                         | Complied |

Dutch Bangla Bank Limited

IAS/BAS of the reporting:

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Dutch Bangla Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

| Bangladesh Accounting Standard                  | Complied |
| Presentation of Financial Statements 1          | Complied |
| Inventories 2                                   | Complied |
| Cash Flow Statements 7                          | Complied |
| Events after the Balance Sheet Date 10          | Complied |
| Construction Contracts 11                       | N/A      |
| Income Taxes 12                                  | Complied |
| Segment Reporting 14                             | Complied |
| Property, Plant and Equipment 16                | Complied |
| Leases 17                                       | Complied |
| Revenue 18                                       | Complied |
| Employee Benefits 19                            | Complied |
| Accounting for Government Grants and Disclosure of Government Assistance 20 | N/A      |
| The Effects of Changes in Foreign Exchange Rates 21 | Complied |
| Borrowing Costs 23                               | Complied |
| Related Party Disclosures 24                     | Complied |
| Accounting and Reporting by Retirement Benefit Plans 26 | Complied |
| Consolidated and Separate Financial Statements 27 | Complied |
| Investment in Associates 28                     | N/A      |
| Disclosures in the Financial Statements of Banks and similar Financial Institutions 30 | Complied |
| Interests in Joint Ventures 31                  | N/A      |
| Financial Instruments:Disclosure and Presentation 32 | Complied |
| Earnings per share 33                           | Complied |
| Interim Financial Reporting 34                   | Complied |
| Impairment of Assets 36                         | Complied |
The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Dutch Bangla Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

- Bangladesh Accounting Standard
- Presentation of Financial Statements
- Inventories 2
- Cash Flow Statements 7
- Events after the Balance Sheet Date 10
- Construction Contracts 11
- Income Taxes 12
- Segment Reporting 14
- Property, Plant and Equipment 16
- Leases 17
- Revenue 18
- Employee Benefits 19
- Accounting for Government Grants and Disclosure of Government Assistance 20
- The Effects of Changes in Foreign Exchange Rates 21
- Borrowing Costs 23
- Related Party Disclosures 24
- Accounting and Reporting by Retirement Benefit Plans 26
- Consolidated and Separate Financial Statements 27
- Investment in Associates 28
- Disclosures in the Financial Statements of Banks and similar Financial Institutions 30
- Interests in Joint Ventures 31
- Financial Instruments: Disclosure and Presentation
- Earnings per share 33
- Interim Financial Reporting 34
- Impairment of Assets 36
- Provisions, Contingent Liabilities and Contingent Assets 37
- Intangible Assets 38
- Financial Instruments: Recognition and Measurement 39
- Investment Property 40
- Agriculture 41
- Share Based Payment 2

Dutch Bangla Bank Limited
IAS/BAS of the reporting:

While preparing the financial statements, Dutch Bangla Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

- Bangladesh Accounting Standard
- Presentation of Financial Statements
- Inventories 2
- Cash Flow Statements 7
- Events after the Balance Sheet Date 10
- Construction Contracts 11
- Income Taxes 12
- Segment Reporting 14
- Property, Plant and Equipment 16
- Leases 17
- Revenue 18
- Employee Benefits 19
- Accounting for Government Grants and Disclosure of Government Assistance 20
- The Effects of Changes in Foreign Exchange Rates 21
- Borrowing Costs 23
- Related Party Disclosures 24
- Accounting and Reporting by Retirement Benefit Plans 26
- Consolidated and Separate Financial Statements 27
- Investment in Associates 28
- Disclosures in the Financial Statements of Banks and similar Financial Institutions 30
- Interests in Joint Ventures 31
- Financial Instruments: Disclosure and Presentation
- Earnings per share 33
- Interim Financial Reporting 34
- Impairment of Assets 36
- Provisions, Contingent Liabilities and Contingent Assets 37
- Intangible Assets 38
- Financial Instruments: Recognition and Measurement 39
- Investment Property 40
- Agriculture 41
- Share Based Payment 2
**South East bank Limited**

IAS/BAS of the reporting

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, South East Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

- Presentation of Financial Statements 1: Applied
- Inventories 2: N/A
- Cash Flow Statements 7: Applied
- Accounting Policies, changes in Accounting Estimates and Errors 8: Applied
- Events after the Balance sheet date 10: Applied
- Construction Contracts 11: N/A
- Income Taxes 12: Applied
- Segment Reporting 14: Applied
- Property, Plant & Equipment 16: Applied
- Leases 17: Applied
- Revenue Recognition 18: Applied
- Employee Benefits 19: Partially
- Accounting for Govt. Grants and disclosures of Govt. assistances 20: N/A
- The effects of changes in Foreign exchange rates 21: Applied
- Borrowing Cost 23: Applied
- Related Party disclosure 24: Applied
- Consolidated and separate financial statements 27: N/A
- Investment in Associates 28: N/A
- Disclosures in Financial Statements of Banks and Similar Financial Institutions 30: Applied
- Interest in Joint Ventures 31: N/A
- Earning Per Share 33: Applied
- Interim Financial Reporting 34: Applied
- Impairment of Assets 36: Applied
- Provisions, Contingent Liabilities and Contingent Assets 37: Applied
- Intangible Assets 38: Applied
- Investment Property 40: N/A
- Agriculture 41: N/A
- Share Base Payment 2: N/A
- Business Combinations 3: N/A
- Non-Current Assets Held for Sale and discounted operations 5: N/A
- Exploration for and Evaluation of Mineral Resources 6: N/A

**City Bank Limited**

IAS/BAS of the reporting

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, City Bank...
applied most of IAS and IFRS as adopted by ICAB. Details are given below:

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<td>Employee Benefits 19 Partially</td>
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<td>Accounting for Govt. Grants and disclosures of Govt. assistances 20</td>
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<td>Business Combinations 3</td>
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<td>Non-Current Assets Held for Sale and discounted operations 5</td>
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<td>Exploration for and Evaluation of Mineral Resources 6</td>
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</table>

**Dhaka Bank Limited**

IAS/BAS of the reporting

Most Cases of the Bank of BAS is same. They are all following the same -

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Segment Reporting 14  
Property, Plant & Equipment 16  
Leases 17  
Revenue Recognition 18  
Employee Benefits 19 Partially  
Accounting for Govt. Grants and disclosures of Govt. assistances 20  
The effects of changes in Foreign exchange rates 21  
Borrowing Cost 23  
Related Party disclosure 24  
Consolidated and separate financial statements 27  
Investment in Associates 28  
Disclosures in Financial Statements of Banks and Similar  
Financial Institutions 30  
Interest in Joint Ventures 31  
Earning Per Share 33  
Interim Financial Reporting 34  
Impairment of Assets 36  
Provisions, Contingent Liabilities and Contingent Assets 37  
Intangible Assets 38  
Investment Property 40  
Agriculture 41  
Share Base Payment 2  
Business Combinations 3  
Non-Current Assets Held for Sale and discounted operations 5  
Exploration for and Evaluation of Mineral Resources 6  

Eastern Bank Limited:  
IAS/BAS of the reporting  
Eastern Bank also follow the same BAS as the others Bank -  

Presentation of Financial Statements 1  
Inventories 2  
Cash Flow Statements 7  
Accounting Policies, changes in Accounting Estimates and Errors 8  
Events after the Balance sheet date 10  
Construction Contracts 11  
Income Taxes 12  
Segment Reporting 14  
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Leases 17  
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Employee Benefits 19 Partially  
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The effects of changes in Foreign exchange rates 21  
Borrowing Cost 23  
Related Party disclosure 24
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<td>Disclosures in Financial Statements of Banks and Similar</td>
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<td>Financial Institutions</td>
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<td>Interest in Joint Ventures</td>
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**Standard Bank Limited**

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<td>Interest in Joint Ventures</td>
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<td>Investment Property</td>
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</table>
Agriculture 41   N/A
Share Base Payment 2   N/A
Business Combinations 3   N/A
Non-Current Assets Held for Sale and discounted operations 5   N/A
Exploration for and Evaluation of Mineral Resources 6   N/A

**Bank Asia Limited**

IAS/BAS of the reporting  
Presentation of Financial Statements BAS-1  Applied
Inventories BAS-2  Not Applicable
Statements of cash flows BAS-7  Applied
Accounting Policies, Changes in Accounting Estimates and Errors BAS-8  Applied
Events after the reporting period BAS-10  Applied
Construction Contracts BAS-11  Not Applicable
Income Taxes BAS-12  Applied
Segment Reporting BAS-14  Not Applicable
Property, Plant and Equipment BAS-16  Applied
Leases BAS-17  Applied
Revenue BAS-18  Applied
Employee Benefits BAS-19  Applied
Accounting for Government Grants and Disclosure of Government Assistance BAS-20  Not Applicable
The Effects of Changes in Foreign Exchange Rates BAS-21  Applied
Borrowing Costs BAS-23  Applied
Related Party Disclosures BAS-24  Applied
Accounting for Investments BAS-25  Applied
Accounting and reporting by retirement benefit plans BAS-26  Not Applicable
Consolidated and Separate Financial Statements BAS-27  Not Applicable
Investments in Associates BAS-28  Not Applicable
Disclosures in the financial statements of Banks and Similar Financial Institutions BAS-30  Applied
Interests in Joint Ventures BAS-31  Not Applicable
Earnings Per Share BAS-33  Applied
Interim Financial Reporting BAS-34  Applied
Impairments of Assets BAS-36  Applied
Provisions, Contingent Liabilities and Contingent Assets BAS-37  Applied
Intangible Assets BAS-38  Not Applicable
Investment property BAS-40  Not Applicable
Agriculture BAS-41  Not Applicable
First-time adoption of Bangladesh Financial Reporting Standards BFRS-1  Not applicable
Share based Payment BFRS-2  Not applicable
Business Combination BFRS-3  Not applicable
Insurance Contracts BFRS-4  Not applicable
Non-current Assets Held for Sale and Discontinued Operations BFRS-5  Not applicable
Exploration for and Evaluation of Mineral Resources BFRS-6  Not applicable
AB Bank Limited

IAS/BAS of the reporting

Compliance of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) In preparing the Consolidated Financial Statements and separate Financial Statements, the Bank applied most of the BAS and BFRS as applicable.

<table>
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**Regulatory and legal compliance**

The Bank complied with the requirement of the following regulatory and legal authorities:


iii. Rules, Regulation and Circulars issued by the Bangladesh Bank from time to time.


ix. The Value Added Tax (VAT), 1991.

x. Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE) and Central Depository Bangladesh Limited (CDBL) rules and regulations.

**One Bank Limited**

IAS/BAS of the reporting

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, One Bank applied most of IAS and IFRS as adopted by ICAB. Details are given below:

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Findings:

Our analysis of IASs application in some selected banks of Bangladesh has highlighted a few issues. In light of that, we provide the following findings:

- Every organization is required to follow IAS 1, although some companies did not follow it consistently. Those organizations need to follow IAS 1 consistently.
- All accounting policies, and change in estimations should be properly disclosed.
- Every company should follow effective date and disclose the non-adjusting events.
- Tax should be measured by the rules and regulations of the country tax ordinance and properly disclosed in the financial statements.

Recommendations

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. In the absence of a Standard or an Interpretation that specifically applies to a transaction, management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, IAS requires management to consider the definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the Framework. All financial institutions followed IAS-1 for preparing financial statement. Other companies followed IAS-1 but some of the companies’ statements were not consistent. There was no need to calculate inventories for financial institutions but all other companies calculated inventories properly. All of the companies properly followed the IAS related with cash flow statement by direct method. Some of the companies followed accounting policies and their assets and liabilities are adjusted by carrying amounts but all accounting policies are not properly disclosed. Most of the companies followed effective date for present financial statement but did not disclose non-adjusting events.

The companies follow the IASs related with income tax.

The data was collected from annual reports of 10 banks. Likert scale 5 was used to measure the perception of the user group, which shows that the perception level of the respondents are better. Different banks have different disclosures; some are effective and some are less efficient. To make a high profit they should set up some efficient disclosures.

Conclusion

This article presents several initiatives for improving disclosure in banking. Improved disclosure would mean more transparency and more effective market discipline. Bangladesh bank regulatory agencies have an interest in disclosure because of the potential for market discipline to complement supervisory oversight. Improving disclosure is especially relevant for the Central Bank because most public filings of bank-related financial statements are from the bank holding companies that it supervises. Banking agencies can improve disclosure and transparency directly through the bank regulatory reports. In particular, emphasis should be placed on the benefits of public disclosure when deciding on the content of the regulatory reports and the policies affecting the release of the data. Accordingly, steps have already been taken to accelerate the public release of bank holding company reports and to make greater use of the Internet. The Central Bank is also reviewing the possibility of making other information from regulatory reports available to the public.

A second avenue for improving disclosure is facilitating and encouraging related private-sector initiatives. Indeed, from the interviews conducted for this report with securities analysts, institutional investors, rating agencies, clearinghouses, and banks, it is clear that innovations in disclosure initiated by the private sector have helped to make the process responsive in the face of changes in financial services. Nevertheless, clearly there is also scope for improvement in areas such as risks retained in securitization and loan sales, the distribution of assets by internal risk ratings, explanations of loan-loss reserve calculations and adequacy, and credit concentrations, in the current disclosure process while adding to the process by facilitating more rapid adoption of innovations in disclosure. Such an initiative would require additional resources, so careful assessment of the costs to the banking agencies and the targeted institutions and the feasibility of implementing the initiative are needed.

Finally, to amplify the contribution of market discipline as a complement to bank supervisory oversight, more systematic use could be made of market data on bank-related debt and equity in supervisory surveillance.

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The Impact of Recent Global Recession on the Indian Textile Industry

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K S Sujit

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I. Introduction

The enduring and pervasive economic revolution globally in terms of globalization and liberalization policies ensures substantial assimilation among cross border economies. Consequently, the inter linkages amongst financial and real markets, both domestically and internationally, remain fairly sensitive to unfolded information technology, telecommunications and especially the all-encompassing impingement of infrastructure facilities. Successively, the contagion and spillover effect of any sorts of macroeconomic disturbances in an economy affect the rest of the world. The latest global economic meltdown of 2008-09, which started with the US subprime crisis followed by Lehman Brothers financial crisis, is not unexceptional. The developed economies, mainly the US, UK, Japan, Germany and many others were the most affected economies. Several industries and business firms irrespective of the size have been cripplingly distressed by the crisis. Production dropped, unemployment increased, exports decreased, the stock market crashed and many more uneven macroeconomic accomplishments occurred. The Indian economy also suffered a lot although not severely. Besides others, the Indian textile industries were among the worst affected industries. The Indian textile industries are considered to be one of the finest, leading and vibrant industries in the world. Until the eighties, it was predominantly an unorganized industry.

Historically, since 1985, for the first time the prominence of the textile sector was recognized and a distinct policy statement was announced for the inclusive growth of the sector. Subsequently, the liberalization policies of the nineties obligated radical changes in functions, shape and profile of the industry. The open economy has injected a much-needed push to the sector. The industry has now effectively become one of the largest industries in the world next to China.

The Indian textile industry basically depends upon textile manufacturing and exporting. Its importance as an industry is well recognized and articulated through its contribution towards economic growth of the country, GDP, foreign exchange earnings and employment generation. Recent statistics show that India earns about 27% of its total foreign exchange through textile exports. Further, the textile industry also contributes nearly 14% of total industrial production, around 4% of the country’s GDP, 17% of total export earnings, 30% market share of export, 9% of excise collections, and 18% of employment in the industrial sector. The Indian textile industry is also the largest in the country in terms of employment generation. It not only spawns jobs in its own industry, but also unlocks scope and avenues for employment opportunities in other ancillary sectors such as agriculture, manufacturing, industrial, organized and decentralized sectors.
It is also one of the most effervescent industries creating jobs and generating employment opportunities equally in rural and urban spaces, predominantly for women and disadvantaged groups. The industry currently generates employment to the tune of more than 35 million people. It is estimated that the industry will generate more than 12 million new jobs by the middle of year 2011. Being the second largest employment provider after agriculture, it accounts for 21% of the total employment generated in the economy. India’s economic growth is also largely dependent on textile manufacturing and exports [1][U1].

The year 2008-09 was a nightmare and hard-hitting period for the world economy with massive intrusion of recession ubiquitously. The brain child of recession erupted with US subprime crisis of the housing loan segment and subsequently followed by Lehman Brother’s financial crisis. The aftermath of the crisis was catastrophic; and led to decelerating economic growth and disparagingly devastated several industries globally. The Indian economy in general and the industrial sector in particular was not exceptional; although various macroeconomic activities were not affected to a larger extent because of its strong macroeconomic fundamentals and the appropriate government policy undertaken such as fiscal stimulus packages. Nevertheless, some of the industries are relentlessly disturbed by such a crisis except for a few leading industries such as food processing, Indian railways, PSU banks, education, telecom, health care, media and entertainment industries. The sectors most sternly affected are banks, financial services, real estate, and infrastructure, information technology, and automobiles. Few industries which had a moderate impact of the global crisis are power, retail, hospitality and tourism. The sectors least affected by the slowdown are pharmaceuticals, oil and gas, FMCG, media and entertainment. The rest of the industries are almost partially or fully affected by such an economic crisis. Despite the gloomy and rosy picture in various sectors, the Indian textile industry couldn’t eschew from such chaotic behavior since it is mostly an export centric industry. It was also aggravated by unfavorable economic conditions leading to losses of production, sales and profitability. The Indian textile and apparel industry underwent trauma due to high interest rates, less domestic consumption, and cancelled export orders. Production plunged and export reduction lead to massive unemployment.

II. LITERATURE

Various researchers, analysts, columnists, academicians and above all policy makers have examined the cause and consequence of the 2008-09 recessions on the global economy. There is no unanimous view on the issue. Despite this, there is a paucity of studies found concerning the impact of recession on Indian industries in general and on various aspects of the textile industry in. Most of these writings visualized are in various newspapers and few are in journals. In a research attempt, the effect of recession on the Indian tyre industry has been studied and it was found that the industry was harshly affected [2]. Similarly with respect to fashion industries; it is established that notwithstanding its improved global profile led by a boom during the pre-crisis period, the Indian fashion industry has been hampered by the global economic recession as reflected by stark differences in the growth rates of pre-crisis and the current period [3][U2]. On the other hand, the Indian economy, to some extent, recognized the impact of the economic crisis [4]. Although it is difficult to quantify the impact of the crisis on India, the study pointed out that the crisis has affected the banking sector, employment, export and import of goods and services, IT sector, exchange rate, real estate etc. The Indian tourism and hotel industry hasn’t been adversely affected during the recession [5]. While analyzing the impact of the US recession on the Indian economy, it is found that that at the macro-level a recession in the US may bring down GDP growth in India but not much, whereas at the micro-level specific sectors could be affected [6]. Overall, the Indian economy has shown a negative impact of the recent global financial meltdown [7].

Therefore, in lieu of this, the paper intended to reconnoiter systematically the effect of the recent global recession on various facets of the Indian textile industries. It also focuses on the possible loss in production and future outlook of the industry.

III. AN OVERVIEW OF THE TEXTILE SECTOR IN INDIA

In the last two decades the Indian economy has become one of the fastest growing economies, and its textile industry is the second largest textile industry next to China only, in the world. With a population of more than 1 billion people, India has a huge potential for domestic and foreign markets for textiles. Based on purchasing power parity, it is the fourth-largest economy in the world and is the second-largest economy among emerging nations. Historically, the Indian textiles industry enjoys a rich cultural heritage, ancient customs and inherent traditions. The history of Indian textile industries is quite old and almost as old as that of human civilization. It traces back to the Indus Valley Civilization where people used homespun cotton for weaving their clothes. Cultural and religious texts such as ‘The Ramayana’ and ‘The Mahabharata’ depicted the existence of a wide variety of fabrics in ancient India. The modern day textiles industry is not only inherent of the culture of the past but also fulfills their requirements. Similarly, in terms of textile trade, the foundations of the Indian textile trade began as early as the second century BC. In medieval times, Indians participated in textile exports to Egypt. During the 13th century, Indian silk was used as barter for spices from the western countries. Towards the end of the 17th century, the British East India Company had begun exports of Indian silks and various other cotton fabrics to other countries. The mechanized means of spinning was introduced during the early 19th century. Prior to this Indian cottons and silks were hand spun and hand woven; a highly popular fabric, called ‘khadi’, which became more popular during the freedom struggle of India. Alternatively, fabrics that use mill- spun yarn but which are hand- woven are known as ‘handloom’. Today cotton is an integral part of textiles in India. Nearly four million handlooms are engaged in weaving fabrics of around 23 different varieties of cotton. Amongst others, Sambalpuri sari, Banarasi sara, Rajasthani dresses etc. have increased the demand for Indian fabrics in the world market.
the demand for Indian fabrics in the world market.

**A. Organization of Textile Sector**

Broadly, the textile industry in India is divided into two categories, namely, organized and unorganized sector. The organized sector includes spinning mills and composite units, whereas the unorganized sector comprises power looms, handlooms and garment sectors. Similarly, the Indian textile industry can be divided into several segments, such as, cotton textiles, silk textiles, woolen textiles, readymade garments, hand-crafted textiles, jute and coir.

Until recently, development of the textile sector in India took place in terms of general policies. However, since 1985, the importance of the textile sector was recognized and hence a separate policy was announced for all-round development of the sector. National Textile Policy was announced during 2000, whose main objective was to provide cloth of acceptable quality at reasonable prices to the vast majority of people, to increasingly contribute to the provision of sustainable employment and the economic growth of the nation; and to compete with confidence for an increasing share in global market.

**B. Size of the Textiles Sector**

The Indian textile sector covers a wide variety of activities such as producing various types of raw materials like cotton, jute, silk and wool; and provides high value added products like fabrics, readymade garments to the final consumer. In terms of the size of the industries, an approximate number of textile manufacturing companies operating in India as of 2010 are given below [8]: badges, emblems ribbons and allied products - 175; bed covers, curtains, cushions and other draperies - 247; carpets and rugs - 270; embroidery and embroidered garments, made ups and furnishing - 848; fabrics and textiles - 3013; yarns and threads - 1201; jute products - 337; kids apparel and garments - 1052; ladies apparel and garments - 2936; miscellaneous garments, textile and leather accessories - 1658; yarns and threads - 1201; wool, woollen garments, blankets and accessories - 468; textile chemicals, dyeing and finishing chemicals - 239 etc.

**C. Pros and Cons of Indian Textile Industry**

Mixed with an affluent culture and ancient traditions, India has a great potential for domestic and foreign market for textiles. It is blessed with enriched large natural resources of raw materials required for textile industry. Being the second largest producers of cotton in the world, it is flush with fibers resources like polyester, silk, viscose etc. The country is powered with a wonderful combination of skilled and unskilled human resources and produces varieties of apparel, both in terms of large volume and high quality, meant for domestic and exports markets with low cost. In fact, today's fashion world is dominated by these fabrics which adds flavor to it.

However, textile industries have their own drawbacks. It is a highly fragmented industry, not transparent and with very stringent rules and regulations, restrictions in imports and exports etc. Such loopholes are raising several crucial problems pertaining to production, sales, profitability, exports of textiles etc. over the years.

**IV. GLOBAL EXPOSURE OF THE TEXTILE SECTOR: THE IMPACT OF RECESSION**

Indian textiles have 43% share in the domestic apparel market. In its international presence recently India holds 22% share in the textile market in Europe and has a marked presence in the UAE, Saudi Arabia, Canada, Bangladesh, China, Turkey and Japan. Developing countries with both textile and clothing capacity may be able to prosper in the new competitive environment after the textile quota regime of quantitative import restrictions under the Multi-Fiber Arrangement (MFA) came to an end on 1st January, 2005 under the World Trade Organization (WTO) Agreement on Textiles and Clothing. As a result, the textile industries in developed countries have faced intensified competition both in external and domestic markets. The industries have been hampered by the presence of distorting domestic measures and weak domestic infrastructure in several developing and less developed countries. Over the years, India has taken several initiatives and adequate measures to capture its market share through promotions and development of this sector.

Source: Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, GOI, 2010

**Figure 1: Inflow of Foreign Direct Investment (USD Billion)**
A. Foreign Direct Investment in Textile Sector

Domestic as well as foreign direct investment is considered to be one of the most important drivers of economic growth in a globalized economy. Foreign Direct Investment (FDI) normally brings expertise, skills and competitiveness into the economy. One way to increase competitiveness is to attract FDI, which would bring technology and skills. The Indian scenario looks to be different as inflow of FDI into the textile sector is not that impressive as shown in Figure 1 below. Except for a few years the percentage of FDI in textiles sector is more than one percent and in the rest of the years it is less than one percent. This could be an area of concern for the government, how to raise FDI in these sectors. Substantial policy issues and initiatives are essential for boosting the FDI in the textile sector.

B. Export and Import in textile sector to different countries and the world:

May be because of its quality, color, design etc. there has always been a huge demand for Indian textiles in the international market. Thus India earns a massive amount of foreign exchange by exporting textile products to quite a few countries. Leading trading partners are USA, UAE, UK, Germany, Bangladesh, France, Turkey, Spain, Italy, and China. Figure 2 shows that export of textiles to the top ten countries registered a negative growth during 2009. As a result India lost a substantial part of its export volume and value due to global recession. But the other side of the coin indicates that, very quickly the sector has revived since 2010.

In terms of garments exports, approximately 60% of the total garments manufactured in India are exported to foreign markets like EU, US and Japan which helps to generate revenue more than US$ 52 billion. The overall value of yearly export, calculated during November each year, is presented in Table I. The figure shows an impressive escalation of exports throughout except during 2002 and 2008 which possibly could be due to economic slowdown.

Figure 3 (opposite page) shows monthly exports of textiles, excluding readymade garments and imports of textile including readymade garments in rupees lakhs, to the world market. The data indicates volatile behavior. Since September 2008 both exports and imports have declined due to the advent of recession and continued until July 2009.

The percentage changes in export, from the previous year, to the world market are represented in Figure 4. The graph clearly shows a substantial reduction during 2006-2008 period as it has come down from 19.23 % during November 2006 to 8.26 % and -0.51 % during November 2007 and 2008 respectively[9][U3]. Of course because of government fiscal stimulus packages and ongoing increase in world market demand due to beginning of economic recovery, the textiles sector have started recovering since 2009 which indicates that export has gone up to 17.71 % in the year 2010. Similarly, there has been a drastic reduction in percentage changes of imports from the previous period. During 2006 it was 28.6 % which has come down to 6.67 % and further to 2.44 % during 2007 and 2008. Followed by the recovery, the import has gone up to 18.94 % during 2009. Recession affected exports and imports of textiles almost similarly.

V. IMPACT OF ECONOMIC SLOWDOWN IN TEXTILE INDUSTRY:

The slowdown in textile industry can be attributed to three things i.e. loss of production due to adverse agro-climatic conditions, impact of recession, and slowdown in domestic demand.

A. Area, Production and Productivity

To reconnoiter the impact of adverse agro-climatic conditions on the textiles sector we have analyzed the area, production and yield of the sector. Table II (page 30) demonstrates the area, production and productivity of cotton in India during the last decade.

Although during the financial year 2008-09, the industry confronted adverse agro-climatic conditions, it succeeded in producing 290 lakh bales of cotton compared to 307 lakh bales last year (2011), yet managed to retain its position as the world’s second highest cotton producer. According to the annual report of the ministry of textiles, during 2008-09 cloth production by handloom, and power loom shrunk by about 4% and 3%, hosiery sectors production increased by 2%. Overall cloth production has reduced by about 2% during the period 2008-09 [10][U4].

B. Production of Textiles of Various Varieties

Among others cotton is the predominant fabric used in the Indian textile industry. India is the world’s largest producers of cotton with more than 9 million hectares under cultivation and an annual crop of around 3 million tons. India ranks second in the world in cotton production. Nearly about 60%
TABLE-I. EXPORT AND IMPORT OF TEXTILES TO WORLD MARKET (IN RS. LAKH)

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<td>2010</td>
<td>9410311</td>
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</table>

Source: CMIE Prowess Database, Mumbai

Figure 3: Export (excluding ready-made garments) and Import (including readymade garments) of textiles to world market (in Rs.lakh)

Figure 4: Export and Import of textiles to the world market % change

C. Loss of Export Revenue Due to Recession

The monthly loss of export revenue is presented in Table IV. Based on the actual export data the forecasted values from January 2009 to July 2010 are obtained. The actual and forecasted figures have been compared to find out the loss of export revenue due to recession. In Table-IV it is clear that a positive figure in the last column shows loss of revenue mainly due to recession in the of overall consumption in textiles and more than 75% in spinning mills is cotton. Table III exhibits total production of blended cotton yarn; blended yarn and non-cotton yarn has been drastically reduced after 2006-07 financial year [11][U5]. It discloses that recession has harshly affected the production of various varieties of textiles.

Table III exhibits total production of blended cotton yarn; blended yarn and non-cotton yarn has been drastically reduced after 2006-07 financial year [11][U5]. It discloses that recession has harshly affected the production of various varieties of textiles.
### TABLE-II. AREA, PRODUCTION AND PRODUCTIVITY OF TEXTILES IN INDIA

<table>
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<th>Year</th>
<th>Area (lakh hectares)</th>
<th>Production (lakh bales of 170 kgs)</th>
<th>Yield (kgs per hectar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>87.31</td>
<td>156</td>
<td>304</td>
</tr>
<tr>
<td>2000-01</td>
<td>85.76</td>
<td>140</td>
<td>278</td>
</tr>
<tr>
<td>2001-02</td>
<td>87.3</td>
<td>158</td>
<td>308</td>
</tr>
<tr>
<td>2002-03</td>
<td>76.67</td>
<td>136</td>
<td>302</td>
</tr>
<tr>
<td>2003-04</td>
<td>76.3</td>
<td>179</td>
<td>399</td>
</tr>
<tr>
<td>2004-05</td>
<td>87.86</td>
<td>243</td>
<td>470</td>
</tr>
<tr>
<td>2005-06</td>
<td>86.77</td>
<td>244</td>
<td>478</td>
</tr>
<tr>
<td>2006-07</td>
<td>91.44</td>
<td>280</td>
<td>521</td>
</tr>
<tr>
<td>2007-08</td>
<td>94.14</td>
<td>307</td>
<td>554</td>
</tr>
<tr>
<td>2008-09</td>
<td>94.06</td>
<td>290</td>
<td>524</td>
</tr>
<tr>
<td>2009-10</td>
<td>103.1</td>
<td>295</td>
<td>486</td>
</tr>
<tr>
<td>2010-11</td>
<td>111.61</td>
<td>312</td>
<td>475</td>
</tr>
</tbody>
</table>

Source: Cotton Advisory Board, the Cotton Corporation of India Ltd. Mumbai

### TABLE-III. PRODUCTION OF TEXTILES OF VARIOUS VARIETIES (QTY. IN MILLION KGS)

| Year     | Cotton Yarn | | Blended Yarn | | 100% Non-Cotton Yarn | | Total Qty. | | Growth rate(%) |
|----------|-------------|---|-------------|---|----------------------|---|-------------|----------------|
| Qty.     | % Share     | Qty. | % Share     | Qty. | % Share | |                |                |              |
| 1999-2000| 2204        | 72  | 621         | 20  | 221      | 7             | 3046        | 8             |
| 2000-2001| 2268        | 72  | 644         | 20  | 246      | 8             | 3158        | 4             |
| 2001-2002| 2212        | 71  | 609         | 20  | 280      | 9             | 3101        | -2            |
| 2002-2003| 2177        | 71  | 584         | 19  | 319      | 10            | 3080        | -1            |
| 2003-2004| 2121        | 69  | 589         | 19  | 342      | 11            | 3052        | -1            |
| 2004-2005| 2272        | 70  | 585         | 18  | 366      | 11            | 3223        | 6             |
| 2005-2006| 2521        | 73  | 588         | 17  | 349      | 10            | 3458        | 7             |
| 2006-2007| 2824        | 74  | 635         | 17  | 355      | 9             | 3813        | 10            |
| 2007-2008| 2948        | 74  | 677         | 17  | 378      | 9             | 4003        | 5             |
| 2008-2009| 2899        | 74  | 655         | 17  | 361      | 9             | 3914        | -2            |
| 2009-2010| 3073        | 73  | 706         | 17  | 408      | 10            | 4187        | 7             |
| 2009-2010 (Apr-Aug)| 1255 | 73 | 290 | 17% | 167 | 10% | 1712 | 2 |
| 2010-2011 (Apr-Aug)| 1334 | 74 | 298 | 17% | 172 | 10% | 1803 | 5 |

Source: Office of Textile Commissioner, Mumbai
fundamental macroeconomic behavior globally. During 2009 India lost a massive amount of money as revenue in almost all months except July, August, October and December. However, interestingly after recovery, actual exports of textiles are higher than forecasted values since February 2010. At aggregate level the total loss of export revenue during 2009 is almost Rs. 260368 lakhs, which was recovered during 2010. The sum of aggregate gain during 2010 is around Rs. 293803 lakhs with exports picking up especially during March 2010. Combined figures reflect that there is a net gain of Rs.33435 lakh [9][U3].

D. Domestic Sales of Textile in the Recession Year

The recent economic instability has not left any scope for domestic consumption of textiles and thereby affected consumers spending. Although, the domestic apparel industry has not been adversely obstructed by recession except for 2009, the growth of sales witnessed a declining trend from 21.6% in December 2008 to 12.8% in 2009. Later on, the growth of sales started improving since the latter part of 2010. It’s mainly because India is a country with a vast population and sales of garments are seasonal in nature as during the festival season there is a huge potential market for readymade garments. Similarly the PBIDT (Profit before Depreciation Interest and Taxes) growths of the cloth companies are not adversely affected by the domestic slowdown of the economy [9][U3].

E. Sales, Profit after Tax of Textiles

The annual sales figures of textiles (in crore of rupees) along with profit after tax (PAT) and year to year percentage change is represented in Table VI [9][U3]. The figures illustrate volatile pattern in both sales and PAT. There has been a slowdown with positive but low growth in sales during March 2008 and 2009. The sales have come down from 16.09% during March 2008 to 6.75% during March 2009 and further to 5.46% during March 2010.

F. Employment in Textiles Sector

In terms of state-wise distribution of industries, the biggest apparel companies in India are located in Punjab (Ludhiana), Gujarat and Tamil Nadu. More than 4 lakh people are employed in these industries across India. However due to recent recession, these industries suffered a huge loss; almost 50% in sales exports during 2008. It affected 20% to 30% of jobs. During 2008, almost 8 lakh garment and textile employees had lost their jobs. Gujarat and Tamil Nadu, the two largest textile manufacturing states have been knocked out by a sag in garment exports. This has ultimately resulted in retrenchments and layoffs of employees. The majority of layoffs target daily-wagers, who comprise 25-30% of a company’s workforce. Textile industries were running with 75% of their capacity, or have reduced their shifts of work from three to one. In order to assess the impact of economic slowdown on employment, data from CMIE has been taken on number of employees in the textile industry and reported in Table VII. It is evident from the table that the numbers of employees working in the textile industries have decreased during 2008 from the previous year, but again started increasing since March 2010 as the economy started doing fairly well. This could indicate a serious impact of recession.

VI. CONCLUSION

The recent global recession of 2008-09, had a devastating consequence across diverse economies. The developed economies like, US, Japan, Germany, UK etc. were the most affected economies. The performance of various macroeconomic activities shows a decline trend during those periods. India and China, the two most emerging economies, are the least affected economies. The recession has severely affected many business activities globally and quite a few industries specifically. The present paper tries to assess, in particular, the impact of recession on the Indian textile industry on various fronts. Indian textile industries are the oldest and largest textile industries in the world. Domestically also, it is the largest industry in the country in terms of employment generation (nearly 1 million workers) and number of units. Besides, there are a large number of subsidiary industries such as those manufacturing machinery, accessories, stores, ancillaries, dye & chemicals, who are severely dependent on this sector. Owing to the recent global meltdown, the textile sector was relentlessly affected in terms of production, sales, profit after tax exports, imports, employment etc. with drastic downfall in volume and value of these items. However, as the world economy
started recovering so also did the Indian economy; the demand for textiles picked up well. The industries have recovered slowly after 2009-10. Although the impact of recession on employment was severe, the situation is going to be far better and rosy in the coming years. The overall situation looks to be great and optimistic for the textile industry in the years to come. The Government of India has also geared up to help the textile industry with an additional allocation of Rs 1400 crore during 2009-10 to clear the entire backlog in Technology Upgradation Fund Scheme (TUFS), which will facilitate production, and exports, and generate more employment in the textile segment. Despite this, the industry deserves and needs additional support from the Central Government of India to enhance its production, sales, distribution and export of both finished and unfinished textile products, which will boost the sector. As a result of which, it can subjugate a prominent place in the international markets.

<table>
<thead>
<tr>
<th>Month</th>
<th>Actual exports</th>
<th>Forecasted exports</th>
<th>The loss of export (Forecasted-Actual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-09</td>
<td>316791</td>
<td>347779</td>
<td>30988.6</td>
</tr>
<tr>
<td>Feb-09</td>
<td>290251</td>
<td>348680</td>
<td>58429.2</td>
</tr>
<tr>
<td>Mar-09</td>
<td>305541</td>
<td>349031</td>
<td>43489.7</td>
</tr>
<tr>
<td>Apr-09</td>
<td>285142</td>
<td>349671</td>
<td>64529</td>
</tr>
<tr>
<td>May-09</td>
<td>279820</td>
<td>349933</td>
<td>70113.7</td>
</tr>
<tr>
<td>Jun-09</td>
<td>334128</td>
<td>350156</td>
<td>16028</td>
</tr>
<tr>
<td>Jul-09</td>
<td>395728</td>
<td>351349</td>
<td>-44379</td>
</tr>
<tr>
<td>Aug-09</td>
<td>371382</td>
<td>353642</td>
<td>-17739</td>
</tr>
<tr>
<td>Sep-09</td>
<td>352803</td>
<td>355527</td>
<td>2724.27</td>
</tr>
<tr>
<td>Oct-09</td>
<td>357162</td>
<td>357016</td>
<td>-146.04</td>
</tr>
<tr>
<td>Nov-09</td>
<td>319763</td>
<td>358531</td>
<td>38767.8</td>
</tr>
<tr>
<td>Dec-09</td>
<td>361709</td>
<td>359271</td>
<td>-2438.2</td>
</tr>
<tr>
<td>Jan-10</td>
<td>357567</td>
<td>360844</td>
<td>3276.41</td>
</tr>
<tr>
<td>Feb-10</td>
<td>376915</td>
<td>362205</td>
<td>-14709</td>
</tr>
<tr>
<td>Mar-10</td>
<td>459525</td>
<td>363978</td>
<td>-95547</td>
</tr>
<tr>
<td>Apr-10</td>
<td>421541</td>
<td>367206</td>
<td>-54335</td>
</tr>
<tr>
<td>May-10</td>
<td>404761</td>
<td>369692</td>
<td>-35069</td>
</tr>
<tr>
<td>Jun-10</td>
<td>415750</td>
<td>371893</td>
<td>-43857</td>
</tr>
<tr>
<td>Jul-10</td>
<td>427792</td>
<td>374230</td>
<td>-53562</td>
</tr>
</tbody>
</table>

Source: CMIE Prowess Database, Mumbai

TABLE-IV. ACTUAL AND FORECASTED EXPORT BY INDIA (EXCLUDING READYMADE GARMENTS) (IN RS. LAKHS)
### TABLE-V DOMESTIC SALES GROWTH AND PROFIT OF CLOTH COMPANIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Growth of Cloth Companies (%)</th>
<th>PBDIT Growth of Cloth Companies (%)</th>
<th>PAT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-2001</td>
<td>3.6</td>
<td>-14.4</td>
<td>-2.1</td>
</tr>
<tr>
<td>Dec-2002</td>
<td>-14.5</td>
<td>-34.6</td>
<td>-5.6</td>
</tr>
<tr>
<td>Dec-2003</td>
<td>5.7</td>
<td>32.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>Dec-2004</td>
<td>-0.7</td>
<td>-15.4</td>
<td>-4.6</td>
</tr>
<tr>
<td>Dec-2005</td>
<td>13.5</td>
<td>70.2</td>
<td>4</td>
</tr>
<tr>
<td>Dec-2006</td>
<td>10.6</td>
<td>8.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Dec-2007</td>
<td>14.6</td>
<td>13.6</td>
<td>4.1</td>
</tr>
<tr>
<td>Dec-2008</td>
<td>21.6</td>
<td>21.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Dec-2009</td>
<td>12.8</td>
<td>24.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Dec-2010</td>
<td>20.5</td>
<td>39.1</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: CMIE Prowess Database, Mumbai

### TABLE-VI. SALES AND PROFIT AFTER TAX OF INDIAN TEXTILES INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Textiles(Rs. Crore)</th>
<th>PAT Textiles(Rs. Crore)</th>
<th>% change Sales</th>
<th>% Change PAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-00</td>
<td>55557.8</td>
<td>-3566.7</td>
<td>8.31</td>
<td>-2.3</td>
</tr>
<tr>
<td>Mar-01</td>
<td>60174.4</td>
<td>-3484.7</td>
<td>-4.02</td>
<td>5.27</td>
</tr>
<tr>
<td>Mar-02</td>
<td>57753</td>
<td>-3668.5</td>
<td>12.59</td>
<td>-13.84</td>
</tr>
<tr>
<td>Mar-03</td>
<td>65021.3</td>
<td>-3160.7</td>
<td>6.86</td>
<td>-122.58</td>
</tr>
<tr>
<td>Mar-04</td>
<td>69482</td>
<td>713.66</td>
<td>9.54</td>
<td>-70.76</td>
</tr>
<tr>
<td>Mar-05</td>
<td>76110.5</td>
<td>208.64</td>
<td>7.69</td>
<td>694.68</td>
</tr>
<tr>
<td>Mar-06</td>
<td>81962.3</td>
<td>1658.02</td>
<td>12.47</td>
<td>190.08</td>
</tr>
<tr>
<td>Mar-07</td>
<td>92181.1</td>
<td>4809.53</td>
<td>16.09</td>
<td>-26.38</td>
</tr>
<tr>
<td>Mar-08</td>
<td>107010</td>
<td>3540.9</td>
<td>6.75</td>
<td>34.74</td>
</tr>
<tr>
<td>Mar-09</td>
<td>114230</td>
<td>4771.01</td>
<td>5.46</td>
<td>84.86</td>
</tr>
<tr>
<td>Mar-10</td>
<td>120466</td>
<td>8819.92</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CMIE Prowess Database, Mumbai

TABLE-VI. SALES AND PROFIT AFTER TAX OF INDIAN TEXTILES INDUSTRIES
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Employees</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-01</td>
<td>53977</td>
<td>-8.4189</td>
</tr>
<tr>
<td>Mar-02</td>
<td>207883</td>
<td>285.133</td>
</tr>
<tr>
<td>Mar-03</td>
<td>238544</td>
<td>14.7492</td>
</tr>
<tr>
<td>Mar-04</td>
<td>196665</td>
<td>-17.556</td>
</tr>
<tr>
<td>Mar-05</td>
<td>156357</td>
<td>-20.496</td>
</tr>
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<td>Mar-06</td>
<td>184068</td>
<td>17.7229</td>
</tr>
<tr>
<td>Mar-07</td>
<td>180090</td>
<td>-2.1612</td>
</tr>
<tr>
<td>Mar-08</td>
<td>175687</td>
<td>-2.4449</td>
</tr>
<tr>
<td>Mar-09</td>
<td>194983</td>
<td>10.9832</td>
</tr>
<tr>
<td>Mar-10</td>
<td>178425</td>
<td>-8.492</td>
</tr>
</tbody>
</table>

Source: CMIE Prowess Database, Mumbai

TABLE-VII TOTAL NUMBER OF EMPLOYEES IN TEXTILE INDUSTRY

REFERENCES

[9] Center for Monitoring Indian Economy (CMIE)[U3], Prowess Data Base, Mumbai.
Background of History of Bangladesh and Ready-made Garment Industry: Key challenges in the RMG Industry

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This article represents an overview of the Readymade Garments Industry (RMGI) in Bangladesh. The historical growth of the Bangladesh RMG industry from geographical, political and socio-economic aspects is analysed, as is the contribution of RMG workers to the national economy. In addition, this chapter also examines working conditions and the environment in the industry together with the key challenges facing the sector.

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 Gross Domestic Product (GDP). Despite the phenomenal success of the RMG sector, poor working conditions in the factories and a lack of Social compliance are serious concerns, which have, since 2006, led to labour unrest and damage to institutions and property. 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.

Methodology

An extensive literature survey has been undertaken in order to review the historical perspective, growth and development of the garments industry, working conditions and environment, labour standards and labour rights issues, as well as this lack of Social compliance. Based on this literature review, working conditions in the RMG sector are below standard according to the ILO, law enforcement is weak and HR and IR activities are absent. As a result, workers’ rights are grossly violated in the Bangladesh RMG sector. Consumers in the EU or USA may reject products from Bangladesh and consider they are produced in abusive and exploitative conditions, which do not adhere to labour rights, labour standards and working conditions. Therefore, we set the research objective as: to what extent can Social compliance be incorporated in the RMG sector?

Geographical and political structure:

Bangladesh has emerged from a long history of political evolution. Bengal was the wealthiest part of the Indian subcontinent until the 16th century. The history of Bengal from the fall of the Mauryas (2nd century BC) to the rise of the Guptas (4th century AD) is obscure. After the Guptas it was mainly the Pal and Sen Dynasties ruling this region until the Muslim Sultanate period began in the early thirteenth century (1204 AD) (Bharadwaj, 2003). The Sultanate period continued until the Mughal dynasty took charge (1576 to 1757), after which the British East India Company and British Empire ruled over this region till 1947 when India and Pakistan emerged as two independent nations (Choudhury, 2002). Pakistan was divided into two parts, West and East Pakistan, geographically separated (Islam, 2007). Owing to extreme economic, cultural and political oppression and discrimination, the people of East Pakistan chose to be separated from Pakistan. After a bloody nine-month war of independence under the leadership of Bangabandhu Sk Mujibur Rahman (Choudhury, 2002), Bangladesh came into existence as an independent nation in 1971 by sacrificing three million people (Heitzman and Worden, 1988; Islam, 1984).

The People’s Republic of Bangladesh is a country in South Asia. The country is bordered by India on three sides, Myanmar to the southeast, and the Bay of Bengal forms the southern coastline. The Chittagong Hill Tracts, the only significant hill area of the country, consists of hills, hillocks, valleys and forests, and is quite different in characteristics and habitats from other parts of Bangladesh. Mostly, the hill ranges and river valleys are longitudinally aligned. There are about 254 rivers flowing throughout the country, making it a land of rivers. Bangladesh is located in the low-lying Ganges Delta, formed by the confluence of the Ganges (local name Padma), Brahmaputra (Jamuna) and Meghna rivers and their respective tributaries. The alluvial soil deposited by these rivers has created some of the most highly fertile plains of the world (Haque, 2010; the Columbia Encyclopedia, 2008).

Cox’s Bazar, south of the city of Chittagong, has a beach of over 120 kilometers in length; one of the longest unbroken natural sea beaches of the world. The huge expanse of the world’s...
The climate of Bangladesh is tropical monsoon with a mild winter from November to February, a hot, humid summer from March to June and a warm humid monsoon season from June to October (Ali, 1996). Most of the country’s rainfall occurs in the monsoon season. Natural calamities, such as floods, tropical cyclones, tornadoes, and tidal bores affect the country almost every year (Schendel, 2006; Haque, 2010).

Urbanisation is proceeding rapidly, and only about 30% of the population entering the labour force in the future will be absorbed into agriculture, although many will likely find other kinds of work in rural areas (Schendel, 2006).

**Culture and Government structure:**
Bangladesh has a rich historical and cultural past, which combines Dravidian, Indo-Aryan, Mughul, Arab, Persian, Turkish, and west European cultures. Sufi religious teachers succeeded in converting many Bengalis to Islam, even before the arrival of Muslim armies from the west (Schendel, 2006; Islam, 2007). Since the Muslim invaders established political control over the region, Islam has played a key role in the region’s history and politics particularly in the eastern region of Bengal. The majority of the population (about 88.3%) is now Muslim, but Hindus constitute the largest (10.5%) minority. There are also a small number of Buddhists, Christians, and animists (Islam, 1992; the Columbia Encyclopedia, 2008).

Bengali is the mother tongue of almost the entire population of Bangladesh. About 98% of the people are Bangladeshi or ethnic Bengali and speak Bangla (Islam S., 2007). The indigenous minority groups mostly in the Chitagong Hill Tracts have their own language and dialect; they speak Ti-beto-Burman Languages. Bangla is the state language but English is spoken in urban centres and among educated groups (Britannica Concise Encyclopaedia: Bangladesh, 2008). In 2000, UNESCO declared 21st of February, International Mother Language Day to celebrate Languages and the ethno-linguistic rights of people around the world. The Bengali Language Movement, also known as the Language Movement (Bengali: Bhasha Andolon), was a political effort in Bangladesh, advocating the recognition of the Bengali language, Bangla, as the official language (http://en.wikipedia.org/wiki/Official_language) of Pakistan. Such recognition would allow Bangla to be used in government affairs. Since the separation of India and Pakistan in 1947, the latter consisted of two parts: West Pakistan and East Pakistan (now Bangladesh). In 1948, the Government of Pakistan ordained Urdu as the sole national language, sparking extensive protests among the Bengali-speaking majority of East Pakistan. Facing rising sectarian tensions and mass discontent with the new law, the government outlawed public meetings and rallies (Anwar, 2000). The students of the University of Dhaka and other political activists defied the law and organised a protest on 21 February 1952 (Uma, 2004). The movement reached its climax when police killed student demonstrators and the deaths, provoked widespread civil unrest led by the Awami Muslim League, later renamed the Awami League. The Central Government of Pakistan relented and granted official status to the Bengali language in 1956 (Umar, 2004; Islam, 2007).

After its independence in 1971, Bangladesh became a secular parliamentary democracy, with Bangabandhu Sk Mujibur Rahman (Mujib) as its Prime Minister. The first parliamentary election was held in 1973; the Awami League gained an absolute majority (Choudhury, 2002). Unfortunately, a nationwide famine occurred during 1973 and 1974, and in early 1975, Mujib initiated a one-party socialist rule with his newly formed Bangladesh Krishak Sramik Awami League (BAKSA). Mujib and his family were assassinated by the mid-level military officers on 15 August 1975 (Heitzman and Worden, 1988; the Columbia Encyclopedia, 2008). A series of bloody coups and counter-coups in the following three months culminated in the ascent to power of General Ziaur Rahman (Zia), who reinstated multi-party politics and founded the Bangladesh Nationalist Party (BNP). Zia’s rule ended when he was assassinated in 1981 by factional military elements. The next major ruler was General Hossain Mohammad Ershad who gained power in a bloodless coup in 1982 and ruled until 1990. He was forced to resign on 6 December 1990 under western donor pressure in a major shift in international policy after the end of communism where anti-communist dictators were no longer felt necessary (Heitzman and Worden, 1988; Islam, 1984; the Columbia Encyclopedia, 2008). Zia’s widow, Khaleda Zia, led the Bangladesh Nationalist Party to parliamentary victory at the general election in 1991 and became the first female Prime Minister in the country’s history. However, the Awami League headed by Sheikh Hasina, one of Mujib’s surviving daughters, clinched power at the next election in 1996 but lost to the Bangladesh Nationalist Party again in 2001 after the country had suffered from extensive corruption, disorder and political violence (Islam, 1984). On 11 January 2007, following widespread violence, a caretaker government was appointed to administer the next general election. The new caretaker government has made it a priority to root out corruption from all levels of government. Following that, many notable politicians, lesser officials, and party members were arrested on corruption charges. The election was finally held on 29 December 2008, and after almost two years at the helm, the Awami League won the election with a two-third majority (Source: The Daily Prothom Alo, 30 December, 2008).

Since the early 1970s, Bangladesh has been a parliamentary democracy, with intermittent military coups. The President is the head of state, a ceremonial post, and the Prime Minister holds the real power. The Prime Minister is a member of parliament (MP) ceremonially appointed by the President. The Prime Minister must command the confidence of the majority of the MPs (Heitzman and Worden, 1988). The cabinet is composed of ministers selected by the Prime Minister and
Bangladesh has its own system for the transfer of political power. At the end of a government’s mandate, power is transferred to a neutral caretaker government composed of representative members of society. The caretaker government has up to 3 months, and to hold a general election, afterwards transferring power to the elected representatives (Atique, 2010). This transitional arrangement was pioneered by Bangladesh in the 1991 election, and it was institutionalised in 1996 through its 13th constitutional amendment (Islam, 2009).

The judicial system is modelled on the British system. The judicial system consists of a Low Court and a Supreme Court, both of which hear civil and criminal cases. The Low Court consists of administrative courts (magistrate courts) and session judges (Islam, 2010). The Bangladesh Public Service Commission under the Ministry of Establishment and Ministry of Law and Justice recruits Law court judges. The Supreme Court also has two divisions, a High Court, which hears original cases and reviews decisions of the Low Court, and an Appellate Court, which hears appeals (Islam, 2010). The Prime Minister is nominated and formally appointed by the President (Heitzman and Worden, 1988). A backlog of appeal cases remains the major problem of the court system (Islam, 2010).

Bangladesh pursues a moderate foreign policy that places heavy reliance on multinational diplomacy, especially at the United Nations. The main strategy is to make no enemies and to develop good friendships all over the world. Consequently, Bangladesh joined both the Commonwealth of Nations and the United Nations in 1974 and was twice elected to the Security Council, in 1978-1979 and 2000-2001 (Islam, 2009). Bangladesh played a leading role in founding the South Asian Association for Regional Cooperation (SAARC) in 1980 in order to expand relations with other South Asian states. Since the SAARC Summit in 1985, a Bangladeshi has held the post of Secretary General on two occasions (Heitzman and Worden, 1988; the Columbia Encyclopedia, 2008).

Since independence in 1971, Bangladesh has received more than $30 billion in grant aid and loan commitments from foreign donors; about $15 billion of which has been disbursed (WB, 2008). Major donors include the World Bank, the Asian Development Bank, UNDP, and the United States, Japan, Saudi Arabia, and West European countries. Foreign reserves dropped in 2001 and rose steadily in the following years, reaching a total of US$ 10.949 billion at the end of 2010 (Islam, 2009; WB, 2010; IDLC Finance Limited, 2010). The second largest source of foreign remittances is from several million Bangladeshis working overseas (EPB, 2007). In addition, the founder of Grameen Bank, Professor Muhammad Yunus (awarded the Nobel Peace Prize in 2006), is a significant contributor to the development of the rural economy through the Grameen Bank. Grameen Bank had 2.3 million members in addition to the 2.5 million members of other similar microfinance organisations in the late 1990s (Raghu ram, 2008).

Natural Resources:
Bangladesh has reserves of various important natural resources such as natural gas, coal, limestone, hard rock, gravel, glass sand, white clay, brick clay, peat, and beach sand heavy minerals. Natural gas is the most important of these resources, on which the Bangladeshi economy largely depends. There are about 22 discovered gas fields in Bangladesh of various sizes, totalling about 20 to 25 trillion cubic feet (the Columbia Encyclopedia, 2008). Most of the gas fields are dry; a few fields are wet with considerable amounts of condensate. Bangladesh is essentially a mono-energy country: 70% of commercial energy comes from natural gas. In terms of consumption, the power sector ranks the highest (44%); the fertilizer sector second (28%); and industry, domestic, commercial and other sectors together rank third (22%) (Haque, 2010). At present 12 gas fields, public and private are in production with a gas supply between 900 and 930 million-cubic-feet-of-gas-measurement (MMCFG) per day (the Columbia Encyclopedia, 2008).

Agriculture:
Bangladesh is an agricultural country and is covered in highly fertile soil, and with a widely available water supply. Agriculture has historically been utterly dependent upon the vagaries of the monsoon. A poor monsoon has always meant poor harvests and the threat of famine. Among the remedial measures adopted has been the construction of a number of irrigation projects designed to control floods and to conserve rainwater for use in the dry months. The most important are the Karnaphuli Multipurpose Project in the southeast, the Tista Barrage Project in the north, and the Ganges-Kabadak Project serving the southwestern part of the country (Siddiqi, 2004).

Rice is the main food in Bangladesh and usually it is harvested three times in a year. Jute and tea are principal sources of foreign exchange. Other important agricultural products are wheat, mustard, pulses (leguminous plants, such as peas, beans, and lentils), onion, potatoes, sweet potato, various kinds of oilseeds, sugarcane, tobacco, and fruits such as bananas, mangoes, and pineapples (Haque, 2010). Bangladesh’s labour-intensive agriculture has achieved steady increases in food grain production despite the frequently unfavorable weather conditions, due to the better flood control and irrigation, a generally more efficient use of fertilizers, and the establishment of better distribution and rural credit networks (Heitzman and Worden, 1988). At present, some three-fifths of the populations are engaged in farming (Haque, 2010). Finding alternative sources of employment will be a daunting problem for future governments, particularly with the increasing numbers of landless peasants who already account for about half of the rural labour force.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>July 1 to June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual GDP growth rate (FY 2007)</td>
<td>6.51%; (FY 2008 World Bank est): below 6.0</td>
</tr>
<tr>
<td>Current GDP:</td>
<td>$228.4 billion (2008 est)</td>
</tr>
<tr>
<td>Per capita GDP (2007 est)</td>
<td>$1,500 (2008 est)</td>
</tr>
<tr>
<td>Inflation (December 2007)</td>
<td>11.59% (point to point basis) and 9.11% (monthly average basis)</td>
</tr>
<tr>
<td>Annual budget (FY 2008)</td>
<td>$12.44 billion</td>
</tr>
<tr>
<td>Natural resources</td>
<td>Resources - Natural gas, fertile soil, abundant water.</td>
</tr>
<tr>
<td>Agriculture (21.1% of GDP)</td>
<td>Product - rice, jute, tea, sugar, wheat</td>
</tr>
<tr>
<td>Industry (manufacturing; 28.8% of GDP)</td>
<td>Types - garments and knitwear, jute goods, frozen fish and seafood, textiles, fertilizers, sugar, tea, leather, ship-breaking for scrap, pharmaceuticals, ceramic tableware, newsprint.</td>
</tr>
<tr>
<td>Main export partners</td>
<td>US 23%, Germany 13%, UK 9.1%, France 5.5%, Belgium 4% (2007), BEP, 2008</td>
</tr>
<tr>
<td>Main import partners</td>
<td>China 15%, India 14.3%, Kuwait 8.3%, Singapore 6.2%, Hong Kong 4.2% (2007), BEP, 2008</td>
</tr>
</tbody>
</table>

Table 1: Relevant Information about the Bangladesh Economy
ADB and Bangladesh Bank report and Bangladesh Economy Profile 2008
Economy:
Bangladesh has many impediments to economic growth: natural disasters such as frequent cyclones and floods; inadequate management systems such as inefficient state-owned enterprises, inefficient use of energy resources (such as natural gas), lack of power supplies, and poor port management facilities; political and economic problems such as slow implementation of economic reforms, political instability, and top to grassroots corruption; and a highly intensive labour force that has outpaced jobs (Source: Britannica Concise Encyclopedia: Bangladesh, 2008; Heitzman and Worden, 1988). However, the most important obstacles are poor governance and weak public institutions, which hinder both the development of infrastructure as well as human rights.

Nevertheless, the country has achieved an average annual growth rate of 5% since 1990, according to the World Bank Report 2008. At the end of the last fiscal year 2006-2007 GDP stood at US$ 66 billion. In the fiscal year 2007-2008 the Bangladesh economy signaled positively in most economic indicators, achieving a growth of 6.51 (ADB and BB Report, 2008). Consequently, Bangladesh has seen expansion of its middle class, and its consumer industry has also grown visibly (see Table 1 opposite page).

Dhaka and Chittagong (the country’s main port) are the principal industrial centers; they manufacture, process and export clothing and cotton textiles, jute products, newsprint, and chemical fertilizers, leather, frozen and dried fish shells and shrimp. The main export trade partners are USA, Germany, UK, France, Italy, Canada, Belgium, Netherlands and Japan (EPB, 2006; Uddin and Jahed, 2007; BEP, 2008).

Table 2 below demonstrates that total exports 2007-2008 which reached US$ 1,411.80 million, 15.85 percent higher than the previous year (Chowdhury, 2008).

The major imports are capital goods, chemicals, iron and steel, textiles, food, vegetable oils and petroleum products mainly from Western Europe, the United States, India, Japan, China and Singapore. Total imports for 2007-2008 were $17.15 billion (EPB, 2007; BBS, 2008).

From 1972 to 1975, under Mujibur Rahman, the state sector controlled 92% of the modern industrial fixed assets, which suffered a chronic loss due to various internal and external constraints (Sobhan and Ahmad, 1980; Mascarenhas, 1986; BBS, 1999). Major causes of the poor performance of the nationalisation policy were mismanagement, outdated machinery, lack of material and foreign exchange, political instability, manipulation of labour unions by political parties and worsening terms of trade for the country’s primary export product, jute.

After President Mujibur Rahman’s assassination in 1975, the new administration of Khondokar Mushtaq Ahmed (August-November, 1975) began moving away from the socialist policies of the previous government to more market-oriented ones. Then, after an unstable period of coups and counter-coups, the new president, General Ziaur Rahman (Zia), reversed many of the socialist policies. Zia was generally considered pro-market and laissez-faire, even though his administration would frequently intervene in the economic development process (Heitzman and Worden, 1988; Islam, 1984). When General Hussain Muhammad Ershad came into power in 1982, Socialism was further eroded; Ershad made moves towards foreign investment and considered introducing many liberal policies like open markets, free markets, and tax holidays (Rashid, 2006).
Until very recently, the main source of foreign income was jute fibre. The world export market peaked at 80% during the Second World War and the late 1940s, and even in the early 1970s, jute accounted for 70% of Bangladesh’s export earnings (Haque, 2010; Spinanger, 1986). The share of the jute sector in foreign exchange earnings started to decline due to various synthetic substitutes and artificial fibres entering the market since the 1980s. Between 1980/81 and 1999/00, exports of both raw jute and jute products declined in absolute terms and their total share declined to only 6% in 1999/00 (Vries, 2007). The Varies (2007) report revealed that in 2000, 5% of all the exports from Bangladesh consisted of jute, and in 2004, this had decreased to 3% (see Figure 1 above).

With the significant decrease in world demand for jute fibre leading to declining prices, together with the constant threat of flooding, the contribution of the jute sector to the country’s economy declined. The focus soon shifted to the production sector, especially garments industry.

Table 3 and Figure 2 show that during July-January, 2006-2007, exports of knitwear and readymade garments recorded robust growth, with exports of frozen food, engineering and electronics goods, leather and raw jute also experiencing some increase (EPB, 2007). On the other hand, exports of jute...
However the garments industries, in particular the readymade garments sector, developed quickly, owing to global market economic restructuring, global relocation, low cost of labour, tax breaks, trade preferences and a supportive government policy.

As shown in Table 4 (next page) the garments sector continued its growth with Knitwear and Woven compared to previous year. In 2008-2009, the Bangladeshi garments industry exported US$ 12.34 billion worth of products, mainly to the European Union, USA and Canada, and Japan (EPB, 2009).

Relocating RMG manufacture:
The foreign exchange reserve of the country now depends on the RMG sector, whose exports play an important role in the socio-economic development of Bangladesh. Although two-thirds of Bangladeshis are farmers, about 79% of Bangladesh's total export earning comes from the garments industry, which began attracting foreign investors in the 1980’s (Haque, 2010).

### Table 3: Category wise exports July-February, 2006-2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Value US$ m</td>
</tr>
<tr>
<td>1. Raw Jute ('000,000 bales)</td>
<td>1.927</td>
<td>83.80</td>
</tr>
<tr>
<td>2. Jute goods (excl. carpet) ('000,000 ton)</td>
<td>0.322</td>
<td>189.54</td>
</tr>
<tr>
<td>3. Tea (in million kg)</td>
<td>1.47</td>
<td>2.42</td>
</tr>
<tr>
<td>4. Frozen Food (in million pound)</td>
<td>71.12</td>
<td>331.23</td>
</tr>
<tr>
<td>5. Leather (in million square feet)</td>
<td>35.99</td>
<td>150.15</td>
</tr>
<tr>
<td>6. Ready made garments (in million dozen)</td>
<td>77.10</td>
<td>2698.50</td>
</tr>
<tr>
<td>7. Knitwear (in million dozen)</td>
<td>115.45</td>
<td>2636.87</td>
</tr>
<tr>
<td>8. Chemical products (in thousand metric ton) of</td>
<td>N.A</td>
<td>104.27</td>
</tr>
<tr>
<td>which (fertilizer)</td>
<td>(212.27)</td>
<td>(54.61)</td>
</tr>
<tr>
<td>9. Agricultural Products* ('000 tonnes)</td>
<td>15.70</td>
<td>34.42</td>
</tr>
<tr>
<td>11. Others</td>
<td>N.A</td>
<td>675.94</td>
</tr>
<tr>
<td>TOTAL</td>
<td>N.A</td>
<td>7039.70</td>
</tr>
</tbody>
</table>

Source: Export Promotion Bureau, 2007; (NB. N.A = Not Available)
a short period it expanded more than that of any other industry. Most RMG producers have shifted their blue-collar production activities from high-wage regions in the industrialised countries to low-cost manufacturing regions in industrialising countries (Doshi, 2008). Definitely, advanced communication and networking systems have played an important role in this sector; since the 1960s, export-oriented manufacturing has brought some good returns particularly to the industrialising nations of Asia and Latin America (Chowdhury, 2008).

The first relocation of garments manufacturing took place from North America and Western Europe to Japan in the 1950s and early 1960s. Then Japan changed its attention to more attractive and profitable products such as cars, stereos and computers; as a consequence, 400,000 workers were dismissed by the Japanese textile and clothing industry from 1965 to 1983 (Rahman, 2004). The second phase transfer of garments manufacturing was from Japan to the Asian Tigers - South Korea, Taiwan, Hong Kong and Singapore-in the 1970s. The third stage transfer of manufacturing was from the Asian Tigers to other developing countries such as Philippines, Malaysia, Thailand, Indonesia and China in particular from the 1980s to 1990s. Since the 1990s, the most recent group of exporters, including Bangladesh, Sri Lanka, Pakistan and Vietnam, have been leading in this sector (Doshi, 2006). These transfers can be explained by the wage structure in the garments industry, all over the world. An international comparison for Asian garments workers in the early 1990s revealed that wages varied from a high monthly wage of $228 in Taiwan, down to $114 in Hong Kong, $63 in Pakistan, and $55 in India, to a very low $29 in Bangladesh (Rashid, 2006). Similarly, Bangladesh was identified in the late 1980s as having one of the cheapest sources of labour in the world for garments manufacture, with the wage cost per shirt estimated at only $US0.10; a comparison of hourly wages including fringe benefits showed Bangladesh coming in as the lowest at $US0.20 (Rahman, 2004; Rashid, 2006). A key advantage for overseas buyers of Bangladesh’s RMG products is that costs are currently around 30% lower than

### Table 4: RMG Exports from Bangladesh

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Woven US$</th>
<th>Knitted US$</th>
<th>Total US$</th>
<th>% of total export</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2004</td>
<td>3538.07</td>
<td>2148.02</td>
<td>5686.09</td>
<td>16%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>3598.20</td>
<td>2819.47</td>
<td>6417.67</td>
<td>12%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>5299.73</td>
<td>3911.50</td>
<td>9211.23</td>
<td>65%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>5249.49</td>
<td>4793.51</td>
<td>10043.23</td>
<td>70%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>4538.66</td>
<td>5532.99</td>
<td>10701.65</td>
<td>73%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>5918.51</td>
<td>6429.40</td>
<td>12347.02</td>
<td>79%</td>
</tr>
</tbody>
</table>


### Table 5: Selected region-wise share of garments export

<table>
<thead>
<tr>
<th>Year</th>
<th>USA</th>
<th>European countries</th>
<th>USA and EU</th>
<th>Other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>42.67</td>
<td>55.43</td>
<td>98.10</td>
<td>1.90</td>
</tr>
<tr>
<td>2002-2003</td>
<td>38.02</td>
<td>57.12</td>
<td>95.14</td>
<td>4.86</td>
</tr>
<tr>
<td>2003-2004</td>
<td>28.64</td>
<td>65.42</td>
<td>94.06</td>
<td>5.94</td>
</tr>
<tr>
<td>2004-2005</td>
<td>30.64</td>
<td>64.24</td>
<td>94.88</td>
<td>5.12</td>
</tr>
</tbody>
</table>

Source: Bangladesh Bank Quarterly; Publication of Bangladesh Bank (2007)
those of China and India (WB, 2005; Rahain, Razzaque and Khatoon, 2007). For example, shirts made in Bangladesh sell in these retail outlets for five to ten times their imported price (Rahain, 2004). Bangladeshi workers are employed at very low wages, not only in comparison to other competitor countries but also in comparison to other domestic industries. Although the Minimum Wage Board set up by the government periodically fixes the minimum wage for different industries, the average minimum wage fixed for the RMG has been the lowest. Thus, the owners of garments firms in Bangladesh pay their workers lower wages than in other industries in South-East Asia and Eastern Europe. The large retail outlets in the United States and Western Europe, such as Marks and Spencer (United Kingdom) and C&A (Netherlands), are contracted to the Bangladesh clothing industry (Doshi, 2006).

Table 5 illustrates that the Bangladesh garments export market was concentrated in USA and EU until 2004-05, indicating that Bangladesh had successfully established a remarkable position in the world markets. The year 2005-06 proved a successful turnaround in exports to third countries, which was about 16.57 percent of total export market compared to only 1.90 percent in 2001-2002 (B.B., 2007).

Economic Reform and the Multi-Fibre Agreement (MFA)

Two important procedures accelerated the growth of Bangladesh's RMG exports and the international relocation of garments production, especially to Bangladesh: changes in domestic policy, and the international Multi-Fibre Agreement (Quddus and Rashid, 2000). At the domestic level, investment in the RMG industry was made attractive by changes in Bangladesh's economic policies. In the early 1980s, Bangladesh undertook a series of economic reforms to open up its economy under the aegis of the IMF and the World Bank. Similarly, a new import policy in 1982 announced an export-led growth strategy to be directed by the private sector (Quddus and Rashid, 2000). As a result, numerous direct export incentive schemes were introduced in place while direct foreign investment was encouraged through the establishment of export processing zones outside Dhaka and Chittagong (Bhattacharya, Rahman, Paul-Majumder and B. Sen, 2001: pp. 2-26). Export promotion was one of the highest priorities of these policy initiatives, in conjunction with liberal policies aimed at direct foreign investment, including allowing 100% equity share ownership. Export-oriented units offered with lucrative incentives such as tax holidays, cash assistance, income tax rebate facilities, rebate on freight and power rate, back-to-back letter of credit provision, loans at concessional rate, and export credit guarantee scheme. In addition, the government provided cash incentives, reductions in interest rates for export credit and port charges, bonded warehouse facilities, duty drawback and duty free imports of capital machinery and raw material, for export oriented RMG industries (Mayumi, 2004). Thus, the policy environment in the early 1980s was favourable for export industries, whether of domestic or foreign origin (Rashid and Biswas, 2006). Nevertheless, these congenial policies would have remained impracticable without external actors ready to make use of them. As in many other countries and industries, foreign multinational companies played a catalyst role in promoting this particular industry in Bangladesh (Murayama, 2004). Initially they brought in technology and modern garments production, meeting international requirements. They also contributed by diffusing technology and know how to local firms by generating spin-offs. At the same time, Bangladesh joined the international market as a competitive producer. This was facilitated by the MFA, (Multi-Fibre Agreement) of 1974-2004 (Rahman, 2004).

The MFA was a 1974 World Trade Organization (WTO) agreement, which set quotas for the export of textile product from developing countries (Rahman, 2004). Under the MFA, the largest RMG importers, the USA and Canada, imposed quota restrictions and limited import of apparel from countries such as Hong Kong, South Korea, Singapore, Taiwan, Thailand, Malaysia, Indonesia, Sri Lanka and India. Some countries had internal problems, for example, Sri Lanka, experienced a rapid increase in labour costs (Siddiqi, 2003). Therefore, buyers looked for alternative sources and Bangladesh was in an ideal position with both cheap labour and large export quotas (Wiig, 1990: pp. 154-159). As a less developed country, Bangladesh received preferential treatment from the USA and the European Union. By 1985, Bangladesh emerged as a strong apparel supplier (1) and became a powerful competitor for traditional suppliers in the US, Canadian and European markets (Choudhury and Hussain, 2005). Initially Bangladesh was granted a quota-free status. However, the application of the MFA had a negative impact on many garments exporting countries and this created pressure to discontinue the MFA by integrating textile and clothing industries into the General Agreement Tax and Tariff (GATT) system (Wiig, 1990: pp. 154-159). As a result, the Uruguay Round of negotiations envisaged phasing out the MFA by the end of 2004. Within a short period, Bangladesh was increasingly subjected to quota restrictions by the USA and Canada. The US restrictions affected Bangladesh's RMG sector significantly, since export growth at that time was mainly from the US market. As a result, Bangladesh had to compete with a larger number of established and powerful suppliers of readymade garments. In fact, the implementation of quotas caused a decline in absolute terms for most items in 1986 (Wiig, 1990: pp. 154-159) but the level of growth increased again in 1996, mainly due to diversification into non-quota items (Uddin and Jahed, 2007). One successful area of product diversification was knitwear (2), which was outside the purview of the MFA (Bhattacharya, 2001). The growth of Knit-RMG was spurred by a growing demand in the EU market and stimulated by domestic incentives in the form of cash compensation and duty drawbacks (3) (Rahman, 2005). However, Bangladesh was granted quota-free status and privileges by the EU, under the General System of Preferences (GSP) in 2003, and was allocated large quotas by the USA and Canada (Joarder, Hussain and Hakim, 2010). These changes guaranteed Bangladesh assured markets in the USA, Canada and the EU (Rashid, 2006).

Table 6 and Figure 3 (next page) show that in 1996-97 growth peaked and declined from 1998 to 2000 then increased by 1% in 2001, remaining stagnant until 2003. From 2003, it increased...
Although the MFA create new protectionism in major Organisation for Economic Co-operation and Development (OECD) markets, its effect was positive on the textile and garments industries in developing countries. For example, in Bangladesh, the MFA encouraged industrial relocation from more advanced economies. Some observers say that Bangladesh as a garments exporter was formed by the MFA regime (Mayumi, 2004).

One other factor which helped the RMG industry in Bangladesh to grow, was political instability and civil war in Sri Lanka, one of Bangladesh’s main competitors. Overseas buyers preferred the relative stability of Bangladesh. In spite of low wages, political stability and the MFA the Bangladesh RMG sector did not grow as quickly as might have been expected. The major impediments were infrastructure and port facilities.

The Development of the Garment Industry in Bangladesh

The garment industry is the key export-earning sector and striking force in the field of industrialisation for Bangladesh. This sector opened up employment opportunities to millions of unemployed, especially uneducated rural women (Rashid, 2006). At present, the Bangladesh garment industry is the largest industrial sector of the country.

The garment factory, and more accurately speaking, the readymade garment sector (RMG), started in Bangladesh in the late 1970s and was complete within a short period. Bangladesh had a history of textile manufacturing, though during British colonial rule the industry suffered a brutal repression to facilitate the flourishing of British textile industries in Europe and other countries. The reputation of muslin textile of Dhaka was worldwide. But the handloom industry of muslin textiles was completely destroyed by British colonial repression (Sikder, 2002). However, the garments industries in Bangladesh did not develop from the remnants of the textile industry.

The dismantling of nationalised industries from the 1970s added to the gradual removal of barriers and limits to private investment, and created the opportunity for entrepreneurship. Manufacturers could make direct contact with their leading buyers. Many developed advanced market strategies and made a successful transition to high-value apparel products, such as dresses and suits. Numerous entrepreneurs initially started their careers.
and peaked at 11% in 2009 (Uddin and Jahed, 2007: EPB, 2008).

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The garment factory, and more accurately speaking, the readymade garment sector (RMG), started in Bangladesh in the late 1970s and was complete within a short period. Bangladesh had a history of textile manufacturing, though during British colonial rule the industry suffered a brutal repression to facilitate the flourishing of British textile industries in Manchester. It is noted that Muslin and Jamdani cloth once was used for luxurious garments in Europe and other countries. The reputation of muslin textile of Dhaka was worldwide. But the handloom industry of muslin textiles was completely destroyed by British colonial repression (Sikder, 2002). However, the garments industries in Bangladesh did not develop from the remnants of the textile industry.

The dismantling of nationalised industries from the 1970s added to the gradual removal of barriers and limits to private investment, and created the opportunity for entrepreneurship. Manufacturers could make direct contact with their leading buyers. Many developed advanced market strategies and made a successful transition to high-value apparel products, such as dresses and suits. Numerous entrepreneurs initially started their careers making garments but later diversified into spinning, weaving, dyeing or finishing operations. Some of these became manufacturers of threads, buttons, zippers and packaging materials (Siddiqi, 2004). There were only nine export-oriented garment manufacturing units in 1978, which generated export earnings of barely one million dollars. Some of these units were very small and produced garments for both domestic and export markets. Examples of successful RMG manufacturers who took advantage of privatisation in different ways are Reaz Garments, Baishakhi Garments, Desh Garments and Trexim Ltd, and the Summon Group (Rahman, 2004; Rock, 2003).

Reaz Garments was established in 1960 as a small tailoring outfit, named Reaz Store in Dhaka, operating within domestic markets only (Rahman, 2004). In 1973, it changed its name to M/s Reaz Garments Ltd. and expanded its operations into the export market. Reaz was the first direct exporter of garments.
from Bangladesh. In 1978, the Reaz Garments Ltd. exported 10,000 units of men’s shirts to the export value of 13 million French francs to a Paris-based firm (Rahman and Kaiser, 1993; Rock, 2003).

Baishaki Garments, one of the older export-oriented garment factories, was established in 1977 by M/S Shamsun Nahar Ahmed, a woman entrepreneur. Indeed, an encouraging aspect of the industry is the number of female entrepreneurs emerging from the Ready-made Garments business, and their number is increasing (Shikder, 2002; Morshed, 2007).

The case of Desh Garments and subsequently that of Trixim Ltd illustrates the role played by foreign capital in the establishment and the operation of mills. In 1979, Nurul Kader, a retired civil servant and entrepreneur established Desh Garments in alliance with the South Korean firm Daewoo. Daewoo’s Chairman, Kim Woo-Choon, proposed a joint venture between the Government of Bangladesh to produce tyres, leather goods, cement, and textiles, because of high labour costs and labour shortages in Korea. In addition, Bangladesh faced restrictions on its garment products in the US and other OECD markets following the MFA regime (Rhee, 1990: p.336) and this venture allowed Bangladesh increased access to the global RMG market.

Desh provided the equity capital and Daewoo procured the raw materials and provided training and marketing facilities (Morshed, 2007). Daewoo received orders from large retailers in the USA and Europe through its worldwide marketing network. Following that, the Desh garments in Bangladesh were produced, and shipped to their destinations.

The association of Desh and Daewoo was productive. In its first six years of operation, 1980/81-86/87, the value of exports from Desh grew at an average annual rate of 90% to more than $5 million. The alliance was important for the growth and total exports from the garments industry of Bangladesh (Rahman, 2004). As Desh’s operations grew, a large number of local entrepreneurs entered the sector with foreign buyers retaining major control in the marketing (Rashid, 2006). One of these was a Bangladeshi firm, Trixim Limited, which formed an equity joint venture with a South Korean firm, Youngones Corporation, in 1980. The Bangladeshi partners contributed 51% of the new firm’s equity, called Youngones Bangladesh. Its first consignment of padded and non-padded jackets was exported to Sweden in December 1980 (Siddiqi, 1982).

Some entrepreneurs have invested in overseas countries and export RMG from there. One such company, the Summon Group of Bangladesh, went to Cambodia and established a RMG factory under a joint venture arrangement with local partners employing more than a thousand workers (Rahman, 2004).

As the demand for RMG products increases, international buyers continue to invest in Bangladesh. The government of Bangladesh has taken numerous initiatives on trade reform to attract foreign direct investment under the guidance of IFM and World Bank and establish EPZ (Rahman, 2004). Bangladesh Export Processing Zones Authority (BEPZA) is the only government organisation responsible for creation, operation and development of Export Processing Zones (EPZ) in the country. Foreign buyers and Multinational Corporation set up factories to produce goods such as clothing and leather goods used EPZ (Rashid, 2006).

Most of the garments units clustered in industrial areas and EPZs around in Dhaka - Gazipur, Savar, Ashulia, Mirpur, Tejgaon, Mohakhali, Uttara, Wari and Tongi, with some situated in the port cities of Chittagong and Khulna (BGMEA, 1999; Kumar, 2003). The numbers of garments factories increased some 632 in 1982 and by 2008 had reached 4200 (EPB, 2008).

1.2.4 Contribution of RMG to the Bangladesh Economy
The export-oriented readymade garments (RMG) industry has made significant contribution to the economic development of Bangladesh. It is the largest exporting industry in Bangladesh, which experienced phenomenal growth during the last two decades. By taking advantage of an insulated market under the provision of Multi-Fiber Agreement (MFA) of General Agreement Tax and Tariff (GATT), this sector attained a high profile in terms of foreign exchange earnings, exports, industrialization and contribution to Gross Domestic Product (GDP) within a short period. Bangladesh exported garments worth the equivalent of $12.34 billion in 2009, which was about 4.47 per cent of the global total value ($276 billion) of garments exports (EPB, 2008-2009).

Export of textiles has been the major route to development for most modern economics starting with the British back at the beginning of the industrial revolution. Even as late as the 1950s textiles were a leading part of Japan’s export profile. But of course Britain, Japan, and now China have moved beyond textiles. An important question is how did they do it and is Bangladesh following suit? In fact, large producing companies shift their location from where costs have been rising and where MFA quota availability is no longer an issue.

Although rising wages have been one driver of location change for labour intensive industries like garments, and to a lesser extent for textiles, the control and governance of such relocation has been primarily in the hands of global buyers. For example, American producers have relocated to Mexico and Central America, and other Western European countries to Eastern Europe and North Africa (Alavi, 1982: pp.57-58). Basically international buyers considered Bangladesh for its low labour cost, available labour and good business environment.

Also, in Bangladesh, RMG factories introduced by private entrepreneurs and later supported by government initiatives made the industry successful. The RMG sector has few requirements but owners generally prefer young girls and unmarried women. The huge available female work force, low wages, low
production costs, dynamic private entrepreneurship and supportive government policies provided an environment for rapid growth.

Table 7 reveals that the value of RMG export, share of garments export to total exports and contribution to GDP significantly increased during the period from 1984 to 2005-2006. The total RGM export in 2005-2006 was more than 68 times that of 1984-85, while the country’s total export for the same period only increased by a factor of 11. In terms of GDP, the contribution of garments export is significant; it reached 12.6 percent in 2005-2006, compared to only 5.9 percent in 1989-90 (Uddin and Jahid, 2007). It is a clear indication of its contribution to the overall economy. It also plays a key role in promoting the development of linkages between small-scale industries. For instance, the manufacture of intermediate products such as dyeing, printing, zippers, labels, collars, buttons has begun to take a foothold on a limited scale and grew significantly. Moreover, it has helped the business of basing, insurance, shipping, hotel, tourism and transportation. The RMG industry employs nearly three million workers directly and more than ten million inhabitants are indirectly associated with this socio-economic development of the country (Ahmed and Hossain, 2006).

Noticeable Social Changes (impact on society):
Since independence, Bangladesh has made considerable progress in social, political, cultural and economic areas but high unemployment remains a barrier to economic development.

The population of Bangladesh is about 162.2 million. The total labour force participation is 73.89 percent (BBS, 2002). Unemployment rate is 35.2%
South-Asian countries the Bangladesh garment sector is the highest RMG exporter with 76% of total exports, and has the highest rate of employment of about 3 million workers of whom 90% are women.

High female participation rates, as argued above, effectively result in lower wages and greater competition as evidenced by the size of the export market.

Usually female participation in the work force depends on education, skills, socio-economic factors, political stability, and supportive government policies. For example, Sri Lankan GDP is high among the SARC countries and literacy is nearly 97% although Sri Lanka has struggled with civil war since 1983-2009 (Buncombe, 2009). After the civil war, supportive government policy is encouraging women to work in the garment sector. Currently female participation in the garment sector is 87% and garment products are 52% of the total exports (UNICEF, 2009). On the other hand, in India, with a literacy rate of 90%, female participation in the garment industry is about 34% and comprises only 38% of exports. In India, garment factories are mainly situated in port areas, capital cities and commercial cities and wages are low compared to other sectors. Most of the population lives in rural areas and are not interested in work distant from their homes. Moreover, financial crises, transport, accommodation problems and personal reasons, attract the rural population to work in domestic and agricultural or small business employment (Wikipedia, 2012). On the other hand, city women prefer flexible working hours and an office job and the garment industry does not meet their preferences. Although the literacy rate in Nepal is 38% their female participation in the garment sector is comparable with other countries. Pakistan has a literacy rate of 93% but female participation in the garment sector is about 10% (UNDP, 2008). Pakistan is an Islamic Republican country where women face the greatest objections from their husbands and are restricted by their society. The society is controlled by religious leaders, fundamentalist and, community leaders and, although Islam considers that males and females should be equal, they are discriminated against there. Bangladesh is different from Pakistan. Although it is a Muslim country, it is moderate. The literacy rate is 53.4 %, comprising 51.02 % for females and 55.90 % for males. (World Bank, and UNESCO, 2009). Although the literacy rate is lower than Pakistan, social and political stability in Bangladesh is better. As a result, in the RMG sector female participation is higher. Currently the industry employs about three million workers, of whom 90% are women and total garment product exports account for 76% of all exports (Wikipedia, 2012).

In a society, women's mobility is extremely restricted and women's access to resources and economic opportunities, and their participation in decision making both within and outside households is constrained. The large numbers of women who are working outside the home in the RMG industry has resulted in some significant social changes (Begum, 1995). Now families are willing to allow these women to migrate to cities and stay alone if need be, in order to obtain paid work and provide an income, often as principal earners of the family (Ali, 2003). According to Paul-Majumder and Zohir (1994), employed female workers in the export-oriented garments industry share about 46 percent of their income with their families. RMG wages were well above the national poverty equivalent wages, implying that workers in this industry who generally came from poor rural families were able to pull nearly two million poor households, 13 percent of the poor households, out of poverty (Paul-Majumder and Zohir, 1994; Abedin, 2008).

After joining the export garments industry these working girls or women, have a changed status in their family, which has affected the traditional patriarchal dominance of fathers, brothers and husbands (Kibria, 1995). Female workers now choose to marry or become mothers. Parents are often so dependent on their unmarried daughter's income that they are reluctant to permit marriage until the family has become more secure financially. Moreover, women are earning their own wages and do not need to rely on a husband for income so these women are marrying at a later age, and delaying...
Female workers tend to support their younger siblings at school; currently primary school net enrolment and attendance is nearly 85% (Unicef Report 2005-2009). So, the literacy rate is increasing. The literacy rate impacts on socio-economics and in improving the quality of life and enhancing the prospects in livelihood.

Most importantly, the growth of the RMG sector produced a group of entrepreneurs who have created a strong private sector. Of these entrepreneurs, a significant number are female. A woman entrepreneur established one of the oldest export-oriented garment factories, the Baishakhi Garments in 1977 (Shikder, 2002; Absar, 2001). As a result, apart from the rise of the garment export sector having economic significance for Bangladesh, it also has social significance with young Bangladeshi women now becoming a force in the labour market.

Problems and Challenges of the Bangladesh RMG Industry:

Despite the phenomenal success of the RMG sector, poor working conditions in the factories and the lack of Social compliance(6) are serious concerns, which have, since 2006, led to labour unrest and damage to institutions and properties. 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 leaves, 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 (Mhammad, 2006). The majority of workers are young women and are frequently physically and sexually abused by their supervisors and security guards (Rashid, 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, disability, illness and death due to notorious incidents of fire and building collapse are frequent in the RMG sector (Begum, 2001).

There are many other labour sectors; unlikely child labour is a serious and growing problem within this sector (Muhammad, Rashid, 2006). Indeed most of the private garments factories have no trade union presence. Export Processing Zones (EPZ) are particularly banned 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 (Qudus and Uddin, 1993; Dasgupta, 2002). Furthermore, law enforcement is poor and government and entrepreneurs’ poor judgment has led to labour unrest in the sector. Consequently, Bangladeshi RMG products have less appeal to international buyers who demand compliance with their own Codes of Conduct before placing any garment import orders. These issues are fundamental to the workers’ interests but there are the additional costs consequent on these compliance demands (Rashid, 2006). As a result, Social compliance(7) has emerged as a major issue to the RMG sector.

Conclusion

On this backdrop, a study on the working conditions and environment in the garments industry of Bangladesh is imperative. The analyses of working conditions in relation to labour rights and labour standards have been the subject matter of many discussions and studies. A number of issues that especially concern and effect employment, fair labour practices, global labour standards, labour rights, Code of Conducts, Decent work, international communities and other stakeholder roles, buyer demand, weak law enforcement and labour unrest (cause of law wages, working hours, overtime, health and safety, job security, the right to form trade unions and environment security), are identified and discussed in this research. These issues address labour rights and labour standards with links to Social compliance. Generally, labour rights and labour standards issues are associated with Human Resources (HR) and Industrial Relations (IR) activities that are controlled by government mechanisms, and international law and policy. Therefore this research pays particular attention to government mechanisms, national laws and regulations, international laws and policies, labour standards according to the ILO conventions, the Factory Act 1965 and the Fair Labour Act according to the WTO Code whether following in the RMG sector or not. Moreover, the research also examines the roles of government, trade unions, multinational-agencies and other stakeholders. In addition, it also discusses relevant international treaties and agreements, and threats or pressures for better treatment to improve working conditions in the RMG sector.

The research identifies ways to improve the working conditions leading to the mitigation of labour unrest through establishing Social compliance in the RMG industry. The establishment of HR or PM units throughout the RMGI is a high priority for the improvement of working conditions. Other prerequisites include fair labour practices, suitable building codes for improving health and safety, comprehensive labour legislation and regulation, stricter
enforcement of factory laws and more effective procedures for ensuring compliance with them, and effective monitoring mechanisms. Another key to sustainable improvements at the workplace is to ensure workers' rights to organise and bargain collectively. The state must protect these rights by creating a system for complaints concerning violations, adjudication, remedies, and penalties. Finally, paying due attention to treaties and bilateral agreements, the ILO and the WTO and other stakeholders’ roles, and pressure from international communities is also important for the improvement of Social compliance.

Footnotes:

(1) Apparel products are tee-shirt, polo shirt, short pant shirt, pajama, jeans-pant, nightdress etc and also included all kind of RMG products

(2) Knitted products are mainly warm cloths includes socks, trouser, hosiery, bags, mittens, jacket, trouser, hats, laboratory coat, sweater, pullover, jumper, jacket, trousers, gloves, sports dress, nightdress, hats and sleeves etc.

(3) Drawback is the refund of customs duties, certain internal revenue taxes, and certain fees that have been lawfully collected at importation. The refund is administered after the exportation or destruction of either the imported/substituted product or article that has been manufactured from the imported/substituted product.

(4) A situation in which a worker is employed, but not in the desired capacity, whether in terms of compensation, hours, or level of skill and experience. While not technically unemployed, the underemployed are often competing for available jobs (note: about 40% of the population is underemployed; many participants in the labour force work only a few hours a week, at low wages).

(5) As defined by the International Labour Organization, unemployed workers are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work.

Employment can be defined by either the national definition, the ILO harmonized definition, or the OECD harmonized definition. Persons who during a specified brief period such as one week or one day, (a) performed some work for wage or salary in cash or in kind, (b) had a formal attachment to their job but were temporarily not at work during the reference period, (c) performed some work for profit or family gain in cash or in kind, (d) were with an enterprise such as a business, farm or service but who were temporarily not at work during the reference period for any specific reason, (Current International Recommendations on Labour Statistics, 1988 Edition, ILO, Geneva, page 47)

(6) 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 (Aman, 2006).

(7) 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.

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Background
Safety and quality in PHC is a major issue in most of developing countries. It is a very major concern in Pakistan and requires urgent intervention.

Introduction
Like many developing countries, PHC in Pakistan needs advancement in many avenues, especially in the Safety and Quality sector.

Objective
This article reviews the current status, barriers, opportunities, challenges and way forward regarding the role of Family Physicians in achieving Safety and Quality in PHC in developing countries like Pakistan.

Method
The author has used the issue of Maternal Health in Pakistan as an example to prove how a Family Physician can play a vital role in ensuring Quality and Safety in PHC and in reducing Maternal Mortality and Morbidity rates in his community.

Current Status of Primary Health Care in Pakistan
Pakistan has a population of 180 million plus. The total GDP is 2.6. Infant mortality rate /1000 is 70, under-5 mortality rate/1000 is 87 and Maternal mortality rate/100,000 is 260[1] Public health expenditure on the Health sector was 0.8 in 2007, 0.9 in 2008 and 0.9 in 2009. [2] The main part of the budget allocated for health goes to teaching institutions and major hospitals of federal and provincial capitals; very little is left for towns and small villages. Pakistan is a signatory of Millennium Development Goals (MDGs).[3] The review of Pakistan's progress towards reaching the MDGs has shown the activities to be on the right track except in the gender equality sector.[4] In September 2010, a major conference held at UN headquarters concluded with the adoption of a global action plan to achieve the eight anti-poverty goals by their 2015 target date. There were major new commitments on women's and children's health. It was decided to advance the development agenda beyond 2015.[5] Pakistan has an organized infrastructure for delivering health care even in small villages but these health care centers are devoid of medicines, equipment, doctors and trained paramedics. A study showed that there was one doctor, one nurse and one bed for 1400, 3261 and 1531 people respectively. 76% deliveries occur at home.[6]

Barriers in Safety and Quality in PHC
The middle and upper income classes of our society have access to the government and private health services. The government has an obligation to provide PHC facilities either free or at very nominal cost. People usually avoid government hospitals for primary care because of overcrowding, difficulty
in getting due attention, casual and non-serious behavior of doctors, more than one male doctor examining the female patient at one time and the fear of a crowd of medical students present at time of examination. The masses and the people living below the poverty line do manage to get access to FPs.

In addition to going to government health facilities, the private sector, and registered FPs for PHC, people do go to Registered Hakims (traditional physicians), Registered Homeopaths and ‘quacks’ in vast numbers. There is a situation of rivalry between various types of primary care providers. Traditional Quacks have been a major threat to the health system quite a long time but now a new category of quacks is emerging that consists of so-called religious persons who not only give blessings but also dispense their own made medicines. People know that quacks are not qualified and trained persons but still go to them because the quacks have a very strong social relationship with the people. They are very polite with them and greet the people very respectfully and attend their social occasions like marriages and funerals.

During his 27 years of clinical work, the author has observed that unfortunately most FPs are neither very polite nor mix much with people. They do not bother to even listen to their patients/clients. FM is not yet organized in Pakistan. Most FPs work in a random manner and have no working relationship with each other. They do not provide evidence-based care to people. Many do not write proper prescriptions and use multiple medicines, injections and infusions in a very irrational way. Many of our colleagues do not keep and maintain any record even in very basic form. There is an inability on the part of FPs to initiate a right and timely response to a patient’s problem. There is no definite system of referral and follow up; patients are usually referred when they become critically ill. FPs are involved in taking kickbacks from pharmaceutical companies, pathological laboratories and private hospitals.

What are the challenges to Safety and Quality in PHC

We have to shift more care from hospitals to FPs; most important in this context is Antenatal care. The total population of Pakistan (in thousands) was 141,256.2 in the year 2000. It was expected to be 181,384.7 (in thousands) in the year 2010 and 227,781.1 in the year 2020. Total Numbers of people (from age group 0 to 60+ years) requiring daily care was 8,292.1 (in thousands) in the year 2000. It was expected to be 10,908.2 (in thousands) in 2010 and 14,254.5 (in thousands) in year 2020. This means the total Number of people (from age group 0 to 60+ years) requiring daily care would increase by 32% in the year 2010 and 72% in the year 2020 as compared to year 2000. [11] During the year 1996-97, 36% of pregnant woman received 1+ Antenatal visit and 16% received 4+ Antenatal visits. 17% of births took place in health facilities. In the year 1998, 20% of births were attended by skilled health care personnel. [12]

According to WHO, in 2012, only three countries, Afghanistan, Nigeria and Pakistan remain polio-endemic down from more than 125 in 1988. [9] Afghanistan, Ethiopia, India, Indonesia, Kenya, Nigeria, Pakistan are seven countries with high MMR. [10] Pakistan is making progress. MMR was 490 in 1990, 410 in 1995, 340 in 2000, 290 in 2005 and 260 in 2008. [10] Pakistan is among eighty-five countries lacking good complete registration data but where registration and/or other types of data are available. [10] Pakistan has achieved 40% or more decrease in MMR (deaths per 100,000 live births) between 1990 and 2008. [10] The two targets for assessing progress in improving maternal health (MDG 5) are reducing the MMR by three quarters between 1990 and 2015, and achieving universal access to reproductive health by 2015. The fifth MDG aims to improve maternal health with a target of reducing MMR by 75% between 1990 and 2015; that is, it seeks to achieve a 5.5% annual decline in MMR from 1990. [10] This goal and the MDG post 2015 agenda could only be achieved with full support and involvement of FPs.

Role of Family Physicians in advancement of Primary Health care

Pakistan is a country with an area of 803,940 sq km (499,545 sq miles). Here 43 million people live below the poverty line. Literacy rate is: Male: 63% / Female: 35.2% / Total: 49.9%. [7] FPs play the largest part in the delivery of PHC. They are the first contact of people who not only seek their help for primary care but also in acute emergencies and accidents. The original term used to be the General Medical Practitioner before the evolution of Family medicine as specialty. The majority of PHC physicians still include a vast majority of medical practitioners who have not specialized in Family Medicine.

Though we usually focus on the essential services they provide, family physicians and their practices are a viable source of economic impact on their communities. Most medical specialties tend to cluster in urban areas near academic health centers. FPs are the specialists who are most likely to work in underdeveloped medically underserved areas. The FP acts as Economic Stimulus, one full time family physician creates an average of five full-time supporting staff positions in developed countries. [8]

How Family Physicians can address these barriers and challenges

There is one family physician to approximately 300 to 500 families in developing countries. We should apply the all inclusive approach to enroll all available working family doctors (who are at least medical graduates) regardless of the fact whether they have specialized or not in FM. They are medical graduates and the fact is they are practicing family medicine. There is an intense need to improve the management and organization of PHC services. Professional development strategies are a must to improve the knowledge and skills of the whole primary care team, including the health care workers.

To achieve Quality in PHC, we have to work out local, national and regional basic minimum standards. There is a need to create and support a community of people interested in quality improvement within our work areas. We have to
evolve a platform where we can debate and critique health service policy relating to quality within our countries and region. This can initiate programs for better understanding of health care providers and patients.

There is an intense need to initiate a medical record system from a basic simple version and strive to achieve a system of EHR where possible. This will help to lessen patient suffering due to medical errors and the inability of physicians to assess quality.

We have to strengthen EBM. This will promote ethical values and help us to restrict to WHO’s essential drugs list and best practice in quality improvement. There is also need to lobby for establishment of ethical working relationships with fellow Family Physicians, specialists, pharmaceutical companies and pathological laboratories. These relations should be used for the benefit of patients.

We have to organize CME based education system for FPs and health care workers. This will help in developing career structures and training pathways for general practitioners and primary health care workers. FPs have to understand the importance of initiating and organizing a system of referral and follow up. Patients should be referred to the relevant institution or expert as soon as required.

Last but not the least, there is an urgent need for establishment of a governing body for FPs that should set a code of ethics. It should also organize educational and vocational training for all PHC providers. Most important in this regard is to explore new avenues to get more educated and a more understanding batch of new health care providers.

What is the way forward to achieve Safety and Quality in PHC

The first and the most important step forward is the evolution of safety and quality in PHC. In order to identify and assess the quality of primary health care, first of all we have to define what quality really means. Quality of PHC is usually defined in terms of access to care and effectiveness of care, including both clinical and interpersonal aspects of services. There are six key dimensions of quality care; Person-centered, safe, effective, efficient, equitable and timely. [11]

Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives. William Foster [14] Pakistan Standard and Quality Control Authority, Standard Development Center has defined some Basic Minimum Standard [15] but in my opinion, the FPs are responsible for defining the quality of care. I believe the valuable perspectives of all the stake holders (patients, policy makers, politicians and the health care professionals) should play an important role in measuring and assessing the quality. We need a very broad framework, but the individual quality elements must be defined locally taking into account resources, culture and other factors. What might be high quality of care in one set up might be terribly wasteful and ineffective in others. We need to work very ambitiously to define minimum adequate standards for PHC facilities.

After defining and phrasing the aims and objectives, we must define our way forward to the goal. We can achieve it if we choose the topic, start collecting data and compare it with available standards. This will enable us to evolve our own standards and protocols for the work. The author has selected antenatal care as a topic and believes the team work is the vital key and the real answer to our efforts.

The author presents the example of his clinic which he has been operating since late 1986. In addition to providing regular diagnosis and treatment of all common PHC problems at nominal cost, the clinic is also providing facilities for diagnosis, treatment and guidance for specific men’s sex health problems, specific women’s health problems including breast problems and breast screening, STDs, screening for Tuberculosis, Hepatitis B & C, HIV/AIDS, Pap smear screening, regular family planning, emergency contraception, and vaccination. There is a system of basic antenatal check up at the clinic plus shared care with government hospitals.

This clinic is neither an NGO nor any social or welfare organization, rather it is just like any other ordinary clinic of Pakistan. The author is registered with the Income Tax department as an “Individual” and pays income tax regularly. The clinic also provides free nutritional services for poor women and children, free advice and services for social and community problems and free training to TBAs, midwives and lady health workers.

In her contributions, Barbara Starfield had always stressed Equity as the most important Quality indicator. [16] The clinic is still far from the standards but there are continued efforts towards better health, especially for Safe Motherhood. The most important achievement so far is the recognition by the immediate community, the strength rests in ethical practice, truth, honesty, equality for all and community involvement at grass root level.

Conclusion

The two targets for assessing progress in improving maternal health (MDG 5) are reducing the MMR by three quarters between 1990 and 2015, and achieving universal access to reproductive health by 2015. The developing countries have to improve maternal health with a target of reducing MMR by 75% between 1990 and 2015 - that is, 5.5% annual decline in MMR from 1990. [10]

Pakistan like other developing countries is striving for advancement of PHC facilities. With limited budget and resources, it would not be possible to achieve MDGs by 2015 rather even Post 2015. This goal and the MDG post 2015 agenda could only be achieved with full support and involvement of FPs. To make this happen, there is an urgent need to apply the all inclusive approach to enroll all available working family doctors (who are at least medical graduates) regardless of the fact
whether they have specialized or not in Family Medicine. They are medical graduates and the fact is they are practicing family medicine.

There is an intense need to improve the management and organization of PHC services. The evolution of professional development strategies is a must to improve the knowledge and skills of the whole primary care team, including the health care workers. There is a need to work out local, national and regional basic minimum standards for Safety and Quality in PHC.

Abbreviations
PHC Primary Health Care
FM Family Medicine
FP Family Physician
MMR Maternal Mortality Ratio
EBM Evidence Based Medicine
WHO World Health Organization
EHR Electronic Health Records
CME Continuing Medical Education
MDG Millennium Development Goal

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14. William Adlebert Foster (February 17, 1917-May 2, 1945) was a United States Marine who received the Medal of Honor for his “conspicuous gallantry and intrepidity at the risk of his life above and beyond the call of duty” during World War II during the Battle of Okinawa in 1945.
16. Dr Barbara Starfield’s work focused on quality of care, health status assessment, primary care education and equity in health, and was key in the development of such methodological tools as the Primary Care Assessment Tool and the Child Health and Illness Profile, or CHIP, tools for evaluating child and adolescent health status.

Dr Butt with his students
Abstract

It is absolutely important that medical schools establish a strong tie with high school pupils in their served communities. A socially accountable medical school should establish even a stronger tie than the usual medical school. In Rafsanjan Medical School (RMS) we take four practical approaches to establish our ties with high school pupils in our served community. The present article highlights these four approaches.

Keywords: Medical school, high school, pupils, social accountability

Introduction

It is absolutely important that medical schools establish a strong tie with high school pupils in their served communities. A socially accountable medical school should establish even a stronger tie than the usual medical schools. The reason for this is that socially accountable medical schools should focus their educational, research and health plus medical services to the needs of their served communities and having a strong connection with high school pupils would help such schools to better achieve their social accountabilities' goals.

Furthermore, the strong connection between medical school and high school pupils is also important since some high school pupils might choose to study medicine in their communities' medical school. Therefore, such a connection would help them to make a better and a more informative decision.

Rafsanjan Medical School (RMS) was established in 1997 within a county called Rafsanjan in the south west of Iran (Figure 1 - next page). Based on the 2006 census, the county's population was 291,417.

During the history of RMS we have taken four practical approaches to establish our tie with high school pupils in our served community. The present article highlights these four approaches as follows:

Open door to high school pupils during academic year

Based on this approach we let high school pupils who are interested to follow their studies in medicine to have a one day visit during the academic year. Each year up to 300 pupils take advantages of such a visit. Based on this visit they not only get familiar with medical school curriculum but also get a sense of medical students' education in their first part of study i.e. Basic sciences.

The students also become familiar with different departments in our medical school and pay a close visit to our anatomy, physiology and microbiology departments. Most of the students are especially eager to see our anatomy museum and also to find out how experimental and laboratory studies are carried out. Such a visit would help them to better make their decision about whether to continue their studies in medicine. It should be mentioned that each year we admit up to 60 students; nearly half of them are from our served urban and rural communities.

How a medical school could establish a tie with local high school pupils: some practical approaches reporting from Rafsanjan Medical School

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Abstract

It is absolutely important that medical schools establish a strong tie with high school pupils in their served communities. A socially accountable medical school should establish even a stronger tie than the usual medical school. In Rafsanjan Medical School (RMS) we take four practical approaches to establish our ties with high school pupils in our served community. The present article highlights these four approaches.
Open door to high school pupils during summer

As the second approach and during summer we still let some pupils enter into our school and spend a couple of days in different departments to get familiar with some basic technologies and procedures. Most often our computer and administrative departments absorb pupils during summer. In our computer department the students learn how to work with computer and Internet and become familiar with some useful software such as Word, PowerPoint and Excel. In our administrative department they also learn simple accounting procedures.

We could accommodate up to 20 students during summer and we only accept those pupils who formally are introduced to us by their head-teachers and we formally issue them a letter at the end of their period of education. In my point of view, such free of charge educational program could help medical school to spread some basic and important scientific knowledge into their served communities.

Giving talks to high school pupils by school academic members

Sometimes we receive a request from different head-teachers who ask an academic member of our school to give talks to their pupils at their high school. The range of topics which usually they ask for include infectious diseases such as AIDS, personal hazardous habits such as smoking, injuries, drug abuse, plus nutritional issues and psychological problems, etc.

Usually one of our academic members, based on his/her specialty is appointed to present a formal talk which is followed by an informal discussion. The feedback that I have received from academic members and the head-teachers have highlighted that such presentations are very useful, especially in the informal discussion section, pupils have the opportunity to ask their most important private health problems and receive appropriate suggestions by our academic members.

Some of our other studies are carried out to determine the extent and prevalence of most essential health related diseases and disorders such as obesity, depression, anxiety, etc. among high school pupils. The results of these studies would not only communicate to the head-teachers but also to our health-care providers in order to better equip them for tackling such problems.

Focusing some of our research on the topics related to high school pupils

Some of our academic departments, especially the social medicine department, have developed research lines related to high school pupils’ most essential health issues and problems. For example, some of our studies are conducted as KAP (Knowledge, Attitude and Practice) studies to determine the level of knowledge, attitude and practice of high school pupils towards their most important health issues such as sexually transmitted diseases, drug abuse, etc. Such studies would help our academic members to prepare relevant educational materials for the high school pupils.

Conclusion

It is highly important that medical schools have established a strong tie with high school pupils in their served communities. RMS as a socially accountable medical school has followed four approaches to accomplish this
important tie. In the first approach we have open door days to high school pupils during the academic year to present them with a sense of medical school curriculum. In the second approach we have open door days to high school pupils during summer in order to allow them to become familiar with some basic technologies and procedures. In the third approach we ask from our school academic members to deliver talks to high school pupils on their most important health issues. Finally, in the fourth approach we focus some of our research activities towards the topics related to high school pupils in order to scientifically highlight their most vital health issues and problems.

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Ibn Khaldun on the Aspects of Making a Living: A Socio-Economic Analysis

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Abstract

Among the social scientists, the various aspects of making a living have been an interesting area of research for a long period of time. Centuries before, a Muslim thinker named Ibn Khaldun has given a detailed and interesting description and analysis on the various aspects of making a living. This article focuses on his thoughts on the aspects of making a living. The article starts with an introduction of Ibn Khaldun’s life and works. After that, it presents a detailed description of Ibn Khaldun’s thoughts on the aspects of making a living. The article also analyzes these thoughts and strives to find out their relevance in the context of the modern world. The article concludes that though Ibn Khaldun introduced these theories to the world centuries before, these theories still have relevance in today’s world. Moreover, many of these theories are very similar to the recent theories given by contemporary scholars.

1. Introduction

Ibn Khaldun is renowned as one of the greatest thinkers ever. Among the contributions of several great Muslim thinkers, his contributions are regarded as some of the most significant. His methodology in regards to the analysis of history and his political and economic thoughts demand to be appreciated as some of the best thoughts the world has ever encountered. It is said that his lavish career path and eventful life helped him in gaining knowledge and disseminating thoughtful thoughts. His contributions to academia and his assistance to some of the great political figures of his time made him distinguishable among other thinkers. Many people called him the father of social science.

Stowasser (1984) introduced Ibn Khaldun as: “The man who set forth a system of historical speculation in a book which Arnold Toynbee has called ‘The greatest work of its kind that has ever been created by any mind in any time or place’”. Ahmed (2002) commented:

“Not only is Ibn Khaldun generally recognized as the ‘father, or one of the fathers, of modern cultural history and social science’ influencing and shaping these disciplines into our time, but his work provides the intellectual point at which other world scholars connect in genuine appreciation”.

Even then, just like the case of many other Muslim scholars, his contributions remained unknown to the Western World for a long period of time. But these days, in spite of so many efforts of ignoring and concealing the pioneering role of Ibn Khaldun in many fields of knowledge (like history, philosophy, sociology and law), many scholars (both eastern and western) are giving importance to his immensely notable contributions (Okane and Ahmad, 2011). It is said that his analytical method is a perennial contribution to the analysis of social dynamics (Patriarca, 2010). Within the Islamic world he is known as the founder of positive/historical/truly scientific social science (Stowasser, 1984). He is best known for his outstanding theory of social and political cycles. His criticisms on the methods used in historical analysis and then the introduction of a groundbreaking methodology demand immense admiration. Ibn Khaldun has his contributions in the fields of historical methods, acquisition of knowledge, social dynamics, micro and macro economics, science and instruction etc. He was an astute politician, a jurist, a first-rate historian and the first sociologist in the modern sense (Stowasser, 1984 and Gellner, 1981).

1.1. Life and Works of Ibn Khaldun:

The life of this fourteenth century philosopher was ‘intricately intertwined’ with the political and military events of his time (Katsiavicas, 1997). Abu Zaid Abd al-Rahman Ibn Muhammad Ibn Khaldun was born on May 27, in the year of 1332 in Tunis in an influential Arab-Andalusian family (Patriarca, 2010). In his childhood he got his general education in accordance with the conventional Islamic teaching of his time. He learnt Al Qur’an by heart. Other than that he gained the knowledge of grammar, jurisprudence, Hadith, rhetoric, philology, and poetry. He obtained aptitude in these issues and received certification in these subjects.

But he was unfortunate as he lost his parents, most of his teachers and friends at the age of nineteen, in an epidemic of plague which spread out in Tunis. In his great creation, known as Al Muqaddimah, he described his feelings as follows:
"Civilization in both the East and the West was visited by a destructive Plague which devastated nations and caused population to vanish. It swallowed up many of the good things of civilization and wiped them out." (taken from Patriarca, 2010).

At this point of his life he was suffering from bitter loneliness and a feeling of intellectual emptiness was always biting him (Talbi, 1991). As a result he went to the Town of Fez (a city of North Africa) and was offered an administrative position in the empire of Sultan Abu Ishak. This town used to be one of the most prominent cultural and commercial centers of that time. Here, he came across a good number of prominent knowledgeable people. His level of knowledge was ameliorated during his stay in Fez.

After that he visited and lived in several areas in Northern Africa by giving his services to a cohort of several sovereigns and despots with different tasks’ (Patriarca, 2010). Here he started writing his famous contribution Al Muqaddimah. Because of some unsuitable situations in the Sultan’s palace, he left the palace and reached Granada.

Later, after his pilgrimage to Makkah, he went to Cairo and fell in love with the city because of the immense natural beauty of the river Nile, the beautiful architecture of the town and the presence of many notable scholars of that time. He was appointed in the position of Malikite Qadi. Later he got a teaching job in the University of Al-Azhar, one of the most prominent universities in the Muslim world till now. He used to teach Fiqh and students used to like his teaching a lot:

"Al-Hafiz Ibn Hajar, present at his lectures, described his teacher with these words: ‘He was very eloquent, an excellent essayist and exhibited a deep knowledge of the subjects, particularly those relating to the state’ (Enan, 1984: p.66 and Patriarca, 2010)."

At this point of his life he had to face another tragedy: his family members died in a shipwreck on their way to the port of Alexandria. Besides this, because of the huge protest from the part of the local elites, he had to resign his position. He had to join in school teaching at this point. He died in Cairo in the year of 1406.

As discussed earlier, Ibn Khaldun was one of the scholars who did not pass his life only by studying and writing. He was also involved in several political phenomena happening at his time. He held various diplomatic and political positions in several times. He completed his first book titled The Gist of the Compendium at the age of nineteen. His other notable contributions include The Healing of the Seekers and Kitab al-Ilbar. According to Enan (1933):

“The intellectual legacy of Ibn Khaldun is unique among the works of Moslem thoughts and notwithstanding the lapse of centuries, still maintains its value, vigor and modernity, and occupies a high place among the monuments of world thoughts.”

He completed his renowned work Al Muqaddimah within a span of five months. It is said that this work resulted from his immense wisdom and experience. This huge volume of work included a wide variety of topics. Nurullah (2009:99) states:

"Ibn Khaldun had a gifted ability for exposition that convinces readers easily. His Muqaddimah or Prolegomena is distinguished as a new subject and the brilliance of its style is characterized by its simplicity, force of argument, and harmony. Ibn Khaldun began to put all these experiences, observations and reflections into the book in his virtual exile.”

It is to be also mentioned here that many scholars recognize Ibn Khaldun as a positivist. If we go through his writings, we shall be able to find that most of his writings are based on his observations and experience. Rather than focusing on what should be the situation (a normative approach) he actually described on what is going on in the society.

Al Muqaddimah mainly covered six issues. The first chapter discussed human civilization in general. The second chapter covered the issues of Bedouin civilization, savage nations and tribes and their life conditions. The third chapter focused on dynasties, royal authorities, the caliphate and some other issues related to these. The fourth chapter discusses countries and cities and the other types of sedentary civilizations. The fifth chapter covers issues related to aspects of making a living. The sixth chapter focuses on different kinds of science. This article focuses on the issues discussed in the fifth chapter: Issues related to making a living.

1.2. Aspects of Making a Living:

The various aspects of making a living had been a popular issue of discussion among the economists and the social anthropologists for a long time. Schultz and Lavenda (2005; 228) state that:

“Although our physical survival depends on our making adequate use of the material resources around us, the resources themselves do not determine how they must be used. Rather, our cultures suggest a range of options for making a living, as well as furnishing the tools to pursue those options.”

Nanda and Warms (2004; 139) comment that “All societies survive by using their environments to provide people with basic material requirements of life: food, clothing, and shelter.” Schultz and Lavenda (2005; 228) made similar comments by saying:

“In ordinary conversation, when we speak of making a living we usually mean doing what is necessary to obtain the material things - food, clothing, shelter - that sustain human life. Making a living thus encompasses what is generally considered economic activity.”

In order to survive in this world, human beings need to avail these basic needs and for that they follow some subsistence strategies. Subsistence strategies can be defined as ‘the patterns of production, distribution and consumption that members of a society employ.

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groupings that are parts of systems of societies. Murphy (1989; 148) also comments: “Anthropological economics deals with the values, institutions, roles and groupings that are parts of systems of production and distribution of goods and services.”

If we go through the writings of Ibn Khaldun, we shall see that he could wisely blend the topics of these disciplines (economics and economic anthropology) in his descriptions. On one hand he has talked about the role of different people and groups in the economic exchange in order to ensure subsistence. On the other hand, he gives a prudent explanation of the role of demand and supply in the market mechanism. He did not use the terms ‘economics’ or ‘anthropology’ in his writings as we know that these disciplines came into existence later on. Patricia (2010; 184) asserts: “Y. Lacoste even comes to affirm that if Thucydides invented history, Ibn Khaldun turned it into a science’…. His thought is the fruit of a perfect synthesis in which sociology and social psychology and political science and economy appear as auxiliary sciences to history in a complex unity. Ibn Khaldun admonishes that ‘it is necessary that the historian knows the fundamental principles of the art of government, the true character of events, the difference between the nations, the countries and times which observe the customs, the uses, the behavior, the opinions and religious sentiments and all the circumstances that influence the society’.”

Hendry (1999; 208) comments that ‘Exchange, and specifically markets, are further development of economic life, made possible when subsistence is secure.’ Murphy (1989) states that the anthropological interest in economics comes from the relevance with subsistence and environment and there are a very few overlapping areas between anthropology and economics. The discipline of economics is mainly concerned with the issues like demand, supply, price etc. Jha (1994) defines economic anthropology as a major sub-field of social anthropology and according to him, economic anthropology mainly analyzes economic life as a subsystem of societies. Murphy (1989; 148) also comments: “Anthropological economics deals with the values, institutions, roles and groupings that are parts of systems of

1.3. Objectives of the article:
This article focuses on Ibn Khaldun’s thoughts on the aspects of making a living. It can be seen that in his famous book titled Al Muqaddimah he has discussed almost all the aspects of making a living discussed in the previous section.

The main objectives of this article are:
i. To describe the thoughts of Ibn Khaldun in relation to several aspects of making a living;
ii. To find out the relevance of his thoughts in today’s modern world.

Ibn Khaldun, in the fifth chapter of his masterpiece Al Muqaddimah, discussed on:
1. the aspects of making a living,
2. the conditions that occur in this connection, and
3. the problems that arise in respect of these.

The remaining sections of this article, Ibn Khaldun’s thoughts on these topics are discussed in details. These ideas are taken from Franz Rosenthal’s translation of Al Muqaddimah titled The Muqaddimah: An Introduction to History, published in the year of 1958.

2.0. Ibn Khaldun on Making a Living:
In the fifth chapter of Al Muqaddimah, Ibn Khaldun discusses on the various aspects of making a living. In this chapter, he focused on:
(a) Definition of profit and sustenance.
(b) Role and importance of human labor.
(c) Diverse ways of making a living.
(d) ‘Ways of living’ that are not natural.
(e) The importance of ranks and the nature of social class.
(f) The development of the practice of crafts,
(g) Different types of crafts, and,
(h) Market mechanisms.
Ibn Khaldun said that every human being, from the beginning to the end of his life, needs to collect his food and other essentials of living. He reminds us that only Allah is wealthy and we are poor. But Allah has provided us with enough resources from which we can make our livings. In order to make their living, different people adopt different kinds of means. There are advantages and disadvantages of all these ways of living. The next sections of the article will present a summary of all these issues discussed in this chapter of Al Muqaddimah.

3.0. Profit and Sustenance:

Every man wants to get some things. In order to meet these needs, men go for exchanges of things and thus they try to remove their own weaknesses. When they get more control over their weaknesses, they start striving for making profits. Man makes profit with the help of the natural endowments (like land, rain etc.) and his own effort (labor). Out of the earned profit a man can ensure his livelihood and if the profit exceeds his needs, he can go for capital accumulation. When a man can use his income for his interests and needs, his sustenance is ensured. According to Ibn Khaldun, ‘Making a living’ represents the desire of human beings for sustenance and it also includes the endeavors to attain this sustenance.

According to Ibn Khaldun, the fraction of the total income that a man gains out of his own endeavor is called profit. Without human labor, profit cannot be earned. In order to earn profit, man must have the intention to obtain things. He must exert enough efforts to get hold of those things. The part of profit that a man utilizes for his own purposes is called sustenance. The remaining unutilized part of the profit will be accumulated as capital. Thus, according to Ibn Khaldun:

Profit - Amount spent for Sustenance = Accumulated Capital.(1)

In today’s economics and accounting practices, profit is defined as ‘the difference between the costs that a firm incurs for producing goods or services and the revenue that it receives from the sale per unit of time’ (Hasan, 1975; 10). In other words, it is the surplus over the cost or it is the amount by which total revenue exceeds total cost (Hasan, 1975; 10 and Dyal and Karatjas, 1985; 95). Though modern business activities involve complex kinds of cost structures, the basic theme of profit resembles the theme given by Ibn Khaldun centuries before.

In order to survive, man needs to exchange things. Man has to put in his labor in order to make this exchange successful. When the value of the thing obtained through this exchange exceeds the value of the thing sacrificed (that is, a surplus is created), a profit is earned. People use a part of this profit for their own sustenance and accumulate the remaining part as accumulated capital.

Ibn Khaldun says that this accumulated capital can be measured in terms of the value of two valuable minerals - gold and silver. Though from the accumulated capital people can obtain some other things but the main purpose of capital accumulation is to obtain gold and silver as these minerals are not subject to market fluctuations.

Though, in modern times, the value of gold and silver fluctuates in the market, both of these minerals are considered valuable. Gold used to be considered as a standard to fix the prices of currencies for many years. Dyal and Karatjas (1985; 302) mentioned about goldsmith banking:

“Early banks existed because it was difficult and risky to carry around large amounts of gold. People paid to leave their gold with goldsmiths and others with sturdy vaults in exchange for a receipt that could be traded for merchandise or exchanged for the gold that was originally deposited.”

Many believe that these goldsmith banks were the foundations of modern banking systems. Gold also used to be a base of monetary systems of the countries for a long period of time.

It is to be mentioned here that Ibn Khaldun mostly talked about barter transactions. He did not mention monetary transaction that we see these days. But it cannot be denied that he could identify the value and importance of gold as a tool in the exchange system.

4.0. The Role and Importance of Human Labor:

Modern economics classifies economic resources into three categories. These are labor, capital and the natural resources. These three are considered as the inputs or factors of production.

Hasan (2009; 291) defines labor as ‘any mental or physical exertion undertaken with a view to obtain physical gain.’ Ibn Khaldun identifies labor as the sole input of earning profits. According to him profit is the value that is created with the help of human labor. Less utilization of labor results in a decrease in profit. In the cities, where fewer numbers of people live, less profit is generated. It is because of the unavailability of labor. Larger cities have a larger supply of labor and as a result they enjoy greater profit which results in more favorable conditions and luxuries. That is why a country cannot survive when civilization decreases. So, we can see that, Ibn Khaldun puts labor at the center of the survival of a civilization.

It can be said that Ibn Khaldun identified ‘labor’ as the source of value long before the ‘father of economics’ - Adam Smith. Adam Smith also considered labor as a source of value:

“Labor was the first price, the original purchase - money that was paid for all things. It was not by gold or by silver, but by labor, that all the wealth of the world was originally purchased (Smith, 1937; 30).”

Mohammad (2009; 225) states that ‘Ibn Khaldun preceded Max Weber and Adam Smith in holding that work is vital for capital accumulation.’ Karl Marx also regarded profit as a surplus and attributed it to labor (Hasan, 2009; 299). We can also see that the legendary economist David Ricardo also pronounced this principle in 1953, in his
famous book titled On the Principles of Political Economy and Taxation. Hasan (2009; 294) comments that ‘in the Ricardian framework, it is not difficult to see labor as the only source of value’. Though almost no western economics text mentions Ibn Khaldun, he recognized the importance of labor centuries before the other renowned economists.

Moreover, these days, labor is described with the help of a more accurate term: Human Resource. The concept of human resource not only focuses on the ability to perform physical tasks but also the skills and knowledge of human beings that are used in performing the task efficiently (Dyal and Karatjas, 1985; 23). Ibn Khaldun, while describing the classification of the crafts, described the process of performing each craft and the speculation and knowledge that is needed to perform these. So, in a sense, he could define labor in a very accurate way.

5.0. Diverse ways of making a living:
Ibn Khaldun mentions the diverse ways men can follow to earn a living. These can become the sources of profit and sustenance for men. Ibn Khaldun mentions the various sources of profit:

i. Profit can be obtained through power. It is mentioned as imposts or taxation.

ii. Profit can be earned through hunting and fishing.

iii. Profit can be generated through agriculture.

iv. Profit can be earned through applying labor to crafts (e.g., writing, carpentry, tailoring, weaving, horsemanship and others).

v. Profit can also be generated by applying labor to non-specific materials such as profession and activities.

vi. Profit can be earned through commerce (buying things at a lower price and selling them at a higher price).

According to Ibn Khaldun, this cannot be considered as a natural way of making a living. The natural ways are agriculture, practice of crafts and commerce.

Agriculture is the oldest way of making a living. Adam, the father of mankind, trained and practiced agriculture. This is a craft that has a deep relation with nature and, according to Khaldun, it does not need any speculation and knowledge.

The practice of crafts started after agriculture. Practicing of craft is systematic and that is why there is a need for thinking and speculation in performing it. Ibn Khaldun mentions that, the second father of mankind- Idris, has practiced it.

Commerce involves obtaining a profit margin by purchasing a product at one price and selling it for more than that. It involves generating a margin out of the difference between the purchase price and the selling price. So, according to Ibn Khaldun, in commerce,

\[
\text{Profit} = \text{Selling Price} - \text{Purchase Price} . \tag{2}
\]

Here, the purchase price represents the cost of the merchant and the selling price is his earning. According to Ibn Khaldun, though commerce is legal, this is a kind of gambling. In many cases, the merchant has to store the goods and keep those in store for some periods and wait for the prices to rise. This is called hoarding. If the good becomes rare, it is expected that the price will rise but if the good is available in the market in enough quantity, the price will go down.

6.0. ‘Ways of making a living’ that are not natural:
According to Ibn Khaldun, the following two are not the natural ways of making a living:

i. Being a servant, and,

ii. Trying to make money by hunting for hidden treasures.

Moreover, the people who want to keep a servant must remember that servants need two qualities: capability to do work and trustworthiness. Having both of these qualities is very rare. A servant may fall in one of the following four groups:

i. Capable and trustworthy.

ii. Not capable and not trustworthy.

iii. Capable but not trustworthy.

iv. Not capable but trustworthy.

The servants of the first kind are too qualified and that is why they are problematic. If they are employed in a low rank, they may not remain satisfied and thus may not become fruitful for the employers. The second kind does not have any quality and thus will cause damage to the employers by his incapability and disloyalty. No intelligent person should employ this kind of servant. In the case of the fourth kind, though it is good that they are trustworthy but as they are incapable of doing the work properly, they will create damage to the employer.

Ibn Khaldun suggests that the servants of the third kind (capable but not trustworthy) are the most suitable kind for the employers. As they are capable, they will not cause damage and their lack of
trustworthiness can be controlled by applying several safeguarding mechanisms and policies by the employer.

This theory has huge relevance in modern world corporate governance. One of the most prominent theories that is applied in modern day business research is the ‘agency theory’. Agency theory suggests that the people working in the organizations are actually the agents of the owners of the organization. As most people are driven by self interest, it is possible that the employees will try to fulfill their own interest, sometimes at the expense of the owners. Therefore, the owners should introduce several control mechanisms in the organizations so that the works of the employees are guarded. The modern complex organizations of these days need very capable employees who can help in running the businesses effectively. These capable people are intelligent enough to work for their own benefit and not for the benefit of the owners. That is why organizations set effective control mechanisms so that these employees work for the interest of the owners. This theory resembles the theory mentioned here, given by Ibn Khaldun. He also suggested that the negative effects of the lack of trustworthiness can be overcome through control mechanisms.

6.2. Hunting for Hidden Treasure:

Some people believe that the people of the past have hidden their properties and valuables underground and these people try to make a living by searching for those treasures. Their belief is mostly based on stories and myths. Ibn Khaldun says that this is the thinking of weak-minded people. This represents their incapability of making a living in a natural way. They want to ensure their sustenance without making any effort. They do not understand that in most of the cases, they cannot get anything as this is not a systematic method of searching for treasure and making a living. Moreover, treasure hunting is troublesome, risky and expensive.

7.0. The importance of rank and the nature of social class:

According to Ibn Khaldun, people having rank can make use of other people’s labor in order to make profit. Because of their rank status, they can apply power on other people and make them do works. They receive much labor within a short period of time (as many people keep working for them) and thus their wealth also increases within a short period. In this respect Ibn Khaldun gives examples of jurists, religious scholars and pious people who have gained a good reputation in the society. These people become wealthy very quickly because other people respect them and help them a lot.

But the people who do not have a rank in the society will have to increase their wealth by their own efforts. Ibn Khaldun said that the merchants, who have rank, enjoy a better position and status in the society than the merchants without rank. Rank helps people to secure property.

Ibn Khaldun highlights the class system existing in society. The social classes exist and each higher class dominates the lower class/classes. Just like that, the lower classes also depend on the higher classes for making a living. Rank plays a vital role in generating higher profits. If someone holds an influential rank in the society, it will be easier for him to accumulate a greater amount of profit in comparison to the people in the lower ranks.

In order to secure a rank, a man must be obsequious and he must also practice flattery. It is not possible for anyone to get a rank without obsequiousness and flattery. So, a person possessing and showing haughtiness and pride will not be able to secure a rank. Pride and superciliousness are considered as blameworthy characteristics.

Many merchants and craftsmen do not possess any rank. Generally these people remain very proud of their expertise. They think that as other people need their services, they are superior and people should also treat them as superior members in the society and respect them duly. But in reality, it does not happen. Because of their arrogant and over-confident behavior, people dislike them. Over the time, because of this detachment from people, their livelihood gets destroyed.

Ibn Khaldun also says that the persons like judge, mufti, teacher, prayer leader, preacher, muezzin, and the like are generally not very wealthy. This is because these people do not offer anything that general people have compelling needs for. These people mainly offer noble things. Moreover, these people are also very proud of their knowledge and feel themselves superior to the others in the society. They do not behave humbly with the people in the ranks. As a result their conditions do not improve. So, Ibn Khaldun concludes that obsequiousness and flattery are essential to gain wealth.

Gaining wealth with the help of power and positions is not uncommon in today’s society also. Many political figures all over the world have become the owners of huge amount of assets by imposing their power on other people. Influential people utilize general public in gaining wealth. In the third world, there are so many examples of becoming the owner of huge wealth after securing a political position (say parliament member). In many cases they exploit their power in illegitimate ways. Other people also help them either because they are afraid of the people in the power or because they want to fulfill their own interest by serving the powerful political leaders.

If we analyze these theories of Ibn Khaldun, we shall be able to understand that long before Karl Marx, Ibn Khaldun made an attempt to explain social class. According to Marx:

"Some people learned to produce more than they needed to survive. They came to enjoy a power position because they could provide subsistence to others. Controlling material production represented a threshold point in the historical development of humans. It also led to a division of labor in society, and to
the formation of economic social class” (Delaney, 2005; 71).

Though it cannot be said straightway that there is a full resemblance between the theories of Karl Marx and Ibn Khaldun, both of them emphasized on power and wealth as determinants of social class. Ultimately these two things, wealth and power, result in the exploitation of the lower social class.

Khaldun’s theory also has resemblance with the conflict perspective of Max Weber. Weber, like Marx, emphasized on economic factors as the determinant of power. Weber also added two other factors responsible for social division and they are: social prestige/status and political influence (Delaney, 2005; 72). Khaldun also emphasized highly on these two factors and gave detailed explanation on the influence of these two factors on the creation of social class.

Renowned sociologist C. Wright Mills also emphasized on political power as a critical element creating class difference (Delaney, 2005; 84). Mill’s concept of ‘power elite’ resembles with the concepts of Ibn Khaldun. Mills (1956; 3-4) defined the term ‘power elite’ as follows:

“The power elite is composed of men whose positions enable them to transcend the ordinary environments of ordinary men and women; they are in the positions to make decisions having major consequences.”

This concept of elite group has a similarity with the group of the judge, the mufti, the teacher, the prayer leader, the preacher and the muezzin that Ibn Khaldun mentioned.

8.0. Development of the Practice of Crafts:

Ibn Khaldun has given enough importance on the practice of crafts. He defined craft as the habit of something that deals with the actions and the thoughts of people. This habit is developed by doing the same thing again and again. Craft needs teaching. This habit is grown as a result of personal observation of performing the craft.

Crafts can be simple or composite. Simple crafts deal with the necessities and the composite ones deal with the luxuries. In smaller cities where people mainly want to fulfill their necessities, inferior crafts are found. When the sedentary civilization proliferates, composite and superior crafts emerge. With the development of sedentary civilization people get attracted to the luxuries of life and that is why developed forms of crafts are observed.

So, at first the crafts fulfilling the necessities are developed. Some examples of the experts of these crafts are the carpenter, the tailor, the smith, the butcher and the weaver. Then when the sedentary civilization starts developing, crafts like the coppersmith, the bath attendant, the cook, the biscuit baker, teacher of singing, dancing and drum beating are developed.

Ibn Khaldun said that men should apply their labor only on those crafts that are considered as valuable in the cities where they live and these will generate profit for them. Crafts can only flourish when they are demanded. If a city or civilization starts declining, the demand for luxurious crafts decreases and the citizens again limit themselves to the necessities.

In today’s world, if we compare the situations of the less developed and the developed countries, we can find out the relevance of Ibn Khaldun’s theories. Less developed third world countries are striving to meet the basic necessities of citizens and as a result, people generally do not practice luxurious crafts there. The people of these countries cannot afford more than their necessities as they have a low per capita income. But if we look at the modern and developed western world, we can feel the vibrant presence of luxurious crafts. We can see the growth of industries like publishing houses, tourism, theaters and movies, aristocrat hotels, luxurious apartments, expensive restaurants and others. It is because the sedentary life flourished in these countries. People could develop themselves to a certain extent. Their economic activities and performances increased. They are earning more and that is why they are looking for new products and amenities. Entrepreneurs in these countries are utilizing the scope of fulfilling these new demands of people. New innovative products and services are coming to the market just as Ibn Khaldun commented that crafts can improve only when there is an increasing demand for them.

9.0. Different Types of Crafts:

Ibn Khaldun classifies the crafts under two main categories:

i. Necessary: like agriculture, architecture, tailoring, carpentry, and weaving.

ii. Noble: Like midwifery, the art of writing, book production, singing and others.

In Al Muqaddimah, he discussed on most of these crafts under different headings. He not only defined these crafts but also has meticulously described the processes of performing these crafts. In this article, very brief descriptions (mainly according to Ibn Khaldun’s writings) of all these crafts are presented along with their present conditions. According to Ibn Khaldun, the main types of crafts are:

(a) Agriculture: The ultimate outputs of this craft are food and grain. This is the oldest craft that was developed before the introduction of sedentary life as it meets the most basic need of human beings: food. Sedentary people do not practice this craft. This craft involves ordinary, normal and uncomplicated formula. That is why the cultivators are characterized by humility.

(b) Architecture: This is considered as the first kind of craft of the sedentary society. This craft helps in building houses for shelter and protection. It protects people from heat, cold and enemies. Architecture needs technical expertise. The houses of people differ in terms of size, building materials, look and decorations. The architectures of different dynasties are also different.

(c) Carpentry: Ibn Khaldun identified this wood-based craft as one of the inevitabilities of civilization. The outputs of this craft include: tent poles and pegs
lances, bows, arrows, roof of the houses, locks of the doors, chairs etc. Carpentry is also applied in making ships. Performing this craft demands the knowledge and expertise in geometry.

(d) Weaving and Tailoring: Woven materials protect people from heat and cold. Tailoring involves putting different parts of clothing together with threads and making the garment fit to the body.

(e) Midwifery: Midwifery involves the technique of taking a baby child out of his/her mother’s womb in a gentle and careful manner. According to Ibn Khaldun, the practice of this craft is mainly limited within women. This is an essential craft for human species.

(f) Medicine: This craft works for safeguarding health of people. Ibn Khaldun comments that this craft is mainly based on the cities. It is mainly because the food habits of city people are not always good. They eat more and thus they eat more. They eat different kinds of food. Food is the main reason of all diseases. Moreover, the air in the cities is polluted. The city people are relatively inactive in terms of physical labor. So, they need medicines to survive.

(g) Book Production: This craft is related to scholarly writing and official documents. Ibn Khaldun talks about the use of parchments for this purpose. He mentioned about the growth of production of books and government documents. He talked about the use of paper to prepare these documents.

(h) Writing and calculation: Ibn Khaldun considered writing as the most useful craft as it involves theoretical and scientific issues. He says that calculation and writing are interrelated. Calculation deals with numbers. It requires intelligence.

Centuries after the writing of Ibn Khaldun, we can see the existence of all these crafts even in today's world. As these crafts are considered important by people, over the passage of time, all of these have developed a lot. In many cases, his theories on all these crafts have relevance in today's world also. Ibn Khaldun said that craft grows and improves because of the increasing demand from the part of the people. This statement was true in all these cases.

Even in today's world, in many societies, the social status of the farmers is much lower than that of the people who live sedentary lives. But there is no doubt that agriculture improved in terms of its techniques. Modern day farmers are using better technologies and methods to cultivate crops. Moreover, the agriculture based industries, mainly the processed food industry, fertilizer industry, pesticide industry and the industries related to agricultural machineries, are in a very good shape in every economy.

In the modern world, mainly in the developed countries, the eye-catching architecture fascinates us. Architects, as professionals, are in good demand.

We can see the tremendous development of weaving and tailoring in today's world. Over the passage of time, now, this craft is not only practiced to protect the human body from heat and cold but also gives good looks to human body. The remarkable growth of fashion houses all over the world is evidence for this. The garment industry is one of the highest money-earning industries at this point of time.

In recent ages, the craft of midwifery is mainly practiced by trained doctors, both male and female. As a result of the massive improvement in medical science, this craft has developed a lot. Even today, in the rural areas of many undeveloped countries, untrained women practice this craft.

In today's modern ages we find all the arguments of Ibn Khaldun regarding the craft of medicine as true. Though the need for medicine is not limited only to the cities these days, the unhealthy food habit, air pollution and lack of physical exercise (because of desk-based jobs) are creating a lot of health problems. New kinds of health problems are arising. Medicine industry is booming. Pharmaceutical companies are investing huge amounts of money in research and development estimating the future growth.

Over the years, the world has seen a substantial growth in publishing and printing industry. In 15th century Johannes Gutenberg introduced the printing press. At the beginning, publishing through press used to be very expensive but over time, with the advent of new technologies, the printing of books and other documents became inexpensive and common. This industry went through this remarkable growth because of the demand of the craft called book production.

Ibn Khaldun also says that it is very tough for a person to learn more than one craft. It is very rare that we can find a person having knowledge and expertise in more than one craft. Specialization has become one of the most talked about issues in today’s society. Organizations are going for departmentalization. Departments within the organizations are performing different specialized tasks. People with particular skills and knowledge are employed according to the need of every department. The main reason for this practice is that everybody cannot be an expert of everything.

10.0. Market Mechanisms:

Ibn Khaldun discussed on how the market works. He talked about the rules of demand and supply. He also talked about the quality issue. He stated the following principles:

i. When goods are available in small numbers and these become rare, the price of the goods rises. If the goods are available in big quantities, their prices go down. When it is easy to acquire the product, more products will be available in the market and the prices will be lower and vice versa.

ii. Goods are considered valuable when the merchants bring them from another country, especially when reaching another country is risky. If merchants can bring the goods from a country which is tough to reach, they can become affluent immediately.
It happens because it becomes relatively difficult to gain or produce this particular product. The producers/sellers can charge a relatively higher price in these cases.

In comparison to today’s literature on market mechanism, definitely the thoughts of Ibn Khaldun will seem crude and simplistic. In modern complicated economy, the availability of product will be hindered by so many economic barriers and not just because of the risk of acquiring the product that Ibn Khaldun mentioned. But it should be noted that Ibn Khaldun mentioned these principles on the basis of the conditions of the then society and market. On the basis of those situations, he could identify the basic features of interaction between product availability and price.

Quality control and pricing strategies are also given significant importance in today’s business domain. Business people are going for a lot of research and development in order to produce products that will be of a certain quality and will be affordable for most of the consumers in terms of price. It is certain that most of the products are absolutely produced for the masses. Producers cannot include too many features in these products as in that case the price will become too high. Though these days many companies are specialized in producing and selling luxury products manufactured only for the higher class of the society, they are fewer in number. Most of the companies produce products for the masses and these products are of medium quality.

11.0. Analysis of Ibn Khaldun’s thoughts on making a living:

From the discussions in this article it can be understood that Ibn Khaldun’s contribution in the disciplines like economics, sociology and anthropology was immense and thus not ignorable. Many of his descriptions and predictions on human society have relevance even in today’s world. He is one of the Muslim thinkers who got some recognition by the West. Even then, his name is not mentioned in most of the Western textbooks of economics, sociology and anthropology.

Another admirable issue of Ibn Khaldun’s approach of establishing theory is his methodology. He gave many of the theories out of his own observation and experience. That is why many Muslim thinkers of today tried to recognize him as a positivist. Backhouse (2002; 39) comments:

“Trade and Science both flourished in the Islamic world, and men such as Ibn Khaldun, involved in the legal and administrative systems, were able to use their own experiences and traditions...
handed down to them to amass a large stock of economic knowledge.”

Another important fact for which Ibn Khaldun deserves praise is that he could identify the self-interest driven nature of human beings. He could identify the class system prevailing in the society. He has also shown the nature of exploitation of the lower classes by the upper powerful classes. In many cases, Ibn Khaldun is compared to the Italian philosopher Niccolo Machiavelli who also dealt with the dark sides of human nature. Both of these philosophers had glorious political careers at their times.

12.0. Conclusion:
The objectives of this article were two-fold: (1) to describe the thoughts of Ibn Khaldun on the ‘aspects of making a living’ and (2) to find out the relevance of these thoughts in today’s world. Further extensive research is necessary in order to achieve a greater understanding of Ibn Khaldun’s thoughts. His theories on the development of the crafts and industries can be studied by analyzing the historical evidence related to each and every industry that he has talked about.

It can be said confidently that Ibn Khaldun could grasp the fundamental elements of the aspects of making a living and the related social and economic realities. There is no doubt that Ibn Khaldun was the pioneer of describing many fundamental economic and social concepts that are having relevance even in today’s world.

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The Contribution of Tourism To Economic Growth in Thua Thien Hue Province, Vietnam

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Abstract

The purpose of this study is to investigate the contribution of tourism to economic growth in Thua Thien Hue province in the period of 1997-2011. We used the growth of real gross domestic product (GDP) as a measure of economic growth and then disaggregated it into economic growth generated by tourism and generated by other industries. Firstly, the paper presents a methodology for measuring the contribution of tourism to the Thua Thien Hue economy; secondly, we examined the impact of tourism earning on economic growth (GDP) in Thua Thien Hue province. We used unit root test, cointegration theory, Error Correction Model (ECM), and Granger causality test in order to identify the relationship between tourism and GDP both in the long-run and short-run. Findings conclude that tourism is one of the important reasons for economic growth in Thua Thien Hue province, Vietnam. The results of this study suggest that the government should focus on economic policies to promote tourism as a potential source of economic growth in that province in Vietnam.

Keywords: Tourism; Economic growth; GDP; VECM; Granger causality

1. Introduction

Tourism development is increasingly viewed as an important tool in promoting economic growth, alleviating poverty, and advancing food security (Robert, 2010). The speedy growth of tourism causes an increase of household incomes and government revenues through multiplier effects, improvements in the balance of payments, and growth of the tourism industry. As such, the development of tourism has usually been considered a positive contribution to economic growth (Khan et. al, 1995; Lee and Kwon, 1995; Lim, 1997 and Oh, 2005). Tourism is increasingly important in Vietnam. For backpackers, culture and nature lovers, beach-lovers and veterans touring the country for a long time, Vietnam has emerged as a new tourist destination in South-East Asia and is now on lists in magazines worldwide. In 2011, Vietnam received about 6 million international visitors, 2 million more than that in 2010 (Vietnam National Administration of Tourism, 2011). In 2008, Vietnam received 4.218 million international passengers; in 2009 the number was 3.8 million, down 11%.

Thua Thien Hue province in Vietnam is known for its historic royal sites; cultural festivals and more than 1,700 dishes ranging from food for the people to aristocrats. Over the past decade, Hue tourism industry has made progress and achieved remarkable achievements. In the year, 2011 more than 1.3 million tourists, including 550,000 foreigners visited Hue. The sector earned nearly VND 1,000 billion in revenue, up to 25.6 % (Figure 1 - opposite page). Direct employment in the tourism sector was estimated at around 8300 (1.5 % of the work force) (Vietnam National Administration of Tourism, 2011). So, the tourism industry is one of the economic sectors that contributes greatly to the economy in that province.

Empirically, the analyses on tourism development and economic growth relationship was conducted for different countries in different years employing different methods. In one
study, Dritsakis (2004) showed that tourism has a long-run economic growth effect for Greece. In Turkey, Tosun (1999), Guduz and Hatemi (2005) and Zortuk (2009) also found empirical support for the tourism-led growth hypothesis. Oh (2005) on Korean tourism concluded that the increase in tourism income affects economic growth. However, most of these studies were based on a model, which includes two variables as real gross domestic product and tourism earning and used the Johansen's cointegration, Error Correction Model and Granger causality test to examine the causality between tourism and GDP. In addition, the Granger causality results suggested a bidirectional causality between tourism and economic growth (Gautam, 2009; Kreishan, 2011), unidirectional causality with either the tourism-led growth (Balaguer) or economic-driven tourism growth hypotheses (Oh, 2005). However, their common disadvantage is that they did not state how much of the economic growth is, in practice, attributable to tourism. On the other hand, Stanislav Ivanov and Craig Webster (2006) and Juan Gabriel Brida et al (2007) used the growth of real GDP as a measure of economic growth and disaggregated it into economic growth generated by tourism and generated by other industries. However, with their study they could not state how much tourism contributes to economic growth. Thus, there is a need to study the long-run relationship between tourism and economic and evaluate how much was the contribution of tourism to economic growth performance of a country or a region.

Although the tourism industry has grown significantly in Thua Thien Hue, tourism researchers have not paid much attention to the empirical assessment of contributions of the tourism sector to Thua Thien Hue’s economy. This study therefore, aimed to further this important area of inquiry by answering the following two questions:

(i) what is the contribution of tourism to economic growth in Thua Thien Hue? and
(ii) is there a long-run equilibrium relationship between tourism earning and economic growth in Thua Thien Hue?

**Data and Methodology**

**Data**

This study utilized the data of the third-month time series of real GDP, tourism earning and the yearly real population from the Statistical Department of Thua thien Hue for the years from 1997 to the fourth quarter of 2011. Yearly real GDP of hotels and restaurants sector, and yearly final consumption data were obtained from Thua Thien Hue’s Department of Culture, Sports and Tourism.

**Methodology**

The aim of this section is to describe the methodologies we apply and the empirical evidence from Thua Thien Hue province. First, we explain the method we used to estimate the contribution of the tourism sector to the economic growth of Thua Thien Hue. Next, in order to examine the impact of tourism earning on economic growth (GDP) for Thua Thien Hue province, we run the tourism-growth model.

**Contribution of tourism to economic growth**

An impact is considered an economic benefit, or cost, if it positively increases the welfare of the local population. Thus, economic growth should increase the welfare of the local population, although certain segments will benefit more than others. In this regard in the current paper we used the growth of real GDP per capita $g$, as a measure of economic growth. The growth of the real GDP per capita $g$, is:
where $Y_{q1(p0)}$ is the GDP in constant prices; $Y_{q0(p0)}$ is the GDP in the base year and $N$ is the average size of the population; index 1 denotes current period, index 0 is the base period.

We disaggregate the nominator of (1) to separate the tourism GDP in constant prices ($Y_{tq1(p0)}$) from the GDP in constant prices of other industries

\[
\sum Y_{tq1(p0)}
\]

and tourism GDP in base period ($Y_{tq0(p0)}$) from GDP of other sectors in base period

\[
\sum Y_{tq0(p0)}
\]

We regroup the expressions in the nominator and come to:

\[
(3) \quad g_t = \left( \frac{\sum_{i=1}^{q} Y_{tq1(p0)} N_1 - \sum_{i=1}^{q} Y_{tq0(p0)} N_0}{N_1} \right) .100
\]

And the first component in this expression:

\[
(4) \quad g_t^1 = \frac{\sum_{i=1}^{q} Y_{tq1(p0)} N_1 - \sum_{i=1}^{q} Y_{tq0(p0)} N_0}{N_0} .100
\]

represents the direct contribution of the tourism sector to economic growth in the period r [4][6].

**Impact of tourism earning on economic growth**

+ Model: Following the previous research and the literature, we assume that the tourism-growth model in Thua Thien Hue takes the following form:

\[
\ln GDP_t = \beta_0 + \beta_1 \ln TOUR_t + u_t
\]

All data are quarterly over the period 1997Q1 and 2011Q4 (t = 1997Q1... 2011Q4)

All the variables are expressed in natural logarithms so that elasticity can also be interpreted; $\beta$ are the parameters of the model and it is expected that estimates of $\beta_0 > 0$ and $\beta_1 > 0$; GDP is real gross domestic product; TOUR is tourism earning in real terms; $u$ is the error terms with the conventional statistical properties.

To examine the impact of tourism earning on economic growth, gross domestic product (GDP) is used as proxy for economic growth for Thua Thien Hue province. We used cointegration theory, Error Correction Model (ECM) and Granger causality test to test for relationship between tourism and GDP in the long-run and short-run.

(a) Analysis the long – run relationship between tourism and growth - cointegration theory: This research is based on Johansen’s cointegration methodology, which is suitable for estimation purposes when the variables are non-stationary. This methodology of cointegration involves two steps, firstly to check the stationarity of the data (that is having constant means and variance over time). If the assumption of stationarity is satisfied then OLS technique is preferred. However, time series data is generally non-stationary so the variables are made stationary by applying unit root test on the basis of Augmented
Dickey Fuller Test (ADF) \cite{dickey1981}. The variables are then made stationary through first difference or second difference. Finally, co integration technique is used to find long run relationship bases on Johansen (1990) test.

(b) Analysis of the short – run relationship between tourism and growth - Error Correction Model (ECM) technique is used to find out error correction term in the short run. Here the ECM equation for the model in this study is as follows:

\[
\Delta \ln GDP_t = \beta_0 + \beta_1 \Delta \ln TOUR_t + \beta_2 EC_{t-1} + \varepsilon_t.
\]

where \(\Delta\) denotes the first difference operator, \(\varepsilon_t\) is a random error term, and \(EC_{t-1} = (\ln GDP_{t-1} - \beta_1 \ln TOUR_{t-1} - \beta_2 u_t)\) i.e. the one-period lagged value of the error. The above ECM equation depicts that \(\Delta \ln GDP\) depends on \(\Delta \ln TOUR\) and also on the equilibrium error term. If the equilibrium error term is nonzero, the model is not in equilibrium.

**Granger Causality Test:** The Granger causality test exhibits the pair wise causal relationship between the variables under consideration. It may be unilateral or bilateral either way. So, this study also uses the test to find the causality between GDP and tourism separately.

**Results and Discussion**

*Contribution of tourism to economic growth in Thua Thien Hue province*

Table 1 shows the real variation of per capita GDP in the tourism sector (measured by the sector of hotels and restaurants) and the contribution of tourism to the variation of total GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total GDP (1)</th>
<th>Tourism GDP (2)</th>
<th>Tourism Contribution (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>7.35</td>
<td>7.54</td>
<td>0.3</td>
</tr>
<tr>
<td>1998</td>
<td>4.8</td>
<td>4.34</td>
<td>0.17</td>
</tr>
<tr>
<td>1999</td>
<td>-4.66</td>
<td>2.00</td>
<td>0.08</td>
</tr>
<tr>
<td>2000</td>
<td>10.78</td>
<td>9.45</td>
<td>0.4</td>
</tr>
<tr>
<td>2001</td>
<td>8.65</td>
<td>12.11</td>
<td>0.51</td>
</tr>
<tr>
<td>2002</td>
<td>8.72</td>
<td>17.82</td>
<td>0.77</td>
</tr>
<tr>
<td>2003</td>
<td>8.68</td>
<td>-2.24</td>
<td>0.1</td>
</tr>
<tr>
<td>2004</td>
<td>8.56</td>
<td>18.21</td>
<td>0.77</td>
</tr>
<tr>
<td>2005</td>
<td>10.78</td>
<td>23.4</td>
<td>1.08</td>
</tr>
<tr>
<td>2006</td>
<td>12.9</td>
<td>25.63</td>
<td>1.31</td>
</tr>
<tr>
<td>2007</td>
<td>13.06</td>
<td>14.9</td>
<td>0.85</td>
</tr>
<tr>
<td>2008</td>
<td>9.7</td>
<td>3.75</td>
<td>0.21</td>
</tr>
<tr>
<td>2009</td>
<td>10.86</td>
<td>-5.65</td>
<td>-0.31</td>
</tr>
<tr>
<td>2010</td>
<td>12.4</td>
<td>10.18</td>
<td>0.48</td>
</tr>
<tr>
<td>2011</td>
<td>9.91</td>
<td>7.02</td>
<td>0.32</td>
</tr>
</tbody>
</table>

**Table 1: The contribution of tourism (hotel and restaurant sector) to Thua Thien Hue economic growth in the period of 1997 – 2011**

Notes: (1) Real rate of growth of GDP per capita ; (2) Real rate of growth of GDP of hotels and restaurants per capita ; (3) Contribution of tourism (hotels and restaurants) to GDP’s growth. Source: Authors’calculations based on data of Statistical Department of Thua Thien Hue
In 1997, the tourism industry contributed to 0.3% of the total economic growth rate of 7.35%. However, in 1998 and 1999 the contributed proportion tended to decrease by 0.17% to 0.08%. From 2000 to 2002, the economic growth in Thua Thien Hue increased respectively by 10.78%, 8.65% and 8.72%; whereas tourism industry contributes to 0.4%, 0.51%, 0.77%. The period of 2004 - 2007 is considered the time with the highest contribution to the economic growth of tourism sector (measured by the sector of hotels and restaurants) during the last 15 years (over 0.7%) bringing out the rise of economic growth of over 8% and the highest economic growth rate in 2007 reached 13.06%.

However, since 2008, the impact of the financial and monetary crisis in the U.S. threatens to overwhelm countries, companies, cultures and including Vietnam. As a result, for a frustrating few days, many people were denied travel, which consequently affected Thua Thien Hue’s tourism industry. As a result, the growth rate declined by 5.65% in 2009. In the year 2010, the economy began to rise again. The economy of Thua Thien Hue in general and the tourism sector in particular gained the sign of thriving with the input of 0.48% and 0.32 to the growth rate of 12.4% and 9.91% in 2010-2011.

Overall, during the past 15 years, the hotel and restaurants sector of Thua Thien Hue has contributed to the province’s economic growth.

**Impact of tourism earning on economic growth in Thua Thien Hue province**

Before analyzing the long-run relationship between tourism and growth in Thua Thien Hue, it is important to carry out a univariate analysis. Testing stationarity of time series leads to the implementation of the econometric model using the appropriate methodology. The stationarity of the series was investigated by employing the unit root tests developed by Dickey and Fuller (1979, 1981), and Phillips and Perron (1988). Knowing that unit root tests are sensitive to the presence of deterministic regressors, three models were estimated. Firstly, the most general model with a drift was estimated (TI). Secondly, we estimated restrictive models, that combined with drift and time trend (T, TI) and finally, we calculated the model without either drift or trend (T), respectively. Unit root tests for each variable, were performed on both levels and first differences of variables were estimated. The data used in the empirical investigation covered the period from 1998Q1 to 2011Q4. The ADF unit-root tests confirm that the time series data of the variables in the model are non-stationarity in their levels of variables (lnGDPt, lnTOURt). However, the first differences of two variables are stationary under the ADF tests (Table 3). The Phillips-Perron (PP) unit-root test does confirm stationarity for the two variables in similar ADF test for level and differencing stages (Table 2 - opposite page). Hence it is concluded that these variables are integrated of order I(1).

Given that integration of two series is of the same order, we further tested whether the two series are cointegrated over the sample period. Table 3 shows the results of the Johansen test, based on the maximum Eigen value and Trace statistics. The results imply the existence of one cointegrating vector at 5% significance level. On the basis of these test results, we can interpret that a unique cointegrating relationship emerged for GDP and tourism earning in Thua Thien Hue. Rejecting the null hypothesis of no cointegration implies that the two variables do not drift apart and share at least a common stochastic trend in the long run. So it is found that there is a long run relationship between tourism and growth.

The normalized cointegrating coefficients are shown in the last row of Table 3, and the signs of the variables confirm the theory in the literature (i.e. there is positive relationship between the variables).

The dynamics of cointegration technique are used to explore the long-run equilibrium among the variables. However, obviously there may be disequilibrium among these variables in the short-run. Thus, the error term in our model can be used as the equilibrium error. And this error term can be used to fix the short-run behaviour of Real GDP growth rate to its long-run value. Due to two variables GDP and tourism degree integrated I (1) and cointegrating relationship, the ECM is:

$$\Delta \ln GDP_t = 0.029282 + 0.242079 \Delta \ln TOUR + 0.90830 EC_{t-1}$$

$$[0.2647] \quad [0.1455] \quad [0.0000]$$

$$R^2 = 0.5573; \quad d = 1.67335; \quad \text{Prob (F(1,59))} = 0.0000$$

The model between tourists and economic growth shows that the tourism earns the role of exogenous variables with the coefficient of the error correction equation of 0.9083. In particular, GDP is adjusted for long-run balance of tourists at a rate of about 90.83%. The short-run volatility of GDP is adjusted in terms of tourism earning at a rate of about 24.21%. The parameters tested to fit of the model confirm that it is significant. In general, there is relationship between tourism and GDP in both the
Table 2: Unit Root Estimation (ADF and PP Test)

<table>
<thead>
<tr>
<th>Statistic (levels)</th>
<th>InGDP</th>
<th>InTOUR</th>
<th>Statistic (first differences)</th>
<th>ΔlnGDP</th>
<th>ΔlnTOUR</th>
<th>95% C.V</th>
</tr>
</thead>
<tbody>
<tr>
<td>τₙ₁(ADF)</td>
<td>-2.462(4)</td>
<td>-3.482(1)</td>
<td>τₙ₁(ADF)</td>
<td>-17.519(2)</td>
<td>-4.993(1)</td>
<td>-3.49</td>
</tr>
<tr>
<td>τ₁₁(ADF)</td>
<td>1.243(3)</td>
<td>-0.722(1)</td>
<td>τ₁₁(ADF)</td>
<td>-17.198(2)</td>
<td>-4.987(1)</td>
<td>-2.91</td>
</tr>
<tr>
<td>τ(ADF)</td>
<td>6.821(3)</td>
<td>4.456(1)</td>
<td>τ(ADF)</td>
<td>-2.984(3)</td>
<td>-2.373(1)</td>
<td>-1.94</td>
</tr>
<tr>
<td>τₙ₁(PP)</td>
<td>-6.685(1)</td>
<td>-8.069(1)</td>
<td>τₙ₁(PP)</td>
<td>-23.398(1)</td>
<td>-25.391(1)</td>
<td>-3.49</td>
</tr>
<tr>
<td>τ₁₁(PP)</td>
<td>-1.341(1)</td>
<td>-0.940(1)</td>
<td>τ₁₁(PP)</td>
<td>-21.195(1)</td>
<td>-25.578(1)</td>
<td>-2.91</td>
</tr>
<tr>
<td>τ(PP)</td>
<td>4.828(1)</td>
<td>6.237(1)</td>
<td>τ(PP)</td>
<td>-10.090(1)</td>
<td>-11.124(1)</td>
<td>-1.94</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on Eviews 6.0

Table 3: Cointegration Test Results

<table>
<thead>
<tr>
<th>Null r=0</th>
<th>Alternative r=1</th>
<th>Trace</th>
<th>95% C.V</th>
<th>Max-Eigen</th>
<th>95% C.V</th>
</tr>
</thead>
<tbody>
<tr>
<td>r=0</td>
<td>r=1</td>
<td>35.5607*</td>
<td>15.4947</td>
<td>36.3873*</td>
<td>14.2646</td>
</tr>
<tr>
<td>r &lt;= 1</td>
<td>r=2</td>
<td>0.16341</td>
<td>3.84147</td>
<td>0.16341</td>
<td>3.84147</td>
</tr>
</tbody>
</table>

Notes: The r is the cointegrating vector(s). Chosen r: number of cointegrating vectors that are significant under both tests. Asterisk (*) denotes statistically significant at 5% level. Source: Authors’ calculations based on Eviews 6.0

Table 4: Pair wise Granger Causality Tests

<table>
<thead>
<tr>
<th>Null</th>
<th>Optimal lag</th>
<th>F-value</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>LnTOUR does not Granger Cause LnGDP</td>
<td>1</td>
<td>60.3335</td>
<td>0.00000*</td>
<td>LnTOUR =&gt; LnGDP</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>34.8426</td>
<td>0.00000*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>14.4913</td>
<td>0.00000*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>3.72665</td>
<td>0.0103**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>2.70694</td>
<td>0.0323*</td>
<td></td>
</tr>
<tr>
<td>LnGDP does not Granger Cause lnTOUR</td>
<td>1</td>
<td>2.04312</td>
<td>0.1585</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>22.5711</td>
<td>0.00000*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>21.4006</td>
<td>0.00000*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>2.46535</td>
<td>0.0562</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>2.81116</td>
<td>0.0274*</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Tests for causality have been carried out for the two variables of the model on Eviews 6.0. * Denotes significance at the 1% level. ** Denotes significance at the 5% level
short-run and long-run and in case of discrepancies between GDP and tourists there must be some adjustments needed.

As a next step, we test for causality among the variables. Table 4 (previous page) reports the statistical analysis of the causal relationships between LnGDP and LnTOUR for Thua Thien Hue. Both hypotheses were tested by a standard F-test. The optimal lag was selected with the smallest values of Akaike Information Criteria (AIC). The results also suggested that the causality runs from tourism earning to GDP and causality runs from GDP to tourism earning at the 1% level of significance. This indicated that there is a directional causality between tourism and economic growth. In other words, tourism expansion looks to act as an engine of economic growth for Thua Thien Hue.

Conclusion and Policy Implications

In this article, we have studied the relationship between tourism and economic growth in Thua Thien Hue from two perspectives. First, we have quantified the contribution of the tourism industry to economic growth over the past two decades, and then we have studied the importance of tourism to long-term growth. The findings of the study showed that tourism earning is one of the important causes of economic growth in Thua Thien Hue. However, it is obvious that such contribution of the tourism industry (hotel and restaurant sector) is relatively low as compared to its available potential. Therefore, there should be solutions to increasing growth in the tourism sector and its contribution to the province’s GDP in the near future and to enhance its impact on economic growth. Specifically:

The first solution is to develop overall planning for the tourism industry: Based on the resolutions, state policy and economic and tourism development orientation of Thua Thien Hue province towards 2020 and views towards 2030, it is essential for all relevant official agencies to review, formulate urgently, evaluate detailed projects by stages in priority areas (or key areas) and build up projects which are prior to each stage. It is said that the process of elaboration and approval of investment projects in infrastructure should be accelerated, historical and cultural monuments for prime tourism sites should be upgraded and recovered with the aim of creating favorable conditions for investment. Especially, Thua Thien Hue People’s Committee should co-ordinate with planning offices in the areas of urban space and tourism environment in attractive areas. On one hand, they should create close links between official agencies and industries in the fields of constructing and planning implementations. On the other hand, community participation in the process of planning and implementing tourism industry should be taken into consideration. Finally, planning should identify the supportive responsibilities of state agencies in terms of time, management mechanism and supportive investment policies. Additionally, the heads of the government should positively focus on limiting disorderly construction aimed at group benefits.

The second solution is to strengthen state budget allocation in developing the tourism industry: Initially, investments in infrastructure in Thua Thien Hue province should be taken into account, consisting of upgrading major roads, expansion of transportation channels and transportation routes. Investments should be involved in developing public service constructions such as: public transportation, electricity system, pure water for daily life, green parks, public toilets, rescue site and technical means of waste disposal at beaches. At the same time, investment in the development of tourism enterprises should be considered by forming preference policies for large scale construction projects. On the other hand, the enterprises should invest deeply, not widely by building up too many hotels, restaurants with low quality and small scale/capacity.

The third solution is to diversify and improve the quality of tourism products: With the aim of an increase in provincial budget and proportion of tourism per GDP, Thua Thien Hue province should sufficiently identify the unique tourism products with distinctive characteristics compared to other areas. Therefore, they should focus on investments developing mainly tourism products such as: cultural and historical tourism, which are identified as a dominant form of tourism in this province. Resort tourism is also considered to have a comparative benefit product with other provinces in the near future. Lagoon and beach tourism are breakthrough tourism products of Thua Thien Hue and some other products such as: eco, cuisine, conference, and workshop tourism, therefore, proper investment is necessary to develop such products.

The fourth solution is to intensify advertising and tourism promotion domestically and overseas: For domestic markets, Thua Thien Hue Department of Culture, Sports and Tourism needs to plan specific tourism products and should organize events to attract tourists. Beside this, the tourism industry should identify an adequate marketing strategy and advertising plan to attract more domestic tourists from the neighboring provinces with the purpose of lowering seasonal impacts in business running. Additionally, the tourism industry should develop marketing strategies and plans, and strongly promote participation in fairs and exhibitions in major cities and local provinces which have a large number of national visitors. For the overseas market, they should co-ordinate with representatives to promote tourism. The Department should frequently encourage business to take part in international workshops and trade fairs to acquire numerous opportunities to efficiently promote the images of Thua Thien Hue tourism. They should regularly coordinate with The Department of Tourism to promote Vietnamese tourism and create awareness of tourism agents and tourists about Vietnam. Besides, they should introduce tourism arrivals in Thua Thien Hue to enhance the relationship with other foreign partners.
The fifth solution is to train and retrain human resources for the tourism industry to promote tourism development: Finally, in the short term, it is necessary to focus on creating favorable conditions for employees working in tourism enterprises to update knowledge through training and retraining programs. Additionally, restructuring staff in such businesses is crucial for actual personal capacity expression. Also, it is vital to increase capacity of professional tourism training units, and to develop more diversified tourism training models to meet the requirements of human resources.

References
Nguyen Ho Minh Trang (2011), Analysis of factors affecting the development of the travel industry in Thua Thien Hue province, Research Science and Technology in 2011, College of Economics, Hue University.