

# WORLD ECONOMY AND BANGLADESH PERSPECTIVE

Anwar Hossain  
Shahidul Islam

## 1. Introduction

The current economic recession in the world started since 2007 and is predicted to continue till 2012 according to many economists. The scenario is quite bleak as the economic growth in the world is now at the lowest level compared to the last 60 years. It is widely feared that it may further dip into merely 0.5 percent reflecting no growth at all.. The major economies of (his world like USA, UK. Japan and Germany are reeling back from the terrible financial fallout which has already cost them millions of jobs and bankruptcy of giant companies. USA which contributes about 30 percent to the world economy and happens to be the largest importer from Bangladesh is hard hit by the financial crisis. Us ailing economy signals bad onion "" Bangladesh and its exports. To make the matter worse most of the large trading partners of Bangladesh are now in deep economic recession.

The nearly global financial meltdown has created huge adverse impact on different economic sector of the world. Energy, Automobile, textile, construction, ceramic, food processing, mining, transportation and many service industries as well are suffering from huge business losses. As a consequence there has been unprecedented job cuts in those sectors. Consumers are cautious in expenditure and banks are shy in lending credit business expansions have come to a grinding halt and even the signed up projects are kept in abeyance.

It does not require an economic genius to foretell that slump sliding down of the western as well as Asian economy (China, India and Japan) will hit us hard and put our economy in a difficult spot. Bangladesh may face a daunting task to face the challenge and sustain its growth. It is essential to bring back the world economy to its order as quickly as possible and we hope world leaders will take special effort to bail out not only the first world but also the developing countries like Bangladesh. The Government of Bangladesh needs to take this challenge seriously and make out a comprehensive plan to save the economy and its detrimental effects on life and living.

## 2. Business loss in energy sector

Since the end of 2007 energy sector has been limping through due to fluctuation in the oil prices. A single company like Shell a giant in the energy sector had been struggling hard to maintain its normal revenue and growth. In the 4<sup>th</sup> Quarter of 2007 fiscal, the estimated profit of this company was US\$8.47 billion but at the end of first quarter of 2008 its actual earning went down to US\$2.81 billion a drastic nose dive. The figure 1 illustrates the point with respect to the 4<sup>th</sup> quarter (2008) earning of Shell.

Figure 1

Crude Oil price which was hovering around 147 dollars per barrel and was projected to cross the psychological barrier of \$200 came sharply down to \$ 30per barrel in the international market forcing OPEC to reduce production. OPEC countries are going through a severe revenue loss due to such dramatic down trend in crude oil price. This has also impacted adversely in the development works in the Middle East.

### 3. Business loss in Real State

As per IMF estimate, expected accumulated loss at the end of 2009 in entire banking sector of the world will be about US\$2.2 trillion. This projection is shown in Figure 2.

Figure 2

### 4. Business loss in Automobile Industry

The sales of automobile industry of Japan stumped to the lowest level (2008) in last three decades. Even in India automobiles manufacturers are losing their business. Suzuki-Maruti a joint venture product of Indian automobile company has posted a huge business loss which is shown in Figure 3.

Figure 3

The huge business will contribute to make planning for job cut.

### 5. Financial crisis and Job cut

To face the present economic recession and to stay in business major companies of the world have started to cut jobs. Since 2007, worldwide, over half a million people have lost their job, Major economics like Japan, EC countries and the USA are continuing with job cutting on a rapid scale., (t is forecasted that recession may continue till 2012 and during this period over one million people will loose their job.

### 6. Impact on Bangladesh Economy

Economic recession worldwide is creating huge negative impact on the economy of Bangladesh. Though the size of economy of Bangladesh significantly small compared to china, India and USA but soil it is in the economic network of world. More importantly the current strong recession wave may create a severely affect our weak economy because Bangladesh has no strong backup options in place. Despite the fact that there are two possible ways of creating effect; firstly to the sectors which have direct link with the world economy, secondly, the sectors have indirect linkage like backward or forward Supply Chain of economy. The direct link with the bigger size economy is many but it can be divided into few sectors which is shown in Table 1.

Table 1: Business relations Matrices with USA, EC and others per year

Business Parameters	Business US\$ Billion	USA	UK	Japan	EC Other than Uk	Others (Mainly middle East)
Garments	12	~39%	~16%	<1%	<36%	Insignificant
Remittance	10	~4%	Insignificant	Insignificant	Insignificant	
AID	.65	~9%	~0.30	Significant	Significant	
Scholarship & Training	0.1<	~20%	~15%		Significant	Insignificant
General export other than garments	4.0	Significant	Significant	Significant	Significant	Significant
FDI	0.900					

The data of this table indicate that Bangladesh garments is highly dependent on the market of USA UK and other EC countries. Basically, current melt down has originated from the on which Bangladesh economy is significantly dependent. If recess/on continues, definitely, the sliding wave of IIS directly hit Bangladesh economy and as well as are EU and Asian economy. This analysis indicates that Bangladesh must get ready to absorb the upcoming economic wave.

### 7. Impact on AID inflow

The AID inflow into Bangladesh is not significant amount compared to its export and remittance earning. In average the AID inflow (2007-2008) was about US\$0.650 billion which is equivalent to less than 1 percent of our GDP, The current recession may reduce this amount further. As has been seen the trend that sever-merit is less and less relying on foreign aid and increasingly trying to mobilize internal resources for development programs. The availability of foreign aid for third world will be bless in the back drop of the financial crisis in the first world itself.

## 8. Impact on Remittance Inflow

Remittance is the single second largest foreign currency earning sources of Bangladesh economy. The size (US\$10 billion in 2008-9 fiscal of remittance in flow is quite impressive for a country like Bangladesh. This amount has a huge contribution in making balance of payment of international trade transaction. The distribution Remittance inflow is shown in Table 3.

Categories of Work	Percent work export	Commends
KSA	~40	
UAE	~10	
Other Arabian Countries	~10	
Malaysia	~7	
UK	~12	
Other Asian countries	~6	
USA	~14	
Total	100	

Sources- Estimated from the data of ERD and export promotion bureau

The table indicates that the remittance is equivalent to 15 percent of Bangladesh GDP (2007-08 fiscal). Though the major portion of remittance is coming from KSA (40%) but aggregate amount (26%) of USA and EU is also a significant amount. The current USA and UK recession could make an immediate negative impact on remittance How as huge job cut is going on in these countries Soon or later, the recession wave from USA and EU countries will hit Arabian countries which will ultimately be reflected on employment of foreign people specially those who are unskilled. As majority of the Bangladeshi workers who work abroad are from unskilled (50%) category their jobs will be first to be axed. This could create an effect on 60 percent component of Bangladesh remittance.

From Table 4, it is also evident that our share of the skill and professional employment in the foreign countries is very much small. In stable economic condition, remittance flow could be increased by exporting professionals and skilled people. The current scenario of export work forces is shown in Table 4.

Table 4; Categories of exported work force of Bangladesh

Categories of labor force	Percent export	Comments
Professional	~5	
Skilled	-30	
Semi skilled	-15	
Unskilled	-50	
Total	100	

Sources: Estimated from the data of ERD and export promotion bureau

The composition of Bangladeshi workers who work abroad is of mixed nature with unskilled category dominating the scene. Table 2 below shows the percentage wise distribution of Bangladeshi workers working abroad. As a basic economic rule the unskilled workers are highly vulnerable during economic uncertainty. It is also evident that their value addition is much compared to the skilled and semi-skilled categories. Accordingly amount of their remittance is also less compared to the skilled category.

### 9. Impact on Export

The export of Bangladesh was increasingly sharply in the entire decade. The accumulated export of the last fiscal years was about US\$16.0 billion. The distribution of export in terms of the countries shown in table 5.

Country of export	Percent work export	Comments
American region	42.26%	
European region	52.26%	
Asian region	8.52%	
Middle east	2.75%	
Africa region	0.64%	
Ocean region	0.25%	
East European region	0.35%	
Others region	2.19%	

Source: Export promotion Bureau Bangladesh.

It is evidence that major percentage of export revenue is coming from USA and EU countries. From this data it can be predicted. There will be a certain impact on Bangladesh export. The current status of Bangladesh export is present in Figure 4.

#### Figure 4: Current Export trends

The export earning of Bangladesh went down by 10.07 in December of current fiscal year against the same month of last fiscal year. Starting from July, the export earning trend is down wards. Alike Bangladesh . export of the China went down 2,8 percent, export earning of Japan also went down by 20 percent in their current fiscal year compare to the last fiscal in the same month. Export is shrinking in all sectors including Table ware, vegetable, garments, food and Human resource.

#### 10. Conclusion

The global scenario looks quite bleak and the impact on our economy although not too visible at this point but seems to be alarming in the days ahead. Import of capital machinery has gone down, there is a huge reserve of idle money in the bank as investment has slowed down, manpower export is expected to be almost half the target achieved last year and the rising food prices in the international market due to widespread draught signalize a very tough year ahead for our economy.