

# Bangladesh Economic Dialogue on Inclusive Growth

## EDIG Policy Brief

### Strategies for inclusive growth in Cox's Bazar

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### Cox's Bazar's Development

The research aims to provide a preliminary understanding of what potential economic development opportunities exist in the district. It identifies several key growth sectors that could be promoted in Cox's Bazar to support sustainable and inclusive growth, create employment and ultimately contribute to poverty reduction. The study adopts a mixture of desk-based research, quantitative modelling and stakeholder interviews (carried out in Dhaka and Cox's Bazar in May and June of 2018). Due to severe data gaps, several assumptions had to be made, particularly in relation to the quantitative modelling, which means that the findings presented in this study should be interpreted with care.

Cox's Bazar is currently dealing with several economic challenges, with approximately 33% of the population living below the poverty line (UN, 2017) and adult illiteracy rates<sup>1</sup> at 47%. The significant influx of Rohingya refugees from neighbouring Myanmar has caused further economic stress on the district.

Around 42% of workers in Cox's Bazar are engaged in the agricultural sector<sup>2</sup>. Therefore, close to a majority of the workforce are in a low-value, potentially low-income, sector of the market. Cox's Bazar plays a relatively important role in fish capture and cultivation at the national level. For sea-captured fish, Cox's Bazar represents nearly 22% of the national catch<sup>3</sup>. Services sector activities take up a significant majority of non-agricultural establishments and employment (around 51% in 2013<sup>4</sup>). The predominance of retail establishments and employment in the region also posits a high prevalence of low-value and low-productivity service activities. The manufacturing sector represents around 12% of the total number of establishments (2013 data<sup>5</sup>). Therefore, higher-value activities are occurring in the district.

### Identification of key sectors in Cox's Bazar with potential to create sustainable economic growth

With the understanding that the results are of limited robustness and under the basis that results were based on the analysis of existing productive structures (i.e. analysing current patterns of economic activity) the report identified several potential growth sectors in Cox's Bazar. These were then narrowed down to a smaller set of 'key sectors' using selection criteria broadly divided by three areas i.e. current production structures, quantitative analysis outcomes including inclusive growth considerations such as low-skilled employment potential, female participation, the rural/urban divide and employment by skill level and finally sectors identified by key stakeholders. Results suggest the manufacturing, mining, fisheries and tourism sectors as growth sectors in Cox's Bazar in the short to medium term.

The **manufacturing** sector employs a significant number of people, has strong representation in rural areas and exhibits some of the highest female participation rates among the different sectors of the district's economy. The sector is dominated by garment production but there is potential to support other sectors like rubber products or brick production. Labour productivity increases would help the sector growth and employ more people.

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<sup>1</sup> Estimates from the 2016/17 Household Income and Expenditure Survey (HIES)

<sup>2</sup> 2017 Labour Force Survey

<sup>3</sup> Cox's Bazar Fisheries Office 2018; Bangladesh Bureau of Statistics (BBS, 2017)

<sup>4</sup> BBS, 2013

<sup>5</sup> Ibid.

### Political economy considerations for its development:

- *Need to identify current and future market opportunities within and outside the dominant industries (garment industries and manufacturing of rubber and paper goods).*
- *The provision of innovative policy incentives to facilitate capital formation – that is, adoption of a preferential tax regime – is critical.*

The **salt-extraction** (mining) sector exhibits a few employment characteristics which make it a potential growth sector. Employees require low skill levels and are all located in rural areas, whilst having a (relatively) high female employment rate. The domestic value addition of extracted salt is high, meaning that most of the value of the product is kept in-country and is sold at the national level, with potential to export. The mining sector in Cox's Bazar is wholly concentrated in salt-extraction which makes it particularly concentrated and susceptible to shock.

### Political economy considerations for its development:

- *Urgent need for a sectoral policy agenda from the Ministry of Industry, especially for financing Small and Medium Enterprises.*

The **fisheries** sector has a strong comparative advantage at the national level in terms of the volume of sea-caught fish and at the international level with a relatively high RCA score. In conjunction with the fact that stakeholder discussions suggest that the caught are both considered high value and are exported internationally; the export potential of the sector could be promising. The sector has the capacity to absorb many low skilled labourers. Although the data does not show the urban/rural divide, it is not beyond doubt to assume that the sector could make significant use of the rural labour force, however it is important to point out that it does not seem to promote greater female employment levels.

### Political economy considerations for its development:

- *While **public sector agencies** such as the Department of Fisheries of the Ministry of Fisheries and Livestock can provide policy support to modernise fish processing, thereby adding value to fish products in both domestic and international markets, **private sector enterprises** can expand the marketing channel in a competitive manner.*
- *Law-enforcing and relevant overseeing are also necessary.*

The **construction** sector also has the potential to create jobs in Cox's Bazar. It can be a source of low skilled employment and female employment (approximately 40% of employed people in the sector are currently female), with employment concentrated in rural areas. The construction sector can help support infrastructure projects as SAM results suggest strong growth impacts of investment in construction on other sectors in Cox's Bazar.

### Political economy considerations for its development:

*Concerted effort from the stakeholders, particularly from the government in overcoming the current challenges, e.g. problems associated with the process of **land acquisition, distribution of responsibilities of the administrative agencies**, will be required for facilitating the construction projects efficiently.*

Finally, Social Accounting Matrix simulations suggest the investments in the **tourism** sector could have large growth impacts on the region. The sector also has a relatively large concentration of employment compared to the national average and, excluding the public sector, is the highest service sector employment sector in Cox's Bazar. It makes strong use of low skilled workers, specifically in terms of low-skilled female labour when compared to other sectors. In addition, the sector has links to local handicraft producers.

### Political economy considerations for its development:

*The sector currently faces challenges:*

- *Absence of effective marketing strategies to promote tourism products*
- *Lack of infrastructural facilities and utilities*
- *Inadequate budgetary resources.*
- *Promoting private investment in the sector is crucial to the overall development of the industry.*

## Quantitative analysis of identified key sectors in Cox's Bazar

Quantitative analysis of the key sectors was carried out, the results suggest that:

- The salt extraction industry in Cox's Bazar is 33 times more important (in employment terms) than it is for Bangladesh. Similarly, fisheries (4.94) and hotels and restaurants (2.03) exhibit a higher share of employment than the national level.
- Provisional 2018 labour force data indicate that sectors that can generate higher volume of female employment are agriculture, forestry and fisheries (40% female), salt extraction (39%), manufacturing (38%), construction (36%), transport (25%) and hotels and accommodation (23%).
- Sectors with relatively higher concentration of low-education workers (more than 75%) are salt extraction, agriculture and fisheries, construction, hotels and restaurants<sup>6</sup>.
- Industrial jobs, including 80% of manufacturing jobs, are in areas that are classified as rural<sup>7</sup>. From an inclusive growth perspective, it is interesting to note that there are potentially higher-productivity sectors, such as manufacturing, that are in rural areas, which could thus be targeted for employment creation policies.

In addition, the research simulates the effects of a 10% increase in investment in several sectors and computes that effect as percentage change in the sectoral output, the Gross Domestic Product (GDP) of Cox's Bazar and the average household income in the district.

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<sup>6</sup> Preliminary Cox's Bazar Labour Force Survey 2018

<sup>7</sup> BBS, 2013

A 10% increase in investment in the sector...	Would increase... by X%			
	Sector	Output of the sector	GDP of Cox's Bazar	Household income in Cox's Bazar
	Fishing	1.37%	0.44%	0.45%
	Manufacturing	0.37%	0.02%	0.02%
	Construction	9.86%	4.58%	4.42%
	Salt extraction	7.44%	0.75%	0.74%
	Tourism	0.67%	0.23%	0.24%

Source: Author elaboration based on data from preliminary Cox's Bazar Labour Force Survey 2018 and BBS 2017 data

### Donors' potential role to promote economic development in Cox's Bazar

The research identifies several potential actions that the international donor community could be involved with.

Goals	Donors' potential role
<b>Understand the value of the economy</b>	Donors could provide funding to the World Bank to undertake an initial Enterprise Survey data collection effort at the district level, so as to create a baseline for firm-level performance metrics.
<b>Identify wider growth constraints at the district level</b>	Provide funding to carry out an in-depth analysis of binding growth constraints in the district, focusing on identified intervention or priority sectors. This should probably be undertaken in conjunction with firm-level data-gathering if focusing on issues at the sectoral level. A strong collaborative approach with local key stakeholders (e.g. CoxDA) is needed to ensure flagged issues are acknowledged, as these issues often require interventions at the regional or national government level.
<b>More specifically, understand constraints to female employment</b>	It is important to understand that, if Female Economic Participation constraints are based on societal norms, then a medium- to long-term approach will be needed – hence donors should be prepared to sustain programmes on a long-run basis.
<b>Work with existing production systems</b>	Based on the identification of binding growth constraints at the sectoral (and firm) level for existing production systems, the next steps for the donor community would hinge on the identification of specific interventions that could help promote sectors. Essentially, these would fall under three basic categories: <ol style="list-style-type: none"> <li>1. Follow the current value chain</li> <li>2. Identify potential enterprise promotion activities</li> <li>3. Understand the role of training and skills development.</li> </ol>
<b>Strengthen local government</b>	Support national and local government bodies to develop a medium- to long-term development plan for the district, which should be in line with activities identified in the national five-year development plans and consider district-specific future growth sectors.