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## Intellectual Capital of Africa: Comparison of the Five Most Competitive Countries

By Driss Tsouli & Bouchra Elabbadi

*Abstract-* This paper proposes a comparison of the national intellectual capital of African countries. Using the longitudinal data spanning the period from 2010 to 2014, based on 22 indicators. This study compares the national intellectual capital of the five most competitive African countries: 1 Mauritius, 2 South Africa, 3 Rwanda, 4 Botswana, and 5 Morocco. The results confirm the importance of intellectual capital in the competitiveness of countries. The research findings make clear the status of national intellectual capital of the five African countries, as a result of that to provide information for policymakers to establish public strategies for building sustainable national competitiveness.

*Keywords:* national intellectual capital, national competitiveness, african countries, benchmarking, world economic forum.

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INTELLECTUAL CAPITAL OF AFRICA COMPARISON OF THE FIVE MOST COMPETITIVE COUNTRIES

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# Intellectual Capital of Africa: Comparison of the Five Most Competitive Countries

Driss Tsouli<sup>α</sup> & Bouchra Elabbadi<sup>σ</sup>

**Abstract-** This paper proposes a comparison of the national intellectual capital of African countries. Using the longitudinal data spanning the period from 2010 to 2014, based on 22 indicators. This study compares the national intellectual capital of the five most competitive African countries: 1 Mauritius, 2 South Africa, 3 Rwanda, 4 Botswana, and 5 Morocco. The results confirm the importance of intellectual capital in the competitiveness of countries. The research findings make clear the status of national intellectual capital of the five African countries, as a result of that to provide information for policymakers to establish public strategies for building sustainable national competitiveness.

**Keywords:** national intellectual capital, national competitiveness, african countries, benchmarking, world economic forum.

## I. INTRODUCTION

The five African countries are among the African's most competitive economies (world economic forum, 2016).based on The Global Competitiveness Report 2015–2016, Mauritius (ranked 46), South Africa (ranked 49), Rwanda (ranked 62), Botswana 71, Morocco (ranked 72). Located in a continent poor in infrastructure, politically unstable and exploited by western economies, how did those countries achieve such outstanding economic competitiveness?

Do those countries possess hidden capabilities that have allowed to their economies to overcome the physical environment? Intellectual capital elements are the most likely answer.

According to World Bank, growth in Sub-Saharan Africa is forecast to pick up to 2.6 percent in 2017 and to 3.2 percent in 2018, predicated on moderately rising commodity prices and reforms to tackle macroeconomic imbalances. However, per capita output is projected to shrink by 0.1 percent in 2017 and to increase to a modest 0.7 percent growth pace over 2018-19. At those rates, growth will be insufficient to achieve poverty reduction goals in the region. Can the intellectual capital elements they have accumulated sustain the competitiveness of those countries? Our longitudinal study, spanning the years of 2010-2014, may provide some answers.

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In recent decades intangibles asset has become the most important resource for wealth and national progress (Bounfour and Edvinsson, 2005; Lin and Edvinsson, 2011).Intellectual capital fuels economic growth and social development in every region of the world (Dahlman et al., 2006).

According to Stewart (1997), intellectual capital can be defined as “knowledge, information, intellectual property, an experience that can be put use to create wealth”. The Organization for Economic Co-operation and Development (OECD, 1999) which describes intellectual capital as “the economic value of two categories of intangible assets: organizational (structural) capital; and human capital”.

Structural capital like proprietary software systems, distribution networks, and supply chains. Human Capital includes human resources within the organization (i.e. staff resources) and resources external to the organization, namely customers and suppliers. Following Lin and Edvinsson (2008), the combination of structural capital and human capital can be a key source of wealth at both organizational and national levels. For Bounfour and Edvisonn (2004) a country who has the knowledge and intensive industries will be the winners in terms of future wealth creation.

This study first built a measurement model to capture national IC, then used the world competitiveness reports of economic world forum to compare the IC of the five most competitiveness African countries.

## II. THEORETICAL FRAMEWORK

### a) Intellectual capital of countries

For policymakers, the most important tasks are to allow for citizens the conditions for a better quality of life. Actually, intangibles are the fundamental source of wealth creation, well-being, and economic growth (Corrado et al., 2009).The IC and competitiveness of nations are highlylinked, both being results of the knowledge within countries (Stahle, P. and Stahle, S, 2006).Knowledge is defined as a territory that intangibles have effects on national growth Malhotra (2003). Bontis (2004) signaled that hidden values are related individuals, enterprises, institutions, communities, and regions that adequate management increases national wealth and economic success. Therefore, the measurement and management of intangibles improve the adaptation of public policies

and use of good practices (Malhotra, 2003), supporting the creation of new and better investment programs, together with adequate incentives to promote development (Bontis, 2004).

In another hand, the comparison between countries based on IC elements can lead policymakers to benchmark their competencies, capabilities and to promote an integrated national development.

Since most measurement tools capturing IC and its effect at the national level, there is not a widely recognized methodology to assess national intellectual

capital (Lin and Edvinsson, 2011; Alfaro et al., 2011). Although there have been some initiatives to measure national IC as described hereafter.

i. *Measurement proposed by academic models*

Models derived from the taxonomy presented by Edvinsson and Malone (1997), such as Intellectual capital navigator, Intellectual capital monitor, and Intellectual capital index, which seek to identify NIC, using indicators of intangibles that support country growth. These models include Human capital, Structural capital, and the local and international relationships.

Model	Author (s)
Intellectual Capital Navigator (ICN)	L. Edvinsson and M. Malone
National Intellectual Capital Index (NICI)	N. Bontis
Intellectual Capital Index (ICI)	D. Weziak
Value-Added Intellectual Coefficient (VAIC)	A. Pulic
Intellectual Capital Monitor (ICM)	D. Andriessen and C. Stam
Intellectual capital dynamic value (IC-dVAL)	A. Bounfour

Table I: Academic models of measuring intangibles at the country level (Labraand Sánchez, 2013)

ii. *Measurement Models developed by international organizations and international business schools (International organization models)*

International organization models simply combine the vision of intangibles with the traditional

economic growth approach. The results of these models are far from IC principles, but the reported rankings are similar to those based on IC because intangible assets are highly important for both.

Model	International organizations or international business schools
KnowledgeAssessmentMethodology (KAM)	World Bank (WB)
Global Innovation Index (GII)	INSEAD
Global Competitiveness Index (GCI)	World Economic Forum (WEF)
World Competitiveness Index (WCI)	International Institute for Management Development (IMD)
HumanDevelopment Index (HDI)	United Nations Development Programme (UNDP)
Innovation Union Scoreboard (IUS)	European Union (EU)
Science, Technology and Industry Outlook (S&T I)	Organization for Economic Co-operation and Development (OECD)

Table II: International organization models of measuring intangibles at the country level (Labra and Sánchez, 2013)

b) *The world economic forum competitiveness index*

Competitiveness is a wide, multidimensional and complex concept (Hong, 2009), resulting from a lack of a unanimous agreement. However, some definitions have provided by the OECD (1992), which focuses on the output of the countries achievement, and the WEF (2001), which focuses on the inputs that make a country more competitive. Following the WEF, competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can earn.

Since 2005 the WEF has published the Global Competitiveness Index (GCI) developed by Xavier Sala-I-Martin in collaboration with the Forum. Since an update in 2007, the methodology has remained largely unchanged. The GCI combines 114 indicators of 140

countries that capture concepts that matter for productivity. These indicators are grouped into 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

The GCI includes statistical data from internationally recognized agencies, notably the International Monetary Fund (IMF); the United Nations Educational, Scientific and Cultural Organization; and the World Health Organization. It also includes data from the World Economic Forum's annual Executive Opinion Survey to capture concepts that require a more qualitative assessment, or for which comprehensive and

internationally comparable statistical data are not available (WEF, 2015).

### III. RESEARCH METHOD

This study proposes a model of measurement by using the widely accepted WEF and IMD databases, which contain both quantitative and qualitative indicators (Table III). This paper is focused on the most commonly used national IC framework, including human capital, market capital, process capital, and renewal capital. Variables were selected from the world competitiveness report.

The first type of national capital, human capital, is defined as the competencies of individuals in realizing national goals (Bontis, 2004). According to OECD (2000), human capital consists of knowledge about facts, laws, and principles in addition to knowledge relating to teamwork, and other specialized and communication skills. Education is the foundation of human capital. The variables used in this study include quality of the educational system, local availability of specialized research and training services, life expectancy, organized crime, brain drain, and internet access in schools.

The second type of national capital, market capital, is similar to external relational networking and

social capital in a micro setting in that it represents a country's capabilities and successes in providing attractive, competitive incentives in order to meet the needs of its international clients, while also sharing knowledge with the rest of world (Bontis, 2004). The present study takes into consideration, venture capital availability, prevalence of foreign ownership foreign market size index, transparency of government policymaking, domestic market size index. The third type of national capital, process capital, comprises the non-human sources of knowledge in a nation. Embedded in a country's infrastructure, these sources facilitate the creation, accessibility, and dissemination of information. This type of capital is measured through the intensity of local competition, public trust of politicians, intellectual property protection, ease of access to loans, quality of overall infrastructure.

The fourth type of national capital, renewal capital, is defined as a nation's future intellectual wealth and the capability for innovation that sustains a nation's competitive advantage.

Company spending on R&D, university-industry collaboration in R&D, capacity for innovation quality of scientific research institutions, availability of scientists and engineers, government procurement of advanced technology products.

<p style="text-align: center;"><b>Market capital index</b></p> <ol style="list-style-type: none"> <li>1. Venture capital availability</li> <li>2. Prevalence of foreign ownership</li> <li>3. Foreign market size index</li> <li>4. Transparency of government policymaking</li> <li>5. Domestic market size index</li> </ol>	<p style="text-align: center;"><b>Human capital index</b></p> <ol style="list-style-type: none"> <li>1. Quality of the educational system</li> <li>2. Local availability of specialized research and training services</li> <li>3. Life expectancy</li> <li>4. Organized crime</li> <li>5. Brain drain</li> <li>6. Internet access in schools</li> </ol>
<p style="text-align: center;"><b>Process capital index</b></p> <ol style="list-style-type: none"> <li>1. Intensity of local competition</li> <li>2. Public trust of politicians</li> <li>3. Intellectual property protection</li> <li>4. Ease of access to loans</li> <li>5. Quality of overall infrastructure</li> </ol>	<p style="text-align: center;"><b>Renewal capital index</b></p> <ol style="list-style-type: none"> <li>1. Company spending on R&amp;D</li> <li>2. University-industry collaboration in R&amp;D</li> <li>3. Capacity for innovation</li> <li>4. Quality of scientific research institutions</li> <li>5. Availability of scientists and engineers</li> <li>6. Government procurement of advanced technology products</li> </ol>

Table III: Variables included in each type of capital proposed by this study

Notes: Variables are rated qualitatively using a scale of 1-7

This study follows the same research method used by Yeh-Yun Lin and Edvinsson (2008) in their article "National intellectual capital: comparison of the Nordic countries». But the selection of variables used is adapted to the specificity of African countries and availability of data in the Global Competitiveness Report co-published by the Institute for Management Development (IMD) and the World Economic Forum (WEF). The data analyzed in this study, therefore, describes 5 most competitive African countries over a period of 5 years, from 2010 to 2015.

In this study, there are two different types of data: data with an absolute rating such as "Total tax rate"; and data with a qualitative rating based on a scale of 1-7 such as "Quality of the educational system". For a meaningful integration of the quantitative score and qualitative rating, the ratio of the absolute value relative to the highest value of each quantitative variable was calculated and multiplied by 7 to transform the number into a 1-7 score.

IV. RESULTS

Since the five African countries share not only similar political well to improve their competitiveness but also similar historical background (The Western occupation), it is logical to examine them as a group.

Among them, the overall ranking sequence, in descending order, is Mauritius, South Africa, Rwanda, Botswana, and Morocco.

Mean of 2010-2014		Human capital	Market capital	Process capital	Renewal capital
Mauritius	Mean	4.48	3.66	3.97	3.33
	Ranking	1	4	4	2
South Africa	Mean	3.59	4.6	4.16	3.29
	Ranking	5	1	2	4
Rwanda	Mean	4.36	3.51	4.42	3.6
	Ranking	2	5	1	1
Botswana	Mean	4	3.87	4.11	3.28
	Ranking	4	3	3	5
Morocco	Mean	4.16	4.15	3.86	3.32
	Ranking	3	2	5	3

Table IV: Means and ranking comparison of the 5 most competitive African countries

Table (IV) shows the results of comparing types of capital within each country. It shows that Mauritius ranked highest in human capital, South Africa in market capital, and Rwanda in process capital and renewal capital.

The comparisons focus on the four types of capital.

In figure 1, Mauritius’s renewal capital slowly increased from around 3.23 to 3.55, yet it is still the lowest among the four types of capital.

Figures 1-5 show the characteristics and trends of intellectual capital in the five selected African

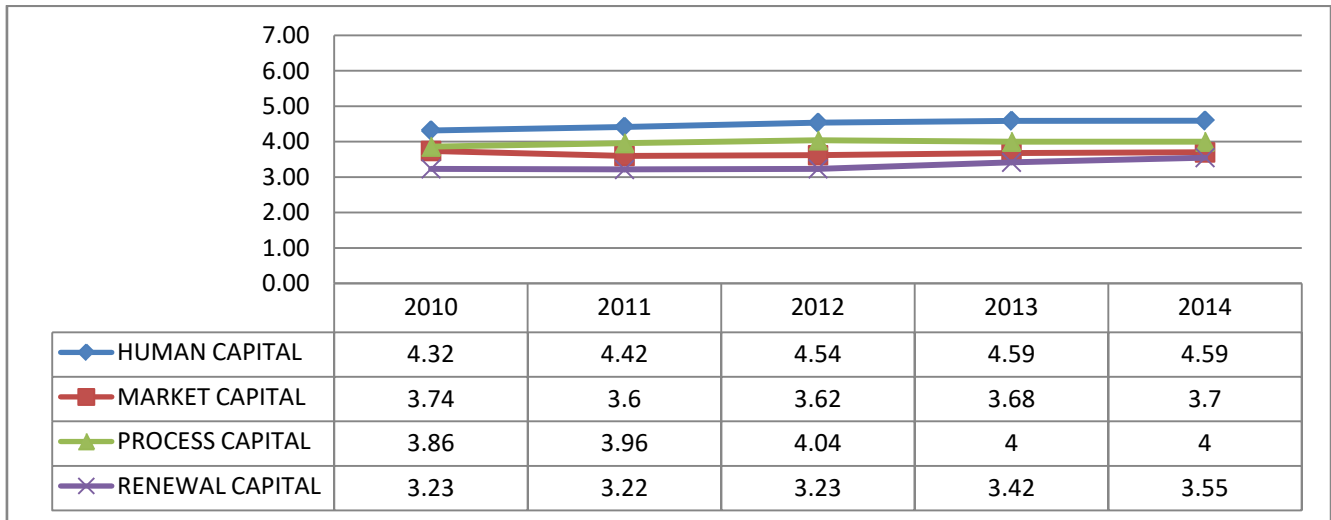


Figure 1: Trends of intellectual capital in Mauritius

In figure 2 South Africa’s renewal capital increased also slowly from 3.24 to 3.34 and it is also the weakest type of capital.



Figure 2: Trends of intellectual capital in South Africa

In figure 3, Rwanda's renewal capital grew from 3.3 to 3.77 and it's the third type of capital, and in general, all three types of capital had upward trends for Rwanda than those of the other countries.



Figure 3: Trends of intellectual capital in Rwanda

In figure 4, Botswana's four types of capital decreased with renewal capital ranking last and with much steeper downward trends than other countries.



Figure 4: Trends of intellectual capital in Botswana

In figure 5, Morocco's renewal capital increased slowly from 3.25 to 3.5, while the other types of capital had the same trend.

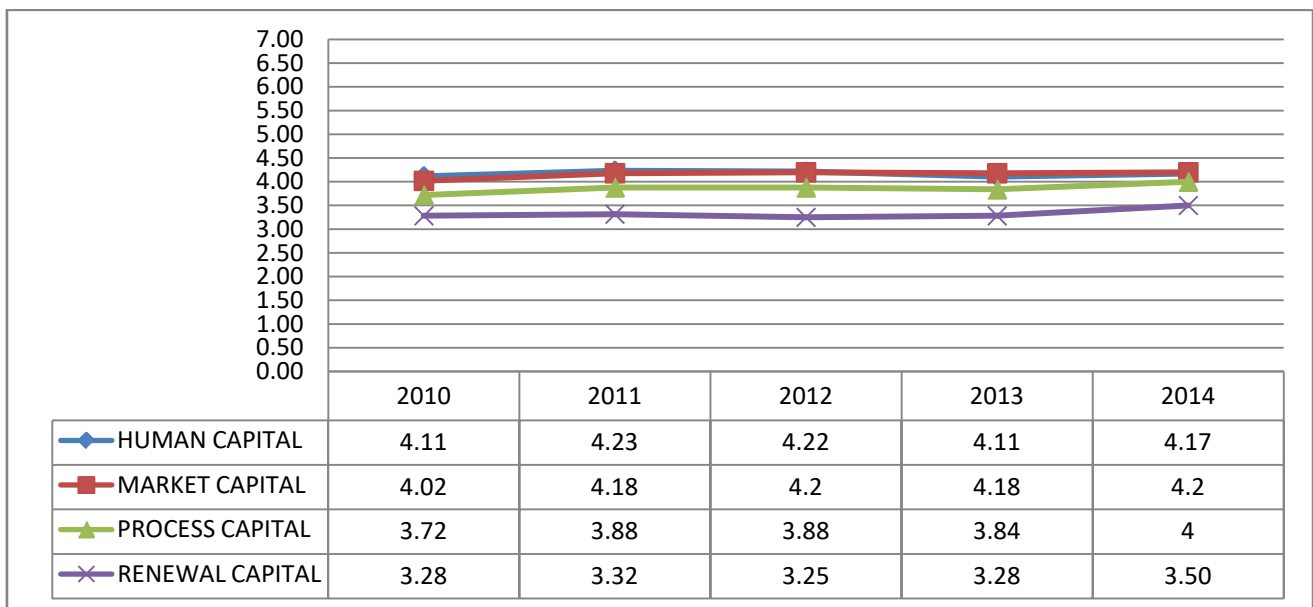


Figure 5: Trends of intellectual capital in Morocco

The intellectual capital of each country has increased (except Botswana) over the 5 year research period. As shown in figures 1-5, Mauritius, South Africa, Rwanda and Morocco have a similar development pattern.

there is greater variation among in renewal capital for Mauritius and Rowanda.

Figures 6-10 further compare the country's four types of capital. Generally, the variations in human, market and process capitals among the five countries are very small, indicating little difference in the qualification of people, the international reputation, and the national infrastructure. However, as figure 9 shows,



Figure 6: Human capital comparisons of the five most competitive African countries



Figure 7: Market capital comparisons of the five most competitive African countries

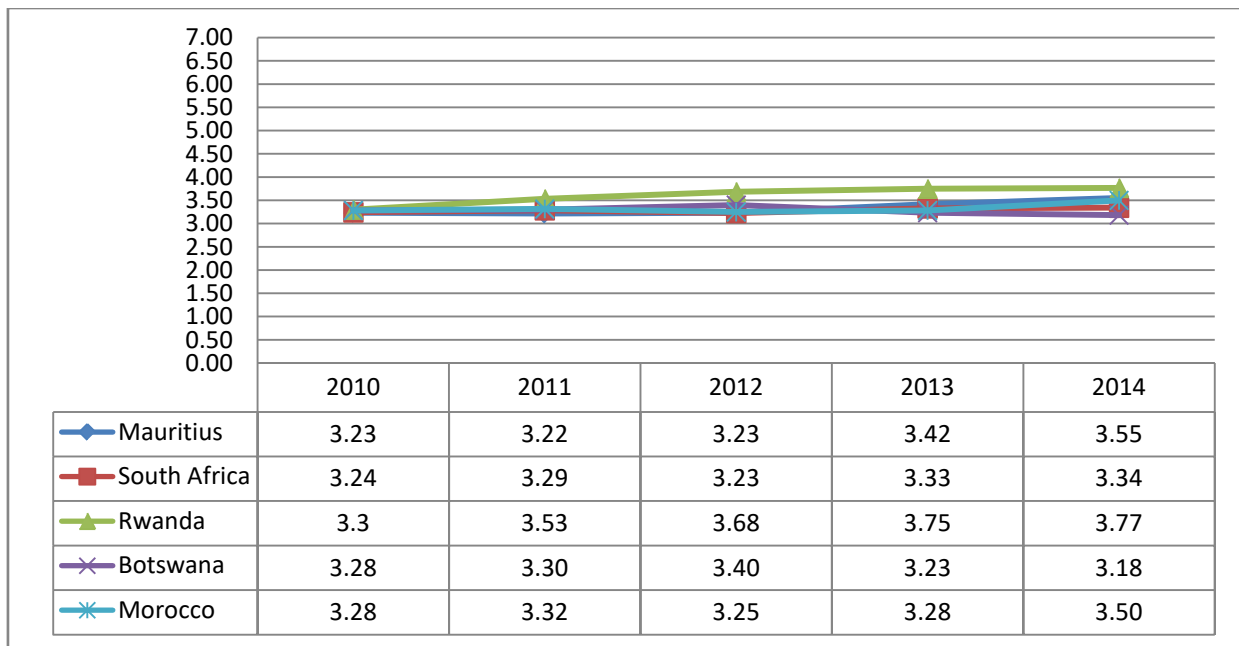


Figure 8: Process capital comparisons of the five most competitive African countries

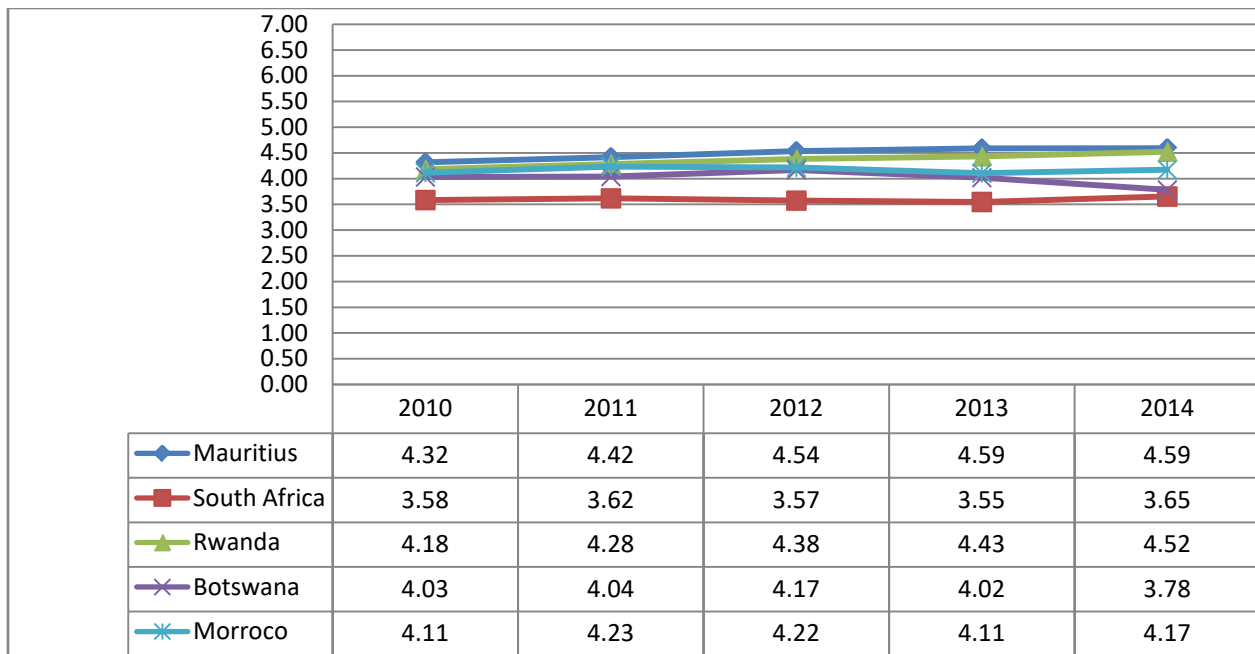


Figure 9: Renewal capital comparisons of the five most competitive African countries

In general, the progression of the degree of intellectual capital of African countries can be traced to their effort to build a social system, which provides free education, a factor that helps cultivate qualified human resources. In addition, heavy reliance on foreign trade and external social networking and the development of a national infrastructure were conducive to technology advancement.

## V. CONCLUSION

As noted in the theoretical framework of this study, The Intellectual capital and competitiveness of nations are highly linked, so the degree of intellectual capital and competitiveness of a country may not be indicative of the efficient production and the proper use of resources. National intellectual capital and competitiveness are a comparative concept; a country can or cannot be viewed as competitive in relation to other countries. Consequently, the fact that a country



shows higher IC than other countries in indicators measuring IC will mean that this country is more competitive, although this does not necessarily mean that this country is doing well; it just means that it is doing better than others.

The proposal presented in this paper tried to assess and compare intellectual capital from the competitiveness pillars. It requires a high level in selected pillars that compose the index of every IC component, in order to consider that a country is competitive, and therefore avoiding the current pillar compensation mechanism. Furthermore, our proposal does not only take into account the position of each country in relation to other, but to provide some guidelines for African countries that are seeking ways to improve their intellectual capital and competitiveness. For example, South Africa may look into ways to focus more on renewal capital, Morocco and Botswana need to enhance their process capital and market capital, Rwanda can put more effort into expanding their Human capital.

We can conclude that the comparison of intellectual capital of the five most competitive African countries is a comparison of the hidden value of the individuals, companies, institutions, and communities that constitute current and potential sources of national wealth.

The limitations of this research include the following: first comparisons are limited to the world competitiveness reports. Second the selection only of a qualitative score on a scale of 1-7, and the research period of five years. Third the number of variables (only 22).

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# Comparative Analysis of Afghanistan and Pakistan Central Banks Monetary Policy

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*Introduction-* It has become standard practice to explain the conduct of monetary policy using reaction function that associate the interest rate with inflation and output.

(Bank, Research department, 2016) Explained that Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard. (Bank, Research department , 2016).

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# Comparative Analysis of Afghanistan and Pakistan Central Banks Monetary Policy

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## I. INTRODUCTION

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(Bank, Research department, 2016) Explained that Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard. (Bank, Research department, 2016).

(Dived, 2016) says that A policy is referred to as 'contractionary' if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate. An expansionary policy increases the size of the money supply more rapidly, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation. (Dived, 2016).

(Anwar, 2007) describe There are also several reasons for including the foreign interest rate in the monetary reaction function of emerging economies. One is interest rate differential parity. Since the advent of financial globalization, any movements in foreign interest rates vis-a-vis domestic rates can no longer be totally ignored in monetary policy implementation. If the foreign interest rate exceeds the domestic interest rate, there is a capital outflow. Therefore, in response to increasing foreign interest rates, the central bank may be forced to raise interest rates. On the other hand, there is a

potentially huge capital inflow if domestic interest rate exceeds the interest rate abroad. Hence, the central bank will consider lowering domestic interest rates in response to a decreasing foreign interest rate. (Anwar, 2007).

In this chapter, we investigate the monetary policy reaction function of Three Asian Central Banks. We attempt to assess whether central banks in these four emerging economies are primarily concerned with fluctuations in inflation and output, or whether they are also concerned with fluctuations in the exchange rate or foreign interest rates.

(Anwar, 2007) explain that for implementing monetary policy and To do this we use a simple model of the augmented Taylor Rule including exchange rates and foreign interest rates. We consider both backward-looking and forward-looking specifications. To the best of our knowledge, there is no research exploring this type of augmented Taylor rule for these four emerging economies. The evidence in this chapter suggests that all central banks in these emerging market economies pursue the objectives of price and output stability. In all four countries other objectives also play a role, monetary authorities adjusting interest rates systematically in response to foreign interest rates and exchange rates. The response to the foreign interest rate is typically strong in all countries in the sample. Additionally, in Indonesia and the Philippines, the response is found to be even more marked than that to changes in the inflation rate or the output gap. This emphasizes the importance of foreign interest rate fluctuations. Our empirical evidence also suggests that the interest rate is a useful instrument to counter movements in the exchange rate. The augmented Taylor rule including the exchange rate and the foreign interest rate is a better empirical model because it captures how a small open economy attempts to stabilize the exchange rate and the financial market. Finally, we also find evidence that monetary policy reaction functions in Indonesia and Korea were a combination of forward and backward-looking, while in the Philippines were a combination of forward-looking and simultaneous and in Malaysia were essentially forward-looking. Surprisingly, we do not find any Central bank considering purely backward-looking or simultaneous specifications. (Anwar, 2007).

(Akbar, 2012) says Throughout the crisis central banks around the world moved beyond their traditional operating frameworks to make use of their

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balance sheets as a monetary policy tool. Monetary authorities have deployed their balance sheets when liquidity shortages and market impairments, resulting from elevated liquidity and credit risk premium, delayed the transmission of the intended monetary policy stance; and when a further easing of the stance was needed at times when short-term nominal interest rates were at their effective lower bound. The explicit and active calibration of the size and composition of the central bank balance sheet as a monetary policy tool has in many respects been novel since within contemporary central bank operating frameworks -notwithstanding all the differences in economic and financial structures and central banking traditions across jurisdictions - monetary authorities primarily pursue their mandates through the setting of an operational target for a short-term interest rate. Within such frameworks, the balance sheet of the central bank plays a subordinate role. Monetary policy attempts to influence broad financial and macroeconomic conditions in order to achieve the goals that the central bank has been tasked with in its mandate. (Akbar, 2012).

(Bank, 2015) explain in a research that This is done by varying the monetary policy stance - the contribution monetary policy makes to economic, financial and monetary developments. In "normal" times the stance of monetary policy is signaled by the price of central bank reserves. Within most contemporary central bank operating frameworks, the monetary policy stance is very often revealed by the price at which banks can trade central bank reserves in the interbank market, which is, in turn, influenced by the price at which central banks make these reserves available to banks. Within such operating frameworks, the central bank injects reserves into the banking system according to banks' demand in order to steer the interbank interest rate towards a level that is consistent with the intended monetary policy stance. (bank, 2015).

(Akbar, 2012) describe that the Monetary policy contains of the actions of a central bank, currency board or other regulatory group that determine the size and rate of growth of the money supply, which is affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the Central bank.(Akbar, 2012).

(Mean, 2013) Describe that monetary policy is broadly, there are two types of monetary policy, expansionary and contractionary. Expansionary monetary policy and contractionary monetary policy. Expansionary monetary policy increases the money supply in order to lower unemployment, improvement private-sector borrowing and consumer spending, and encourage economic growth. Often referred to as "easy monetary policy," this description applies to many central banks since the 2008 financial crisis, as interest

rates have been low and in many cases near zero. Expansionary monetary policy aims to increase aggregate demand and economic growth in the economy. Expansionary monetary policy involves cutting interest rates or increasing the money supply to boost economic activity. Expansionary monetary policy could also be termed a 'loosening of monetary policy' it is the opposite of tight monetary policy. Contractionary monetary policy slows the rate of growth in the money supply or outright decreases the money supply in order to control inflation while sometimes necessary, contractionary monetary policy can slow economic growth, increase unemployment and reduce borrowing and spending by consumers and businesses. Or we can define that contractionary policy is a type of policy that is used as a macroeconomic tool by the country's central bank or finance ministry to slow down an economy. Contractionary policies are enacted by a government to reduce the money supply and ultimately the spending in a country.(Mean, 2013).

(Exbine, 2007) describe that Liquidity plays an important role in the economy and changes in the level of liquidity should be consistent with the economic growth and the needs for money in the economy. Considering the banking sector expansion and its role in creating money, the economic conditions of the country, DAB has set reserve money as the primary and currency in circulation as the secondary index of liquidity. To manage the reserve money growth, DAB utilizes two monetary tools; the foreign exchange auction and the open market operation (sale of capital notes) as the primary monetary policy instruments. Increasing interest rates growing reserve requirements reducing the money supply, directly or indirectly. Central banks use a number of tools to figure monetary policy. Open market operations directly affect the money supply through buying short-term government bonds (to expand money supply) or selling them (to contract it). Benchmark interest rates, such as the LIBOR and the Fed funds rate, affect the demand for money by raising or lowering the cost to borrow—in principle, money's price. When borrowing is cheap, firms will take on more debt to invest in hiring and growth; consumers will make larger, long-term purchases with cheap credit and investors will have more motivation to invest their money in stocks or other assets, rather than earn very little—and perhaps lose money in real terms through savings accounts. Policy makers also manage risk in the banking system by requiring the reserves that banks must keep on hand. Higher reserve requirements put a check on lending and rein in inflation.(Exbine, 2007).

(Laurens, 2005) Explain that what are the goals of monetary policy? The goals of monetary policy are to promote maximum employment, stable prices and moderate long-term interest rates. By implementing effective monetary policy, the Fed can maintain stable prices, thereby supporting conditions for long-term

economic growth and maximum employment. (Laurens, 2005).

(U-bindsiel, 2013) says The Federal Reserve's three instruments of monetary policy are open market operations, the discount rate and reserve requirements. The term "open market" means that the Fed doesn't decide on its own which securities dealers it will do business with on a particular day. Rather the choice appears from an "open market" in which the various securities dealers that the Gov does business with the primary dealers compete on the basis of price. Open market operations are flexible, and thus, the most frequently used tool of monetary policy. Reserve requirements are the portions of deposits that banks must maintain either in their vaults or on deposit at central bank. (U-bindsiel, 2013).

## II. BACK GROUND OF RESEARCH

(IMF, research survey, 2015) in during 2006 up to 2007, Da Afghanistan Banks fiscal policy was focused to reducing expenditures and strengthening revenues the government's prime objective was to cover operating expenses from domestic revenues ratio of domestic revenues to operating expenditures improved over the period 2002-2003 and 2007-2008 according to official data, during 2007-2008, the primary operating balance stood at US\$9.8 billion, indicating an increase of US\$4.4 billion compared to 2006-2007. Such balance was recorded at US\$13.7 billion, which stood at 6.5 percent of the country's nominal GDP.(IMF, research survey, 2015).

(Bank, Research department, 2016) Explain that in 2007-08, Afghanistan's monetary policy continued to focus on the measures to curb rising inflation while maintaining the nominal exchange rate stable. To contain inflation, the Government adopted a decision to lower the fiscal policy rate. By so doing, it ensured strengthening of the effective monetary policy. It also enabled the country's gross foreign reserves to increase to US\$3,021 million(Bank, Research department , 2016).

(Da Afghanistan bank, 2016) Afghanistan's banking sector grew rapidly during 2006-07. It mainly focused on improvements of basic banking laws. Capacity of financial institutions to manage credit risk improved substantially. The Da Afghanistan Bank repealed the requirement for commercial banks to invest 80 percent of their deposits in the economy. The minimum capital requirement, applicable for new banks seeking licenses, was set at US\$10 million, while incumbent banks will be given five years to comply. These measures helped install a tight monetary discipline in the economy.

(Malik, March 2015) Pakistan Monetary policy the monetary policy in Pakistan has evolved in response to structural developments in the domestic economy and changing dynamics in the international market. Although

SBP Act 1956 assigned the dual objectives of stabilizing inflation at low level and satisfying high economic growth to monetary policy in Pakistan, SBP did not have either any authority or the appropriate instruments to follow these goals before 1990's. However, one important function of SBP was to implement the exchange rate policy. The exchange rate was fixed until 1982 and was then replaced by managed float. During the 1970's through 1990's, SBP's monetary policy had a limited role and was concerned primarily with administering directed credits to priority sectors at subsidized interest rates.

## III. PROBLEM STATEMENT

In this paper we examine monetary policy implementation of three emerging Asian countries, namely Da Afghanistan Bank (DAB), State Bank of Pakistan (SBP).

I model equilibrium Inflation rates and monetary policy using a general behavioral specification consistent with a variety of theoretical approaches and short-run dynamics using a general non-linear adjustment model. We find in all countries examined, equilibrium nominal and real exchange rates and real inflation are a function of permanent relative output and one or more variables from domestic and foreign price levels, nominal and real interest rate differentials, the level of inflation and changes in net foreign assets, and a time trend. These results imply that individual countries present significant elements of personal behavior, casting doubt on empirical models using panel-data techniques.

With respect to monetary policy, we examined these countries' monetary policy reaction function based on an open economy augmented Taylor rule including the exchange rate, inflation rate and capital liquidity. Using monetary authorities in these four country emerging economies are subject to nonlinear inflation effects and that they respond more strongly to inflation when it is further from the target. Our results also lead us to speculate that Policymakers in three countries may have been attempting to keep inflation within the range, while those in the other country may have been pursuing a point inflation target. Finally, we also find monetary policy is asymmetric as policy makers respond differently to upward and downward deviations of inflation away from the target.

But given the gaps in employment data and the structural roots of weak employment and poverty between the three Asian countries (Afghanistan and Pakistan) monetary policy is used to promote Price stability, struggle for the goal of full employment, control inflation rate, and capital liquidity. Maintaining macroeconomic stability of the country and finding the deference between the countries in monetary policy, inflation and GDP.

*Research Question*

In summary, the combination of the central bank monopoly over the supply of its own liabilities and the ability of the central banks to determine the remuneration on excess deposits of banks at the central banks of Afghanistan and Pakistan the disadvantage on borrowings by banks to equalizer shortfalls in bank deposits at the central banks gives the leverage needed to exert a strong influence on the policy rate. The arrangements surrounding reserve requirements create incentives for banks to act in such a way as to bring about the desired results in the policy rate.

What is the deference's of Afghanistan, Pakistan monetary policy?

How Afghanistan and Pakistan do their Market operation?

What is Afghanistan and Pakistan Monetary policy frame work?

How do the Afghanistan and Pakistan central banks manipulate the money supply interest rates, inflation rate?

What are the similarities or differences of monetary policy between the Afghanistan and Pakistan Central banks?

a) *Objective of Afghanistan and Pakistan Monetary Policies*

The primary objective of Afghanistan and Pakistan central banks are preservation of the value of the currency – internally with respect to domestic inflation and externally with respect to the exchange rate. The mean objective of research is the compression of those objective.

Secondary objectives of Afghanistan and Pakistan central Banks are include acting as the government's bankers and debt manager (particularly internationally), moderating the business cycle as well as fostering economic growth and full employment the primary objective goes to the heart of economic expectations of Afghanistan and Pakistan. The expected price level is the basis of aggregate expenditure including consumption, investment, government and export/import decisions. Change the expectation and a different outcome will be reached. If prices rise or fall too fast choices must be quickly re-calculated. Uncertainty increases and uncertainty is the great enemy of investment. Rising prices also affect asset values and hence wealth. In a capitalist society or plutocracy wealth is the measure of one's worth. Wealth owners – large and small - have a vested interest in price stability and the value of their assets. The central bank serves their interests. (Shafiq, 2016).

This control of interest rates, of course, allows the central bank to achieve some secondary objectives including regulating the business cycle as well as fostering economic growth and full employment.

Describe the principal objectives of Afghanistan, Pakistan and India monetary policies in following four categories which is from general to specific.

1. *Full Employment:* Full employment has been ranked among the foremost objectives of monetary policy. It is an important goal not only because unemployment leads to wastage of potential output, but also because of the loss of social standing and self-respect.
2. *Price Stability:* One of the policy objectives of monetary policy is to stabilize the price level. Both economists favor this policy because fluctuations in prices bring uncertainty and instability to the economy.
3. *Economic Growth:* One of the most important objectives of monetary policy in recent years has been the rapid economic growth of an economy. Economic growth is defined as "the process whereby the real per capita income of a country increases over a long period of time."<sup>4</sup>
4. *Balance of Payments:* Another objective of monetary policy since the 1950s has been to maintain equilibrium in the balance of payments.(Da Afghanistan bank, 2016)and(SBP)

*Significant of Research:* (Afghanistan is still among the world's 23 Least Developed Countries, according to the UNDP report: About 42 percent of *Afghans* are living in poverty; life expectancy at birth is 44.6; there is one doctor and two hospital beds for every 5,000 *Afghans and Pakistan are in developed countries*).

Under development and developing countries many factors hinder the economic growth. The government expresses and implements various policies to remove such obstacle for maintaining equilibrium in the economy among these policies with the help of monetary policy the government leads the economy towards economic growth by providing required acceleration. To achieve some definite objectives through monetary policy the central bank guides the growth and reduction of the quantity of money and credit towards suitable direction that is the central bank will control inflation and deflation as required through monetary policy there will be a great importance of monetary policy in the underdeveloped or developing countries in such countries various types of economic problems can be solved through monetary policy this is because the economy of underdeveloped countries are badly affected by the problems of inflation and deflation In such a situation hurdles will occur in the sectors like production employment income and economic growth all these problems in the country can be solved through monetary policy. (Ajmal, 2015).

(IMF, research survey, 2015) explained the Capital formation in underdeveloped countries due to low income there won't be saving due to lack of saving

there won't be capital formation which is absolutely necessary for economic development therefore, the country will be involved in the "mean circles of poverty" due to decrease in investment, income and employment for the economic development of such countries the capital formation should be stressed this will have multiplier effect in investment, income and saving for this, monetary policy will help in capital formation by providing loan at low interest rate and increasing investment appropriate balance of payments in underdeveloped and developing countries the balance of payment is always in an unbalanced state the main reason for this is that the export is less than the import such countries generally export raw materials and import goods made out of those raw materials through monetary policy production of export goods is encouraged by providing various subsidies and facilities to such industries production export goods and undertakes the policy of availing foreign exchange to import very essential goods so, through monetary policy it tries to create a suitable environment for balance of payment by controlling the foreign exchange rate. (IMF, research survey, 2015).

#### IV. AFGHANISTAN MONETARY POLICY FRAMEWORK

The primary objective of monetary policy in Afghanistan Central Bank is to maintain domestic price stability. As a secondary objective, DAB aims to foster the proper functioning of the financial system and promote a sound national payment system. Operationally, DAB has been maintaining price stability by basing its policy decisions on a growth rate target for currency in circulation (CiC). When consistent with its target for CiC, DAB has also aimed at smoothing short-term exchange rate variations given the large impact such fluctuations can have on inflationary expectations and inflation itself. Monthly targets for CiC, consistent with the ceiling on CiC are set on the basis of expected real GDP growth, the rate of CiC, the target for inflation, and seasonal variations in the demand for liquidity.

A high degree of substitutability between Afghanis and U.S. dollars appears to be a key characteristic of the Afghan economy. As pointed out by Agénor and Montiel currency substitution—the process whereby foreign currency substitutes for domestic money as a store of value, unit of account, and medium of exchange has become a pervasive phenomenon in many developing countries. After several years of instability when the authorities raised the majority of their revenue from money creation and foreign currency was preferred to domestic currency—confidence in the Afghani appears to have increased to a point where there is unimportance (at least for transaction purposes) between the Afghani and some other currencies, notably the U.S. dollar and the Pakistani

rupee. In fact, it seems probable that the elasticity of substitution between domestic and foreign monies is higher in Afghanistan than in other countries. (IMF, research, 2003)

*Monetary Policy Framework in Pakistan:* State Bank of Pakistan (SBP) Act 1956 provides legal setup for monetary policy framework in Pakistan. Readings from SBP reports particularly after adopting market based exchange-rate shows that focus of SBP is on both on price stability and economic growth and focus on earlier entails a bit of attention to exchange rate. The Act also provides necessary powers for operational mechanism of monetary policy (MP) and central bank independence. It also provides an arrangement for relationship between monetary and fiscal authorities that is the SBP and the government.

The Act entrusts upon SBP to regulate the monetary and credit system of Pakistan and to foster its growth to secure monetary stability and fuller utilization of country's productive resources. It is at the disposal of SBP to choose a monetary policy framework to achieve these objectives broadly. Monetary stability means price stability. According to Section 9-A (a) of the Act, State Bank is to conduct monetary and credit policy consistent with government's targets for real (GDP) growth and inflation. Over the ears SBP priority has shifted from growth to balance of payments to inflation. Inflation services as nominal presenter as its target is openly announced by the government of Pakistan on annual basis, and then SBP periodically share inflation forecasts with public in its top publications including monetary policy statements. Through the history of Pakistan, while overall objectives of monetary policy have remained the same, the policy contents – middle target, choice of instrument(s) and control other factors. – Have different significantly over the years. However, serious efforts have been made during the last few years to make monetary policy clear and credible by taking committee based decisions and issuing monetary policy statements. (Malik, March 2015).



GDP Growth Rate  
Annual Growth Rate of GDP (%)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan	...	...	...	8.2	2.3	9.9	9.2	16.1	2.3	17.2	3.2	8.7	10.9
Azerbaijan	11.1	9.9	10.6	11.2	10.2	26.4	34.5	25.0	10.8	9.3	5.0	0.1	2.2
Iran	7.4	5.5	8.7	7.9	7.0	6.2	7.3	7.8	0.8	3.2	6.6	3.5	-5.4
Kazakhstan	9.8	13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2	7.0	...	...
Kyrgyzstan	5.4	5.3	0.0	7.0	7.0	-0.2	3.1	8.5	8.4	2.9	-1.4	...	...
Pakistan	3.4	2.0	3.1	4.7	7.5	9.0	5.5	5.0	0.4	2.6	3.6	3.8	3.7
Tajikistan	8.3	9.6	24.6	19.2	44.2	19.5	10.3	25.3	37.7	10.7	6.5	7.4	7.5
Turkey	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1

Explanation of price stability in Afghanistan on the ultimate objective of DAB and other countries price stability. Without maintaining stability in the national currency against the prices of goods and services, achieving this goal is not possible. Since Afghanistan is an open economy with a huge trade deficit, domestic prices are highly weak to the exchange rate fluctuations.

Therefore, in order to prevent serious fluctuation in the exchange rate of Afghani, and to avoid its negative impacts on the domestic prices and other economic indicators, DAB intervenes in the market via Managed Floating Exchange Rate regime. (USID, 2016).

NO	Afghanistan	Pakistan
1	Monetary policy department is to achieve domestic price stability and to maintain stability in the exchange rate of national currency against the foreign currencies by formulating and implementing prudent monetary and exchange rate policies.	Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit. And growth its monetary stability utilization
2	Framework: To maintain its primary objective of domestic price stability, Da Afghanistan Bank continues Monetary Aggregate Targeting Framework. Controlling liquidity condition is highly important in the economy; hence any changes in the rate of liquidity have a direct impact on the overall economic activities in the country.	Framework: the SBP objectives as 'whereas it is necessary to provide for the constitution of a State Bank to regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest stability and utilization of the country's productive resources.'
3	Process of Monetary policy: primary instruments for monetary policy, the Central Bank of Afghanistan uses the sale of currency and the capital note auction to control the reserve money. (a) Auction Sale of Currency: Under currency trading regulation, the Central Bank of Afghanistan sells foreign currencies to licensed commercial banks and authorized money exchange dealers through a free and transparent auction process on bi-weekly basis. (b) Capital Note Auction: the second tool the Central Bank uses to control is the auction of capital note, which is sold to commercial banks once a week.	Process of Monetary Policy Committee is responsible and fully empowered to decide the monetary policy stance. Section of the SBP lays out the powers and functions of the Monetary Policy Committee that have been mainly identified as to. (a) Formulate, support and recommend the monetary policy, including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Pakistan and may make regulations for their implementation. (b) Approve and issue the monetary policy statement and other monetary policy measures.

NO	Afghanistan	Pakistan
1	<p>Implementation: Da Afghanistan Bank implements the monetary policy by using the existing monetary policy instruments. Da Afghanistan Bank Law, the ultimate objective of DAB is price stability. Without maintaining stability in the national currency against the prices of goods and services, achieving this goal is not possible. Since Afghanistan is an open economy with a huge trade deficit, domestic prices are highly vulnerable to the exchange rate fluctuations. Therefore, in order to prevent serious fluctuation in the exchange rate of Afghani, and to avoid its negative impacts on the domestic prices and other economic indicators, DAB intervenes in the market via Managed Floating Exchange Rate regime.</p>	<p>Implementation: Implementation of the monetary policy stance, signaled through announcement of the Policy (target) Rate, entails managing the day-to-day liquidity in the money market with the objective to keep the short-term interest rates stable and aligned with the Policy (target) Rate. Specifically, as an operational target SBP aims at maintaining the weekly weighted average overnight repo rate close to the Policy (target) Rate. To achieve this operational target, SBP primarily uses OMOs to manage liquidity in the money market in a manner that there are no unwarranted pressures that diverges the weighted average overnight repo rate from the Policy (target) Rate.</p> <p>Minimum Cash Reserve Requirement: The State Bank has the power to require banks to keep a certain minimum ratio of their demand and time liabilities in cash with it as also the power to vary this ratio whenever necessary Same like any other central bank In Pakistan, open market operations have hardly been used as a credit control weapon in its own right mainly on account of the lack of a developed securities market in the country. Government securities are held largely by banks and other financial institutions who are under obligation to hold these securities to meet the statutory liquidity requirements.</p>

*In following chart we explain the compression of following data of Afghanistan, India and Pakistan by Measure percent, Source of the World Bank.*

*a) Economic Growth*

Measure: Percent, Source: The World Bank

Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

*b) Inflation*

Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.



The explanation of Afghanistan, India and Pakistan Monetary policy.

Country	Code	year	Economic growth	GDP current U.S. dollars	GDP per capita current dollars	GDP per capita PPP	GDP per capita constant dollars	Inflation	Savings percent of GDP	External debt
Afghanistan	AF	2000								
Afghanistan	AF	2004	1.06	5.29	224.91	1090.24	373.69			
Afghanistan	AF	2008	3.61	10.19	384.13	1335.59	457.79	30.6		20.85
Afghanistan	AF	2001		2.46	119.9					
Afghanistan	AF	2005	11.18	6.28	257.18	1167.36	400.12	12.7		
Afghanistan	AF	2009	21.02	12.49	458.96	1576.03	540.2	-8.3	-0.55	19.7
Afghanistan	AF	2002		4.13	192.15	1088.03	372.93			
Afghanistan	AF	2006	5.55	7.06	280.25	1193.85	409.2	7.3		13.65
Afghanistan	AF	2010	8.43	15.94	569.94	1662.8	569.94	0.9	-8.61	15.15
Afghanistan	AF	2003	8.44	4.58	203.65	1126.42	386.09			
Afghanistan	AF	2007	13.74	9.84	380.4	1321.48	452.95	8.5		20.39
Afghanistan	AF	2011	6.11	17.93	622.38	1712.59	587.01	10.2	-10.66	14.59
India	IN	2000	3.84	476.61	452.41	2521.34	794.48	4	24.68	21.44
India	IN	2004	7.92	721.58	640.6	2986.82	941.15	3.8	33.03	17.25
India	IN	2008	3.89	1224.1	1022.58	3828.35	1193.21	8.4	32.91	18.66
India	IN	2001	4.82	493.95	460.83	2597.59	818.51	3.7	26.58	20.32
India	IN	2005	9.28	834.21	729	3213.06	1012.44	4.2	33.2	14.63
India	IN	2009	8.48	1365.37	1124.52	4094.46	1276.15	10.9	33.9	18.88
India	IN	2002	3.8	523.97	480.62	2651.13	835.38	4.4	26.16	20.31
India	IN	2006	9.26	949.12	816.73	3457.06	1089.33	6.1	34.43	16.94
India	IN	2010	10.26	1708.46	1387.88	4452.93	1387.88	12	33.96	17.25
India	IN	2003	7.86	618.36	557.9	2812.62	886.26	3.8	27.33	19.37
India	IN	2007	9.8	1238.7	1050.02	3739.27	1165.45	6.4	35.93	16.54
India	IN	2011	6.64	1835.81	1471.66	4685.86	1460.48	8.9	35.02	18.51
Pakistan	PK	2000	4.26	73.95	534.92	3501.81	850.31	4.4	19.51	45.13
Pakistan	PK	2004	7.37	97.98	652.02	3817.96	927.07	7.4	26.18	36.28
Pakistan	PK	2008	1.7	170.08	1042.8	4287.38	1041.06	20.3	16.86	28.56
Pakistan	PK	2001	1.98	72.31	511.81	3494.6	848.56	3.1	20.41	44.71
Pakistan	PK	2005	7.67	109.5	714.04	4027.91	978.05	9.1	24.15	30.44
Pakistan	PK	2009	2.83	168.15	1009.8	4318.13	1048.53	13.6	19.52	32.65
Pakistan	PK	2002	3.22	72.31	501.19	3532.53	857.77	3.3	24.54	46.51

Pakistan	PK	2006	6.18	137.26	876.95	4190.18	1017.46	7.9	20.36	26.6
Pakistan	PK	2010	1.61	177.41	1043.3	4296.61	1043.3	13.9	20.8	34.75
Pakistan	PK	2003	4.85	83.24	565.32	3628.78	881.14	2.9	28.33	42.48
Pakistan	PK	2007	4.83	152.39	953.8	4303.5	1044.97	7.6	21.11	27.1
Pakistan	PK	2011	2.75	213.76	1230.82	4322.53	1049.59	11.9	20.05	29.34

### c) *External Debt*

The World Bank Total external debt stocks to gross national income. Total external debt is debt owed to nonresidents repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

#### i. *GDP, current U.S. dollars*

GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used.

#### ii. *GDP per capita, constant dollars*

GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

#### iii. *GDP per capita, current dollars*

GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in

#### *GDP per capita, PPP*

GDP per capita based on purchasing power parity (PPP). PPP GDP is gross domestic product

converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2011 international dollars.

*Inflation:* Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.

## V. DATA AND METHODOLOGY

All data is collected from the monetary policy department and also go to the Document and relation department of the Afghanistan Bank which they give the annual Economic and statistical bulletin which is the Annual report of Afghan central Bank and Also use the web site of central bank and other country central bank for the Aim of better research of Monetary policy implementation.

To obtain the exchange rate of Afghani against various currencies, one of the Market Operation Department (MPD) employees along with one person from the Market Operation Department visits Sara e Shahzada (the main money market in Kabul) and collects the special exchange rate forms, which includes the rate of Afghani against a basket of 9 foreign currencies, from 10 exchange dealers on a daily basis. The foreign currency basket includes: the U.S. dollar, Euro, Pound Sterling, Swiss Francs, Indian Rupees, Pakistani Rupees, UAE Dirham, Saudi Riyal, and Iranian Riyal). To calculate and to understand the overall condition of the monetary indicator, and to analyze changes in these indicators, to find out the reasons behind such changes, the monetary section collects data from the General Treasury and the Currency Issuance sections of the Banking Operations Department, as well as data from the Core Banking System (CBS) regularly. In case of any significant changes, possible solution will be presented.

To analyze the overall sector uses data from the Core Banking System CBS and the IMF website with India and Pakistan central banks and some other website additionally, data on the foreign exchange inflow

is provided by the Market Operations Department. It is worth mentioning that total value of is expressed in U.S. dollar US dollar is the standard that we can say it have full effect on Afghani value.

To collect data from Da Afghanistan Bank Monetary policy Department of Da Afghanistan and also to analyses the role and the process of implementing the Monetary policy to determine the main objective of Central bank which is price stability control inflation and other factors and use the past year 2014, 2015 and

2016 data of Da Afghanistan Bank to complete the research.

After collecting data from received from various sources and performing required calculations, the exchange rate trend and behavior, the level of net foreign exchange reserves, and other monetary indicators are monitored regularly. In case of any severe fluctuations in the exchange rate of Afghani the main causes are analyzed and the proper suggestions are provided.

The analyses of all data is done through log, mean, average, Regression Afghanistan Data Analyses

Year	GDP per capita PPP	Inflation	log GDP	log inflation
2005	1167.36	12.7	3.067205	1.103804
2006	1193.85	7.3	3.07695	0.863323
2007	1321.48	8.5	3.121061	0.929419
2008	1335.59	30.6	3.125673	1.485721
2009	1576.03	0.5	3.197564	-0.30103
2010	1662.8	0.9	3.22084	-0.04576
2011	1712.59	10.2	3.233653	1.0086
2012	1899.3	7.2	3.278594	0.857332
2013	1876.19	7.7	3.273277	0.886491
2014	1844.02	4.6	3.265766	0.662758

This regression is showing the relation between GDP per capital with inflation that haw match it effects on Afghanistan inflation with the following data.

Summary Output					
<i>Regression Statistics</i>					
Multiple R	0.802984				
R Square	0.644784				
Adjusted R Square	0.519784				
Standard Error	0.552974				
Observations	9				
<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	4.440392	4.440392	14.52151	0.006622
Residual	8	2.446242	0.30578		
Total	9	6.886634			

R-Square or coefficient of determination equal to (0.644784) indicates that about (64.47%) of the variation in statistics grades (the dependent variable) can be explained by the relationship to math aptitude scores (the independent variable). This would be considered a good fit to the data, in the sense that it would substantially improve ability to predict performance in statistics Data.

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
3.06720481	0.2195	0.0576	3.811	0.0052	0.08667	0.3523	0.087	0.3523

In the intercept-only model, all of the fitted values equal the mean of the response variable. Therefore, if the P value of the overall F-test is significant, your regression model predicts the response variable better than the mean of the response.

Typically, if you don't have any significant P values for the individual coefficients in your model, the

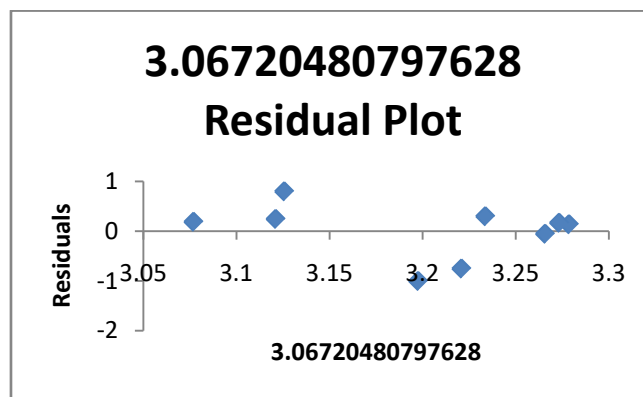
overall F-test won't be significant either. However, in a few cases, the tests could produce different results.

A significant overall F-test could determine that the coefficients are jointly not all equal to zero while the tests for individual coefficients could determine that all of them are individually equal to zero.

Residual Output				Probability Output	
Observation	Predicted 1.10380372095596	Residuals	Standard Residuals	Percentile	1.1038
1	0.67539	0.18793	0.36	5.55556	-0.301
2	0.68507	0.24435	0.469	16.6667	-0.046
3	0.68609	0.79964	1.534	27.7778	0.6628
4	0.70187	-1.0029	-1.92	38.8889	0.8573
5	0.70697	-0.7527	-1.44	50	0.8633
6	0.70979	0.29881	0.573	61.1111	0.8865
7	0.71965	0.13768	0.264	72.2222	0.9294
8	0.71848	0.16801	0.322	83.3333	1.0086
9	0.71684	-0.0541	-0.1	94.4444	1.4857

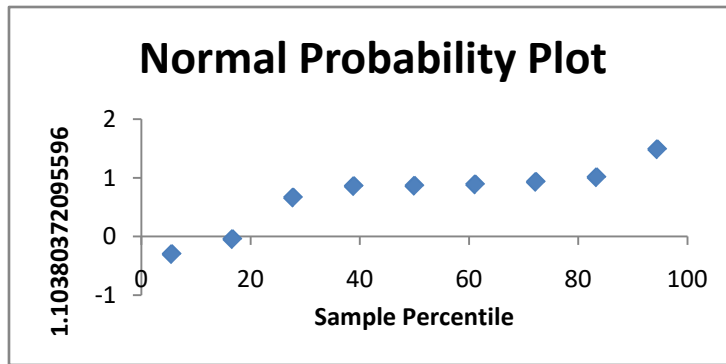
While R-squared provides an estimate of the strength of the relationship between your model and the response variable, it does not provide a formal hypothesis test for this relationship. The overall F-test

determines whether this relationship is statistically significant. If the P value for the overall F-test is less than your significance level, you can conclude that the R-squared value is significantly different from zero.



This residual plot graph is shows the residuals on the vertical axis and the independent variable on the horizontal axis. If the points in a residual plot are randomly discrete around the horizontal axis, a linear regression model is appropriate for the data; otherwise, a non-linear model is more appropriate.

The residual plot shows a fairly random pattern - the (1<sup>st</sup> 2<sup>nd</sup> 3<sup>rd</sup> 6<sup>th</sup>) residuals are positive the (4<sup>th</sup> 5<sup>th</sup>) are negative, and the last (7<sup>th</sup> 8<sup>th</sup> 9<sup>th</sup>) are positive straight line. This random pattern indicates that a linear model provides a decent fit to the data.



Normal Probability Plot: The data are plotted against a theoretical normal distribution in such a way that the points should form an approximate straight line. Departures from this straight line indicate departures from normality.

The points on this plot form a nearly linear pattern, which indicates that the normal distribution is not so good model for this data set.

Pakistan Data Analyses

This regression is show the relation between GDP per capita (PPP) with inflation that haw match it effect on Pakistan inflation with the following data.

Year	GDP per capita, PPP	Inflation	GDP log	Inflation log
2005	4027.91	9.1	3.60508	0.959041
2006	4190.18	7.9	3.622233	0.897627
2007	4303.5	7.6	3.633822	0.880814
2008	4287.38	20.3	3.632192	1.307496
2009	4318.13	13.6	3.635296	1.133539
2010	4296.61	13.9	3.633126	1.143015
2011	4322.53	11.9	3.635738	1.075547
2012	4380.24	9.7	3.641498	0.986772
2013	4475.65	7.7	3.650856	0.886491
2014	4590.15	7.2	3.661827	0.857332

Summary Output					
Regression Statistics					
Multiple R	0.989621				
R Square	0.97935				
Adjusted R Square	0.85435				
Standard Error	0.156872				
Observations	9				
ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.33704	9.33704	379.4177	2.35E-07
Residual	8	0.196871	0.024609		
Total	9	9.533911			

R-Square of coefficient of determination equal to (0.97935) indicates that about (97.9%) of the variation

in statistics grades (the dependent variable) can be explained by the relationship to math aptitude scores

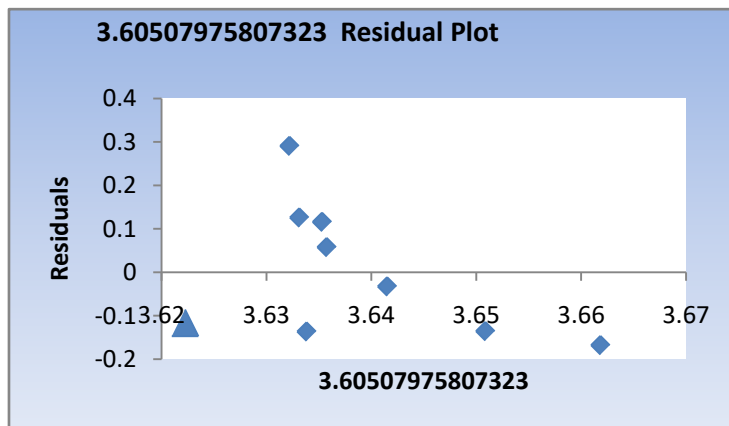
(the independent variable). This would be considered a good fit to the data, in the sense that it would substantially improve ability to predict performance in statistics Data.

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
3.6051	0.2799	0.0144	19.479	5E-08	0.2468	0.31308	0.24679	0.31308

If the P value for the F-test of overall significance test is less than your significance level, you can reject the null-hypothesis and conclude that your model provides a better fit than the intercept-only model. It shows that we should not reject the exact model case the P value is more than the F significant value.

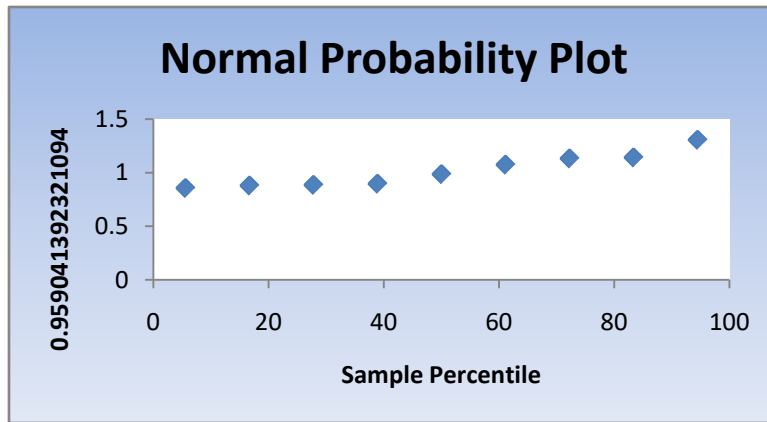
Residual Output				Probability Output	
Observation	Predicted	Residuals	Standard Residuals	Percentile	
	0.959041392321094			0.959	
1	1.014	-0.116	-0.787	5.5556	0.85733
2	1.0172	-0.136	-0.922	16.667	0.88081
3	1.0168	0.2907	1.9656	27.778	0.88649
4	1.0176	0.1159	0.7836	38.889	0.89763
5	1.017	0.126	0.8517	50	0.98677
6	1.0178	0.0578	0.3906	61.111	1.07555
7	1.0194	-0.033	-0.221	72.222	1.13354
8	1.022	-0.136	-0.916	83.333	1.14301
9	1.0251	-0.168	-1.134	94.444	1.3075

Residual output: Visually, the probability plot shows a strongly linear pattern. This is verified by the correlation coefficient of (0.97935) of the line fit to the probability plot. The fact that the points in the lower and upper limits of the plot do not change significantly from the straight-line pattern indicates that there are not any significant outliers (relative to a normal distribution).



The residual plot shows a fairly random pattern - the (1<sup>st</sup> 2<sup>nd</sup> 3<sup>rd</sup> 5<sup>th</sup> 6<sup>th</sup>) residuals are positive the (4<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup>) are negative, and the last (7<sup>th</sup>,) is near to positive straight line. This random pattern indicates that a linear model provides a decent fit to the data.





Normal probability Plot: The points on this plot form a nearly linear pattern, which indicates that the normal distribution is not so good model for this data set. They have to choose one other data model for better data set. In addition, a straight line can be fit to the points and added as a reference line. The further the points vary from this line, the greater the indication of departures from normality. We can make the following conclusions from the above plot.

- The normal probability plot shows a non-linear pattern.
- The normal distribution is not a good model for these data.

## VI. DATA PAKISTAN STATE BANK OF PAKISTAN (SBP)

The data for this study are taken from Pakistan Economic Survey (Various Issues), Ministry of Finance

Variables	Description
RGDP	Real Gross Domestic Product.
M2GD	Money and Quasi Money as a Percentage of GDP.
CREDIT	Domestic Credit to Private Sector as Percentage of GDP.
CMR	Call Money Rate (Proxy for Interest Rate).
CPIR	Consumer Price Index.
REXR	Real Exchange Rate.
BDEF	Budget Deficit as a Percentage of GDP.

Most macroeconomic time series are trended, non-stationary and thus the standard obtained may lead to incorrect conclusions. Granger and Newbold, (1974) pointed out that problem and suggested that if  $R^2$  (Durbin-Watson Statistic) then we can suspect spurious regression. If the series are non-stationary (i.e. time-varying mean and variance) than all the typical results of classical regression analysis are not valid and have no meanings. A most widely test, Augmented Dickey Fuller test, can be used to check the stationary of the series. The lag length is determined by Akaike Information Criterion In this study, Johansen-Juselius test is employed to determine the presence of co-integrating vectors is a set of non-stationary time series

website Fifty Year Economy of Pakistan (SBP) and World Bank (World Development Indicators) websites. The data ranges from 1972-73 to 2011-13 is used for the analysis. Study uses inflation rate (IR) as dependent variable while Money supply (M2), interest rate (i), Gross domestic product (GDP) are taken as explanatory variables. Variables are used into their log form to find out the elasticity's and some other research papers are used to collect data.

Annual data for following variables have been taken from international financial statistics and various issues of World Bank Development Reports. Following table shows the description of variables used in this study:

data and is also employed to examine the long-run relationship between the variables. The null hypothesis is made that there are at most  $r$  co-integrating vectors against the alternative of co-integrating vectors.

### Inflation Calculator

We've assembled a variety of inflation calculators to suit your every need whether you want to calculate inflation by specific month or just by year. We even have developed a fun "steam punk" inflation calculator that goes back to 1774 and even estimates future inflation.

*Regression statistical analysis of Data:* In statistical modeling, regression analysis is a statistical process for estimating the relationships among variables. It includes

many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables (or 'predictors'). More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'criterion variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed. Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables – that is, the average value of the dependent variable when the independent variables are fixed.

## VII. CONCLUSION AND RECOMMENDATION

This paper provides a broad overview of monetary policy cooperation of Afghanistan and Pakistan central banks through the differences framework of policy analysis. The framework proves useful for interpreting past policy decisions and mistakes of Policy during the 2005 but when closely examined within the context of the information available and policymaker perceptions in real time of those country, this change is indirect than usually appears at first glance with reviewing analysis in this research we also find the real GDP, Inflation, GDP per capita, PPP, GDP per capita, current dollars, GDP per capita, constant dollars, GDP, current U.S. dollars, External debt and Economic growth measure through the world banks internet measuring of Afghanistan and Pakistan compression.

State Bank of Pakistan Act 1956 provides legal setup for monetary policy framework in Pakistan. It entrusts upon SBP to regulate the monetary and credit system of Pakistan and to foster its growth to secure monetary stability and fuller utilization of country's productive resources. It provides necessary powers for operational set up for monetary policy in addition to arrangements for relationship between the central bank and the ministry of finance. Historically, overall objectives of monetary policy have remained the same while policy contents have varied considerably over the years. Concerted efforts have been made during the last few years to make monetary policy transparent and credible by taking committee based decisions and issuing monetary policy statements after being discretionary over most of the period. Zaidi, I. M. (Pakistan 2006).

### Regression

The  $R^2$  must equal the percentage of the response variable variation, no more and no less Afghanistan,  $R^2$  percentage was (64%) which was less than the variable variation and Afghanistan is not good but Pakistan  $R^2$  was (97%) and India  $R^2$  was (98%) which were close to their response variable variation and they are good in regression test.

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By Driss Tsouli & Bouchra Elabbadi

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# Intellectual Capital Assessment Models in Clusters: A Literature Review

Driss Tsouli<sup>α</sup> & Bouchra Elabbadi<sup>σ</sup>

**Abstract-** The purpose of this paper is to review the literature on intellectual capital in clusters in order to identify and compare the main models to measure at the cluster level. A systemic literature review was carried out using the most important bibliographic database Scopus and the most important journal on intellectual capital: journal of intellectual capital. The search covered the period from 2004 to 2016.

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## I. INTRODUCTION

In the new economics of competition, the economic map of the world is dominated by what it called clusters. Clusters are geographic concentrations of interconnected companies and institutions in a particular field [14]. Clusters impact competitiveness inside countries as well as outside of national borders. Clusters are an international fact that arises in Japan, the USA, Germany, Netherlands, Finland, Sweden, and other countries. That's mean there is a possible relation between development and clusters. Therefore, clusters lead to a new way of thinking about location, challenging much of the conventional wisdom about how companies should be configured, how institutions such as universities can contribute to competitive success, and how governments can promote economic development and prosperity [14].

On the other hand, intellectual capital has become the most important resource for value creation and competitive advantage. Intellectual capital research has mostly concentrated on companies [2], and beside modest research at regions or nations level.

The first studies related to IC assessment on clusters have done by J.L. Hervas and J.I. Dalmau in order to construct an Intellectual Capital Cluster Index (ICCI). Later, some practitioners and scholars were interested in IC in clusters. A literature review was conducted to identify the works related to IC at the clusters level and obtain an overview of intangibles. The specific objectives of this paper are: to identify the main advances in IC in clusters studies; to identify the main models developed to measure IC at the clusters level; and to characterize and compare the models. The research questions are: What advances have been made in the last decade in knowledge about IC at the

clusters level? How is IC measured at the clusters level? What kind of indicators, variables, and components are being used? What are the main differences among models? What can be learned for future policies? The paper is structured as follows. The second section summarizes the conceptual framework and the underlying theories for IC analysis. Section 3 presents the methodology applied. Section 4 presents the models analyzed and initial findings and compares the main characteristics of the models. Section 5 offers some conclusions.

## II. CLUSTERS AND INTELLECTUAL CAPITAL FOUNDATIONS

The point of departure of clusters intangibles has been the Marshall's project, under different names as social complexity [10], non-traded interdependencies [17] [16], or community of people. Consequently, nothing is new except the IC definition and the formal model to assess and value all these intangibles.

All these intangibles have been integrated in three basic elements identified in clusters [3]. first, the specialization in one or in a few stage of production process which leads to a higher productivity. Second, the milieu [7], which can be devised on two aspects: culture (knowledge, competences, attitudes, high regard for risk and profit) and infrastructure (land availability, communications, social services, services to the firms, "local banking"). third, the network which is formed by linkage (forward and backward) which provides a competitive advantage (customer relationship, corporate image, connections).

From another perspective, Porter's work [12] [14] on clusters led to know the forces like: special infrastructures available in the territory (skilled labour pool, universities, R&D centers, etc.); related and supporting industries, complementing core industry processes; demanding conditions, because a strong, trend-setting local market in quantity and quality helps local firms to anticipate global trends; and firm strategy, structure and rivalry, which forces local firms to move beyond basic country advantages to search for competitive advantages. All the expressed forces provided extraordinary conditions which support firm competitiveness and value creation in the territory and they constituted an intellectual capital source.

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Consequently, the linkage between firms, firms and institutions such a public R&D centers, universities, drive to arise the intellectual capital inside clusters.

For this reason, some scholars tried to build the models for assessing IC in clusters for every cluster elements which act as an IC sources for the value creation.

- *Linked Industries*

Porter s work[12] [13] [14] considered the connected industries more specifically the auxiliary industry provide a more efficient basis to supply inputs into the value creation system. Therefore, the auxiliary industry is a knowledge mechanism which contributes to the cluster IC stock providing to the rest of the value chain innovations, interactions and also information flows to the rest of the system's components.

- *Institutions and Infrastructure*

Porter [12] pointed that the importance of institutions is not only their existence, but the connectivity and the interaction with other cluster parts to contribute to upgrade the cluster's knowledge stock. For example University programs usually include specific and special courses linked to the located industries, constituting a source of skilled and trained labour, as well as vocational centres. Public R&D institutes, jointly with universities' cooperation, carry out cluster-specific research to expand the knowledge and technology useful and required in the area, frequently taking the form of formal contracts between located firms and the institutes themselves with the aim to enlarge firm's technological capabilities.

- *Human Resources*

The most important implication in a cluster is refers to the presence of a community of people. Porter [12] also mentioned in his model the importance of specialized human resources on cluster industries. People must be educated in specific cluster university courses and they could be trained in clusters requirement by specifying center programs offered by regional authorities. Another important point is the social capital aspects (trust, common language, objectives and assumptions, local vocabulary and mutual understandings, among others) which are associated with high-quality information flows and tacit knowledge held by workers and managers available in the area [18].

#### *Firm Strategy*

For Porter, 1990, Clusters firms should not only take advantage from the territorial resources but create successful configurations of its own value chains. Firm strategy builds competitiveness and thus creates value. That means, not only territorial resources are crucial but also the firms' actions. Without upgrading firms' strategies territorial resources cannot be

interrelated in self-firms value chains. Similarly, [8] also recognize the fact that "the orientation and sophistication of the strategies undertaken by firms in the clusters ultimately determine the cluster's wealth creation capacity".

- *Linkages*

Knowledge creation and transmission mechanisms imply to strengthen linkages between the different agents located in the cluster such as clients, suppliers and other related industries through informal and formal collaborations and relationships [3] [6] . Similarly Porter's concept of fit explains the way in which activities are connected each other in the value chain rather than working isolated [11].

- *Economic Performance*

Economic performance represents the profitability and success achieved by the cluster as a whole, mixing financial such as returns or productivity and non-financial performance indicators specially connected to customer and market matters.

### III. RESEARCH METHOD

The study presents a comprehensive review of the articles addressing the IC-clusters assessment models published from 2004 to 2015, the population to be studied included articles that were:

- Empirical, because practice is the origin of IC research[9].
- Published in peer-reviewed journals, which guarantees a high level of quality.
- Published from 2004 to 2015, as the seminal paper in this field of research was published in 2004 by Aino Pöyhönen Anssi Smedlund.
- Written in English, since English is the official language of knowledge

The selection of papers was conducted using the primary academic databases of Scopus an initial search of the Scopus, (title, abstract and keywords field) was conducted using the keywords "intellectual capital" and "clusters". The results obtained (63 in Scopus) were then refined by analysing their titles. This step yielded a total of 6 articles. And the final decision was about the inclusion of these 6 articles.

### IV. ICC: MAIN MODELS

The literature presents several models to measure IC at the cluster level using different methods to identify intangibles. In general, two approaches were identified (Table I). the first originated in the study of intangibles

Of clusters and is promoted mainly by academics. The second, developed by international organizations and business schools, aims to study

competitiveness, innovative capacity, and development not only at cluster level but at the whole regional level.

Table I Shows the models selected from the literature review for this study.

Table I: Models of measuring intangibles at the cluster level

Models	Authors	Organization
<b>Models developed by researchers (academic models)</b>		
theoretical model of the dynamics of intellectual capital creation in regional clusters and inter-organizational networks	AinoPoyhonen and AnssiSmedlund	University of Technology, Finland
The Intellectual Capital Cluster Index (ICCI)	J.L. Hervas and J.I. Dalmau	Polytechnic University of Valencia, Spain
<b>Models developed by international organizations</b>		
Knowledge Assessment Methodology (KAM)	World Bank (WB) [20]	
Global Innovation Index (GII)	INSEAD[4]	
Global Competitiveness Index (GCI)	World Economic Forum (WEF) [19]	
World Competitiveness Index (WCI)	International Institute for Management Development (IMD) [5]	

The first group includes the models derived from the taxonomy presented by Hervas-Oliver (2004), such as, networks, Institutions, infrastructure, Human resources, Firm strategy and Economic performance. Which seek to identify ICC, using indicators of intangibles that support regional growth. These models include Organizationalcapital, Human Capital, Social Capital, and the local and international relationships.

International organization models simply combine the vision of intangibles with the traditional

economic growth approach. The results of these models are far from ICC principles.

Tables II and III show the main characteristics of each evaluation system. While academic models determine IC as an independent factor using indicators of intangibles, the international organization models use indicators of intangible and tangible assets to determine competitiveness, innovation capacity, or development of countries without identifying total IC.

Table II: Academic models: main characteristics

<b>Models</b>	the dynamics of intellectual capital creation in regional clusters and inter-organizational networks	The Intellectual Capital Cluster Index (ICCI)
<b>Authors</b>	AinoPoyhonen and AnssiSmedlund	J.L. Hervas and J.I. Dalmau
<b>Assessment objective</b>	Knowledge creation	value creation
<b>Main aggregated indicators</b>	Knowledge and competence Relationships Information flow Management and leadership method	networks, Institutions and infrastructure, Human resources, Firm strategy Economic performance
<b>IC components</b>	Relational capital, human capital, organizational capital	Relational capital, human capital, social capital organizational capital
<b>Assets</b>	Intangible	Tangible and intangible
<b>Methodology</b>	Regional networks are presented as the networks of production, development and innovation in the region	An ICC index is determined. The indicators are added according to the relative importance of each one

Table III: International organization models: main characteristics

Organization	World Bank (WB)	INSEAD	World Economic Forum (WEF)	International Institute for Management Development (IMD)
<b>Assessment objective</b>	Knowledge	Innovation	Competitiveness	Competitiveness
<b>Main aggregated indicators</b>	Knowledge Economy Index (KEI) and Knowledge Index (KI)	Innovation Input: Institutions, HC and research, Infrastructure, market sophistication and business sophistication. innovation output: scientific outputs and creative outputs	Institutions, Infrastructure, Macroeconomic environment, health and basic education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and Innovation	Economic performance, government and business efficiency
<b>IC components</b>	Not explicit, but are deduced: HC, RC, SC, Renewal Capital, Market Capital, and Process Capital	Explicitly only HC. Also are deduced: RC, SC, Renewal Capital, Market Capital, and Process Capital	Not explicit, but are deduced: HC, RC, SC, Renewal Capital, Market Capital and Process Capital	Not explicit, but are deduced: HC, RC, SC, Renewal Capital, Market Capital, and Process Capital
<b>Assets</b>	Intangibles and Tangibles together	Intangibles and Tangibles together	Intangibles and tangibles together	Intangibles and Tangibles together
<b>Methodology</b>	KEI and KI are calculated by averaging indicators. Each indicator is standardized (scale 1-10)	Gill and two sub-indices are determined: Innovation Input and Innovation Output. The first sub-index included: institutions, human capital and research, infrastructure, market sophistication, and business sophistication. The innovation output index included: scientific outputs and creative outputs. Sub-pillar scores are calculated as the weighted average of individual indicators; pillar scores are calculated as the simple average of the sub-pillar scores	The data are obtained from international databases and survey A total of twelve components (pillars) are determined using 112 indicators. The pillars are clustered in Basic Requirements (institutions, infrastructure, macroeconomic stability, and health and primary education), Efficiency enhancers (higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, and market size), and Innovation and sophistication factors (business sophistication and innovation	331 indicators are used to determine 20 variables, which are grouped into 4 competitiveness factors. Each factor reports an index

## V. CONCLUSIONS

Intellectual capital traditionally focused on micro-level and less on macro-level needs to be

extended to the clusters. Sustainable and effective cluster economic growth occurs when all located agents (industries, institutions, and other actors) work formal or informally in the same direction and with shared



goals. Although several models are available to measure intangibles at the cluster level, international organization models are the most widely used because policy makers are not yet familiar with the concept of IC and they are not aware of the importance of intangibles in competitiveness.

The main differences between the two approaches are the objectives and the conceptual framework. The academic models seek to determine ICC directly, while the international organization models focus directly on capacity for growth or development without identifying IC or IC components or cluster characteristics.

The indicators used for the academic models are principally non-financial. In contrast, the international organization models have a high proportion of financial indicators. This combination of financial and non-financial indicators in all the models has also been pointed out by different scholars, who argued that an adequate evaluation system of intangibles includes both types of indicators.

This study has some limitations due to the wide dispersion of information related to IC and clusters. Therefore, there is probably more information on IC at the cluster level, although the literature reviewed is the most often cited and recognized by leading authors.

Another limitation is the number of articles studied only 6, there are extensive opportunities for future research given the novelty of IC studies at the cluster level.

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## International Assessments Analyses of Systemic Transformation of Georgia's Economy

By Eka Lekashvili

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*Abstract-* Between 1989 and 1991, within the scope of an unprecedented systematic transformation, a completely new era, followed by a number of challenges, started in Georgia as well as in all the rest of the new independent countries. The 70-year-long socialist experiment was replaced by experiments in the period of transition to a market-based economy, which does not yet seem to have an end.

*The research aim and goal:* Analysis of international assessments transformation economic policy of Georgia; identification of problematic areas of transformational economic policy in our country.

The theoretical and methodological fundamentals is based on the approaches to the economic policy in line with Walter Eucken's Principles of Economic Policy (1952).

*Keywords:* georgia, transformation, international assessment.

*GJMBR-B Classification:* JEL Code: F00



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# International Assessments Analyses of Systemic Transformation of Georgia's Economy

Eka Lekashvili

**Abstract-** Between 1989 and 1991, within the scope of an unprecedented systematic transformation, a completely new era, followed by a number of challenges, started in Georgia as well as in all the rest of the new independent countries. The 70-year-long socialist experiment was replaced by experiments in the period of transition to a market-based economy, which does not yet seem to have an end.

**The research aim and goal:** Analysis of international assessments transformation economic policy of Georgia; identification of problematic areas of transformational economic policy in our country.

The theoretical and methodological fundaments is based on the approaches to the economic policy in line with Walter Eucken's Principles of Economic Policy (1952).

Our analysis of the reasons and consequences of the transformation is based on the study by Simeon Djankov et al. (2003), Rainer Klump (2015) and on the basis of Leszek Balcerowicz's (2004) economic theory of transformation. In order to analyze transformation processes, we will be using the BTI, which assesses the state of democracy in a legal state and socially responsible market economy as well as consequences of political execution of reform ideas; for the purpose of a political and economic analysis, we studied the Democracy, Human Development and Global Competitiveness indexes and their dynamics provided by Freedom House.

**Findings:** Georgia is the only country in Eurasia to have earned a recent improvement in the electoral process rating. Also, analysis of internationally recognized data show that inefficient state governance, bureaucracy, corruption, weak anti-monopoly regulation and property right protection among other challenges in the transformational policy of Georgia remain invincible problems.

Despite shifting to the market economic system, entities still do not have complete autonomy. It is the state planning work rules, salaries and programmes for public organizations. Reforms are not initiated at low levels of hierarchy when necessary. This kind of approach can also be considered a Soviet holdover while public society is still inadequate and changes are predominantly imposed from above.

**Keywords:** georgia, transformation, international assessment.

## I. INTRODUCTION

Between 1989 and 1991, after dramatic collapse of the Soviet Union, the world map changed and new independent states arose, in the majority of

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which the economic policy is still being transformed. At the time, revitalization of Georgia's sovereignty and admission of its state system necessitated replacement of the old economic system with a new one, in particular, replacement of the imperious and administrative system with a society-oriented market economy. Within the scope of an unprecedented systematic transformation, a completely new era, followed by a number of challenges, started in Georgia as well as in all the rest of the new independent countries. The 70-year-long socialist experiment was replaced by experiments in the period of transition to a market-based economy, which does not yet seem to have an end.

## II. METHODOLOGY

Our analysis of the reasons and consequences of the transformation is based on the study by Simeon Djankov et al. (2003), which draws a comparison between the socialist and capitalist economic orders. The study discusses two basic threats to any society: Disorder and dictatorship: Disorder includes banditry, murder, crime, fraud, breach of contracts, monopoly prices, etc. As for dictatorship, it is oriented on limiting individual rights to property and power of appointment, expropriation, limiting competition on the market, etc. under the guise of the state. Corruption is a manifestation of both threats. According to the authors, the responsibility of institutions is to control these threats. The study is based on the concept of a difference between expenses and threats – disorder and dictatorship.

Also, on the basis of Leszek Balcerowicz's (2004) economic theory of transformation, we analyzed consequences of the Transformational Economic Policy and used internationally accepted indexes as empirical evidence: In order to analyze transformation processes, we will be using the Bertelsmann Transformation Index which assesses the state of democracy in a legal state and socially responsible market economy as well as consequences of political execution of reform ideas; for the purpose of a political and economic analysis, we also studied the Democracy, Human Development and Global Competitiveness indexes and their dynamics.

Throughout the study we purposely studied communist and post-communist economic science fiction, official documents, reports, statistics and expert

assessments by state, international<sup>1</sup> and nongovernmental<sup>2</sup> organizations. In terms of theoretical and empirical assessment of framework conditions of the communist experiment of the economic order and Transformational Economic Policy, studies by Georgian fellow economists Rozetta Asatiani (2014), Vladimer Papava (2005), Revaz Gvelesiani and Irina Gogorishvili (2014) among others were particularly helpful. The studies include critical analyses of the process of transition from the soviet economic system to a market-based economy, systemic model of transformation, assessment of the consequences of transformation and scientists' subjective viewpoints about the Transformation Process Policy.

#### a) *Soviet Economy of Georgia: results and transformation*

In 1921, Soviet Russia annexed Georgia which was followed by the Social-Democrats' resignation from the government (cessation of social-democratic experiments) and Bolshevism becoming dominant.

According to the "New Economic Policy" introduced by Lenin in 1921, a mixed economy emerged in the Soviet Union, within the framework of which agriculture and small-scale production remained included in private property. However, after 1929 the Soviet Union enforced collectivization of the agricultural sector and at the cost of many human lives, soviet peasantry became members of the collective. Within the framework of the communist experiment, collective property became dominant; the coordination mechanism implied social division of labor which was advisable not economically but rather politically.

Thus, state socialism became dominant while the capitalist market was completely replaced by the central planning system.

Socialism, being built based only on enthusiasm, voluntary methods and ignorant attitude to the socio-economic conditions of the country, faced invincible obstacles. Total nationalization that followed sovietization had a negative impact on the entire process of social progress.

A commanding-administrative system based on means of production in public property was formed in Soviet Georgia as well. A state-monopolistic social system characterized by centrally planned economy dominated by public property was formed. It was

characterized with coordination of individual plans by the State Planning Committee (Gosplan) which was responsible for development and control over execution of production and investment plans. Certainly, this system did not consider customers' individual plans. Industrial and manufacturing factors were priced in accordance with the central planning system; accordingly, prices and money had almost no function. There was a tendency of certain enterprises deliberately aspiring to the execution of the plan.

The socialist economic system was inflexible. It was incapable of quick reactions to changes and information which led to a supply deficit and faulty production process; enterprises were not motivated to get profit or aspire to implementing innovations. Problems were intensified due to bureaucratic management as the economic system was integrated with the political one, which was based on the autocratic governance of only one party. All goods and services were produced not based on supply and demand but rather based on political pricing. Officials of the communist government lobbied to allocate budget for particular fields and enterprises which added to encouraging corruption. The nonexistence of competition contributed to the process of economic stagnation.

The socialist economic order did not provide framework conditions for creating an optimal industrial structure of an economy. An alienated attitude towards individual needs eventually resulted in the abatement of economic interests, indifferent attitude towards labor, decreased stimulus to development and implementation of innovations, lack of eagerness to deepen knowledge (which can be explained by the nonexistence of full employment and competition in the labor market), and lower quality of goods and services among others. The isolated socialist system could not cope with challenges of globalization, while capitalist countries were able to form a mixed economic system based on property pluralism. The disintegration process in the soviet system which started in the 1980s went out of control and the system collapsed spontaneously.

Thus, as a result of the communist experiment, "such civilized forms of social development as competition, mechanism of labor motivation, frugality, responsibility, free-thinking and market coordination" among others were denied (Asatiani 2014; p. 24). "Logically, an isolated deficient economy and basically extensive resource-demanding production characterized by slow economic growth were formed". (Asatiani 2014; p. 25).

Given the spreading communist power of Soviet Russia, integration processes developed in new ways. Integration processes served as means to carry out the socialist ideology in the soviet era. Production cooperation was the basis of trading goods between

<sup>1</sup> Klaus Schwab, World Economic Forum, The Global Competitiveness Report, 2013-2014, p. 193; Execution of the European Neighbourhood Policy Action Plan in Georgia in 2011, assessments by representatives of civic society, the report is prepared within the framework of the European Integration Programme of Eurasia Partnership Foundation, Eurasia Partnership Foundation, 2012.

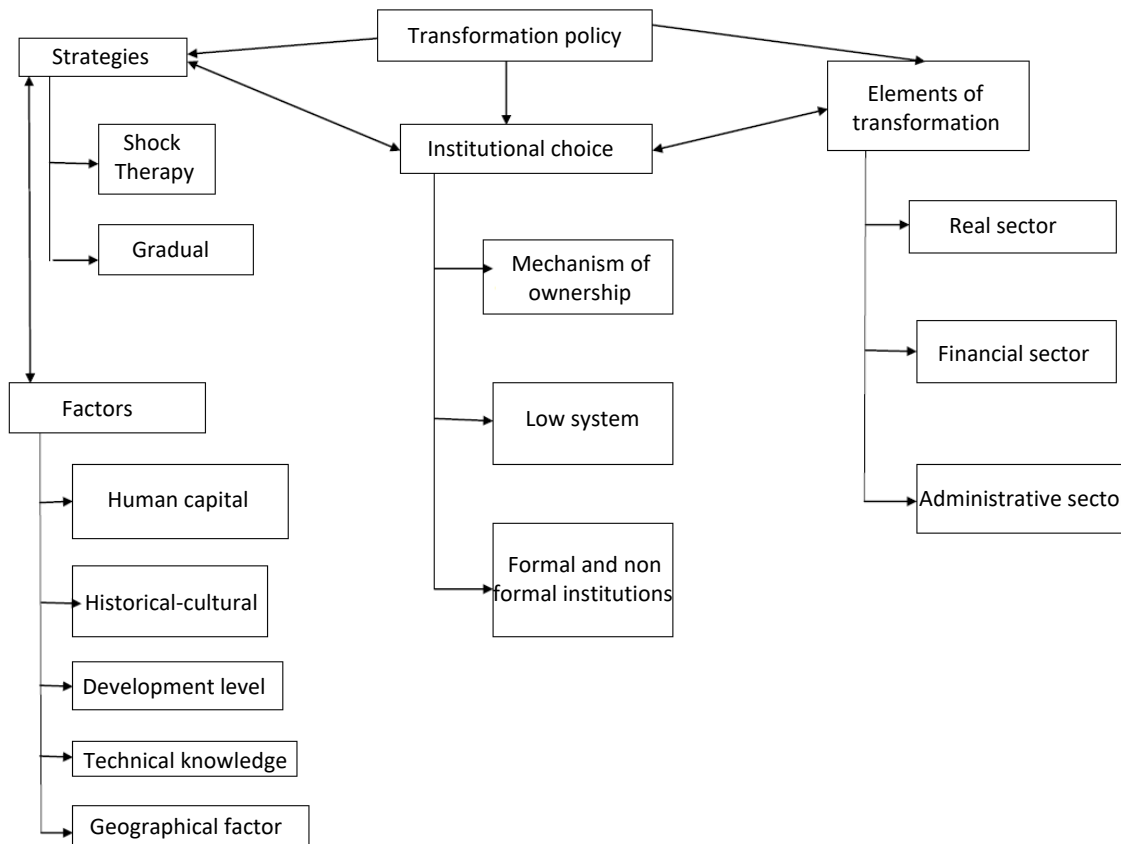
<sup>2</sup> Economic Transformation of Georgia: 20 Years of Independence. (2012). Interim report, Liberal Academy Tbilisi foundation. Georgian;

countries. In addition, trade was carried out according to plan. National needs, the country's relative advantages and interests of entrepreneurs were ignored (Lekashvili and Gaprindashvili 2014;p. 16).

The system developed in the Soviet Union retained its principal features until its collapse. Georgia, like other independent countries, denied socialist dogmas and started building a new economic system.

In 1991, after the revitalization of Georgia's sovereignty a new era started in our country. Now the state played a bigger role in providing adequate conditions for shifting smoothly from the commanding-administrative system to the market economy as the state was to act as the organizer and protector of the economic order (see scheme 1).

Scheme 1. Systemic Model of Transformation<sup>3</sup>



Georgia faced two major issues: Creation of state institutions and formation of the market economy. Out of the two options of shifting to the market economy, the Georgian government chose the "Shock Therapy" method due to objective factors: Georgia remained in the Ruble zone. It neither had national currency nor foreign exchange reserves which largely interrupted not only carrying out comprehensive reforms but also functioning of the economic mechanism. Georgia, as a new independent country, lacked proper institutions and experience in state administration.

Georgia has long adhered to nonconformism. With its geographic location, language and culture that differentiate Georgia from its neighbouring countries, Georgia has strong and special traditions that sometimes lead the country to isolation and bold experiments (Waal 2011; p. 5).

First years of formation of the independent economic system based on marketing principles proved to be particularly hard for Georgia – civil strife, military operations in Abkhazia and the former autonomous district of South Ossetia, energy and transport blockade, extremely tense criminogenic environment, frozen economic relations, loss of old traditional markets with no new markets and suppliers as an alternative are a short list of the negative factors that resulted in an unprecedented economic collapse, hyperinflation and a dramatic increase in unemployment in the first years of independence (Government of Georgia 2013,p. 1). Due to the lack of experience in state administration and a series of other factors (geographical, historical, financial, religious, cultural, etc.) the country was falling under the influence of Russian aggression that aimed to unite the former fraternal republics into a new union (the Commonwealth of Independent States).

<sup>3</sup> The model is created by author

Thus, in the 1990s, a sudden economic shock, which was indicated by economic liberalization and price increases, added to the socio-economic and political crisis which affected the complicated process of privatization. All the three privatization methods were used in Georgia: direct sale of assets, formation of joint-stock companies and voucherization.

The accumulated experience in carrying out rapid economic reforms confirm worsened living conditions of the majority of the population which is due to falling production, soaring prices and decreasing real income (Assatiani 2014; p. 93).

After regaining its independence, economic-geographical picture of Georgia and especially its transit function was considerably vitalized. Practical realization of Transportation corridor connecting Eurasia is associated with Georgia.

In the beginning of nineties, ongoing crisis had serious impact on economy of Georgia. Inflation rate was increasing with incredible pace. Abkhazia and Samachablo wars, political destabilization had negative influence on the country's economy. Criminals obtained property in this period, registration norms were destroyed and so on. As a result, in 1993 compared with previous year, the volume of investments decreased 100 times, and production of industrial articles reduced twice.

Despite serious challenges, some signs of stabilization were noticed in the middle of nineties. These were decrease of inflation rate, stability of GEL exchange rate, transformation of state property and origination of the class of proprietors, privatization of agricultural lands and liberalization of bread prices and liberalization of foreign trade.

In the middle of year 1994, government of Georgia carried out stabilization program, aim of which was cession of hyperinflation in order to solve the problem of disbalance in the country foreign and domestic economy. Its basis was institutional and structural reforms of financial, trade and monetary systems. International Monetary Fund, World Bank, European Union and other donors and creditors played important role in the accomplishment of the program.

In 1990-1996 years, sharp slump in the production of agricultural and industrial products and in the volume of investments in noticed in Georgia. Property transformation process, as irreplaceable element of period of transition to market economy, was brought foreground as the first-priority issue among economic reforms. However, privatization process was accompanied by big infractions.

Considerable movements in the process of macroeconomic stabilization in Georgia were started in 1996. Share of industrial products in GDP was decreased in this period, but at the same time, the share

of agricultural products was increased. Structure of production had undergone serious changes.

After passing the first phase of adapting to new economic conditions, enterprises went on second stage of economic transformation. In the structural policy of the country's economic development accent was made on such sectors of industry as heating and energy, light industry, timber processing, construction, chemical industry and machine building.

In the context of transformation, various strategies for Georgia's development were being discussed. The first one was based on the traditional value system however it does not meet contemporary pace of political and economic development; there is another model according to which Georgia can be seen as a Singapore open to world investments with minimal economic regulations.

The European Union is the third means for Georgia's economic development. Georgia aspires to build their state based on European values and to integrate into Europe both politically and economically (ENP Action Plan 2011; p. 88). Consecutive and effective execution of measures included in the EU-Georgia Association Agreement and the EU-Georgia deep and comprehensive Free Trade Agreement serve as a basis for further development of the European integration process.

The Georgian government aims to execute an economic policy that can ensure the country's stable development. The economic policy must be based on unequivocal respect for and protection of economic liberty and property rights. The state will simultaneously undertake the role of a guarantor of justice in economic processes (Georgia's social-economic development strategy 2020; p. 2).

#### *b) International Assessments of Systemic Transformation of Georgia*

The transformational economic policy and initiated reforms, the purposes of which were economic liberalization, institutional changes and macroeconomic stability, at some point produced a stable result, though members of the society benefited from the reform unequally. Foreign investments were allocated for such sectors of the economy as banks and real estate business. This produced only a few jobs. Pensions and social welfare subsidies remained low (Gvelesiani and Gogogrishvili 2012; p. 6).

In order to identify factors hindering the effectiveness of the Transformational Policy, we analyzed some internationally accepted indexes: The Bertelsmann Transformation Index, the Democracy, Human Development and Global Competitiveness Indexes and their dynamics.

The Bertelsmann Transformation Index (BTI 2014) (11) analyzes and assesses how developing and transition countries manage changes in terms of

democracy and market economy. The Bertelsmann Transformation Index unites transformation processes and the comprehensive study of political management into two indexes: Status/Position Index and Management Index. The first index is used to assess a country's political transformation and the latter is used to assess a country's economic transformation. 129 countries are involved in the study. The study focuses on the principles of efficiency of justice and market economy in terms of reflecting them on the quality of state administration, decision making and political and democratic processes. The index includes 17 criteria grouped in three main subindexes: political transformation, economic transformation and transformation management. For a more reliable and deeper analysis, these 17 criteria are broken down into 52 indicators the range of which varies from 1 (being minimal) to 10 (max). In 2014, Georgia's BTI status index was 6.16 (ranking 48<sup>th</sup>), political transformation – 6.50 (ranking 52<sup>nd</sup>), economic transformation 5.82 (ranking 57<sup>th</sup>) and management index – 5.78 (ranking 41<sup>st</sup>). It is noteworthy that there are no major changes in the dynamics of the index. Georgia's status index is within the framework of limited transformation and is characterized by low-quality democracy; functional flaws can be observed in the market economy; the management index has a good evaluation; issue of statehood is within reasonable limits. Neo-liberal economic reforms are still in operation and the social policy is better presented in the new budget. There is an ongoing steady tendency of shifting to democracy and market economy in the country. From 2006 through 2016, the status index increased only by 0.58 points, management index increased by 0.18 and market economy index increased by 0.57 points which shows that at this point transformation is being operated slowly by the means of a gradual strategy. It is noteworthy that the analysis of these criteria emphasized problems related to prioritization of social capital, parties and social groups. This kind of slow progress in transformation is probably caused by undetermined goals. In addition, a high level of corruption in Georgia, weak antimonopoly regulations and lack of respect for property rights also affect citizens' economic welfare.

The Democracy Index by the Economist Intelligence Unit is based on five criteria: election process and pluralism, civil rights, operation of the government, political activity and political culture. Countries are grouped according to the types of democracy: Complete democracy, incomplete democracy, hybrid, i.e. transitional regime and authoritarian regime. According to the Democratization Index, in 2015 Georgia ranked 82th out of 167 units (countries, territories). It is included in the group of countries with hybrid regimes (in the 4-6-point range). Its total score amounts to 5.88 (10 being the highest and 0

being the lowest). According to the indexes, the assessments are as follows: election process and pluralism- 8.25; operation of the government – 4.29; civil rights – 5.88; political activity – 5.56; political culture – 5.00. Dynamics of the Democracy Index show that the highest point was achieved in 2015, and the lowest was observed in 2010 (12;. p. 13). The indexes show that the operation of the government is a problematic area. This, on the other hand, indicates the government's inefficient management of operative and strategic challenges under the given condition of transformation.

The Index of Economic Freedom *which plays a big role in attracting potential investments* is developed by a leading research institution of US politics "The Heritage Foundation" and "The Wall Street Journal" (Heritage 2016; p. 4). *The Index of Economic Freedom is based on 10 criteria: Business freedom, trade freedom, fiscal freedom, governmental costs, financial freedom, investment freedom, property rights, freedom from corruption and labor freedom. Georgia falls in the "Basically Free Countries" category of the Economic Freedom Rating. It ranks 23d with 72.6 points out of 186 economies. According to the criteria, property rights - the fundamental criterion for the economic order – are not well protected, and corruption remains the most problematic area in terms of the Order of Transformation in Georgia. These two indicators show that in the context of the Transformational Economic Policy, solving the problems related to corruption and property rights are still being considered in the form of fallout of the communist experiment.*

The competitive regulatory framework is conducive to entrepreneurial activity. It takes only two procedures to launch a business, and no minimum capital is required. The non-salary cost of hiring a worker is moderate, and regulations on work hours are flexible.

Foreign and domestic investors are treated equally under the law, and there is little screening of foreign investment. Most state-owned enterprises have been privatized. The growing banking sector offers improved access to financing, but the stock exchange remains small and underdeveloped.

Despite global and regional challenges, Georgia's economy has demonstrated considerable resilience. Efforts to eliminate corruption and restore fiscal soundness by revitalizing the commitment to limited government have borne fruit. Two years of fiscal consolidation has kept government spending under control and ensured macroeconomic stability. Georgia's pursuit of greater economic freedom, reinforced by relative political stability, has made its entrepreneurial environment one of the best in the region. Large-scale privatization has advanced, and anti-corruption efforts have yielded tangible results. Deeper institutional reforms to enhance judicial independence and effectiveness remain critical.



The following similar index calculated annually by Freedom House in reference to 29 transition countries (FH 2016) is the National Democracy Index. This index is calculated based on the average point of the following: election process, civil society, freedom of the press, national democratic governance, local democratic governance, legal framework, independence and corruption. In terms of democracy (7-point grading scale where 1 is the highest point to assess democratic progress and 7 being the lowest) Georgia ranks 12th with 4.64 points. According to this index, Georgia falls in the "Hybrid Regimes" category. It is the only transition country that has shown an improved Elections Performance Index since the elections in 2012. Compared to 2014 none of the points improved in 2015 except for that of local democratic governance; however, the situation has slightly improved in every aspect compared to 2006. Problems of corruption are still pressing in Georgia due to the non-transparent process of government appointments and salary and bonus payments (15; p. 247).

The country's economic development is evaluated according to the Human Development Index (HDI 2015, p.6) which serves as an indicator of development for any country worldwide and includes development indicators such as: the average life expectancy; level of education and Gross National Income per capita (19; p.6). The Human Development Index is considered to be an indicator of human development (the index ranges between 0 and 1). The main purpose of the Human Development Index is to assess the level of a country's human development which on the other identifies the group of (developed, developing and underdeveloped) countries that this particular country belongs to. According to data from 2014, Georgia ranks 76th among the territories recognized by 188 countries and the UN. The index amounted to 0.754 which is 12.2 % higher than the index in 2000. Thus, Georgia qualified for the High Human Development group. It is noteworthy that the first two indicators have improved in Georgia's case compared to 1980, but GNI per capita has worsened by 2.5 % compared to 1990. Importantly, an unequal extension of the Human Development Index throughout the country still remains. 2.2 % of the Georgian population live in absolute poverty, 4.1 are at the edge of poverty and incomes of 14.1 % are lower than the minimum wage.

Hence, social and economic problems remain to be the greatest challenges the country is facing and has been unable to circumvent through the Transformational Policy.

At present we are provided with credible information about Georgia's economic development by the Global Competitiveness Report 2014-2015 within the framework of the World Economic Forum (WEF 2015). According to the Global Competitiveness Index (140

economies) which evaluates a country's business climate and entrepreneurship in terms of competitiveness, the situation in Georgia has improved by two orders of magnitude in the last two years now ranking 66<sup>th</sup> with 4.2 points (7 points being the maximum) (23; p 193). Between 1995 and 2015, a rising trend was observed in the dynamics of the index. Positions have improved in the sub index of basic factor-driven requirements which includes institutions, infrastructure, macroeconomic stability, health care and primary education. However, the situation has worsened in terms of the Innovations and Development Sub index which includes business development and innovation (20;p. 124).

Between 2014-2015 Georgia had a comparative advantage in 30 out of 114 components. The top-rated components include health care (between 5.45 and 7 points) and primary education (5.8 points) (GCI statement in 2016-2017 see in the box.2.1. Country/Economy profiles – Georgia).

Sorting the indicated problems makes it clear that the development of competitive businesses and enterprises is mainly interrupted by inefficient state governance, low levels of entrepreneurship education and entrepreneurial thinking and innovative studies (20; p. 124).

According to the 2014-2015 report, Georgia is at the efficiency enhancement level. The main problems in terms of doing business in Georgia include non-qualified workforce, access to finances, inadequate infrastructure, political instability, inefficient government bureaucracy, weak work ethic, complexity of tax regulation, instability of nongovernmental management, etc. (WEF 2015-2016; p. 176). It is noteworthy that under conditions of transformation, structural economic changes and coordinated structural changes in labor market are not emphasized. In 2016 Eurasia's competitiveness performance has been stable overall, although most economies in the region face challenges related to the fall in commodity prices, volatile exchange rates, recession in the Russian Federation and Ukraine, and the slowdown of the Chinese economy. These shocks have affected competitiveness in two major ways: all Eurasian economies except Georgia have seen the value of their exports fall, reducing their total market size; and falling tax and royalties revenues have increased government deficits and public debt.

The most improved Eurasian economies are Georgia (up seven places at 59th) and Tajikistan (up five at 77th). In both countries GDP is expected to grow by over 2.5 percent in 2016—below the average for the past decade, but more than other Eurasian countries.

Moreover, a comparative analysis of indexes (BTI, Global Competitiveness Index and Democracy Index) produces a controversial result for Georgia in terms of management evaluation.

The Transformational Policy implies shifting from a closed economy to an open one. In the transformation process, an open economy served as a new challenge for the new independent countries. Currently, intensive international economic integration makes the state policy more pressing which can be explained by the impacts of globalization on the country's development. A well-formed state policy contributes to achieving internal and external goals. In addition, under conditions of globalization, national interests grow more and more controversial on the one hand, and on the other hand the degree of interdependence among countries increases. It should be noted that the latter bears risks and poses threats especially when an economic crisis occurs. Economic fluctuations affect foreign trade, monetary and social sectors, investments, factors of production, and goods and services market. It is obvious that the country's international economic integration and intensity of globalization should constantly be observed and assessed in order to form the right economic policy framework. On the basis of the analysis it is possible to set achievable and effective national goals (Lekashvili 2011; p. 93).

The KOF Index of Globalization is used to assess the degree of a country's international integration (KOF 2016). It is an aggregated indicator and includes social, economic and political aspects based on which the overall KOF Index of Globalization is calculated. The Economic Index of Globalization makes up 36 % of the KOF Index of Globalization, Social Index of Globalization makes up 37 % and Political Index of Globalization makes up 26 % (25).

According to the KOF Index of Globalization 2015, Georgia ranks 63<sup>rd</sup> (63.84) among 207 countries; according to the Economic Index of Globalization, it ranks 19<sup>th</sup> (81.04); according to the Social Index of Globalization – 77<sup>th</sup> (56.90) and according to the Political Index of Globalization – 142<sup>nd</sup> (50.15). Analysis of sub-indicators show that the country is becoming more and more integrated into the global economy but is still left behind in terms of political globalization. This indicates that despite the collapse of the isolated political system of the Soviet Union, the country was still unable to carry out an efficient policy and to take advantage of the positive results of globalization, unlike economic and social globalization. Dynamics of the KOF Index of Globalization for Georgia clearly shows the tendency of shifting from a closed economy to an open one. This means that freedom in economic, political and social sectors is yet to be achieved in many aspects. However, a low degree of political freedom implies a low degree of democratization (Lekashvili 2011; p. 93).

### III. FINDINGS

Thus, analysis of internationally recognized data show that inefficient state governance, bureaucracy, corruption, weak anti-monopoly regulation and property right protection among other challenges in the transformational policy of Georgia remain invincible problems. A big part of the problems can be seen as a holdover from the communist experiment. Importantly, for the stability of the Order Policy it is essential to form “competent and apolitical state administrative bodies which means that positions in the state administration should be distributed not according to parties but rather according to professions” (LATF 2013; p. 33).

Georgia is the only country in Eurasia to have earned a recent improvement in the electoral process rating. Free and more competitive elections in 2012 and 2013 led to increased pluralism at the national level, and in 2014 Georgian cities held direct mayoral elections for the first time, with five major parties actively campaigning for seats. Still, the ruling Georgian Dream bloc won every directly elected mayoral seat and majority control over every legislature.

Positions in the top management team are usually occupied by former leading members of the communist party whose world outlook and management skills have barely changed and are inflexible. Elite changes have not occurred in Georgia since the collapse of the Soviet Union which results in long-term stagnation in the country.

The non-democratic regime and low level of competition fuel conformist tendencies and contributes to retaining a clan system within ruling circles. The clan system aspires to stagnation while there is an illusion of changes taking place in the country. The clan system is firmly embedded in every organizational entity: parties, teams and interest groups. The strong nature of the clan system in Georgia is influenced by the 70-year-long experiment, isolation of economy and politics. The clan governance in the soviet period is in no way different from today's clan governance. It is the clan system that slows down reforms, interrupts strong political support of transformation as well as causes conflicts of interest, different speed of transformation within different institutions, a low degree of democratization and unfair competition (businesses are often secretly controlled by people involved in politics); for example, leading positions in the educational sphere are usually occupied by same groups of people. They are initiators of education reforms, heads of governmental and simultaneously non-governmental education organizations as well as jury members of the funds and competitions in charge of distribution of finances in the educational sphere. The high level of the clan system ruins any motivation for development and research. Other fields are also run in line with analogous clan

strategies. In order to overcome this challenge, psychological, social, economic and historic factors of origination of the clan system should be studied in reference to characteristics of Georgia. Only afterwards should we muse upon legislative and other means to overcome the challenge.

One of the big challenges for government of Georgia is to undertake efficient incentive-oriented policy measures to make work in the shadow economy less attractive and work in the official economy more attractive. The average size of the shadow economy in Georgia was 65.8% during the 1999-2007 periods.

Georgia still struggles with the effects of Soviet-era corruption. Reforms largely eliminated petty corruption more than a decade ago, but in late 2014, President of Georgia singled out disrespect for institutions and a lack of institutional governance as enduring problems. Executive and legislative interference in the judiciary is substantial. Protection of property rights has improved.

A tendency to a one-party, authoritarian and populist system similar to that of the communist party was identified in the transformation process. Inefficiency of the opposition is noticeable. There are several but small opposing parties in Georgia; they are isolated from one another, usually ruled by one leader (FH 2015; p 18).

Under present conditions, we are facing the result of the communist experiment - an inability to use the rights set out by the constitution which once again leads us to conformism. Moreover, informal institutions still have a bigger influence than formal ones in social relations.

Despite shifting to the market economic system, entities still do not have complete autonomy. It is the state planning work rules, salaries and programmes for public organizations. Reforms are not initiated at low levels of hierarchy when necessary. This kind of approach can also be considered a Soviet holdover while public society is still inadequate and changes are predominantly imposed from above.

#### IV. SUMMARY

In addition, the Transformational Economic Policy in Georgia with its advantages and disadvantages need to be reviewed ever after 1991. Economic scientific fiction is dominated by papers authored by those who were actively involved in the activities carried out by the reformative government; thus, it is plausible that tendencies of the Transformation policy in Georgia and study results can be biased. Since flaws in the economic processes interrupted the actual economic progress in the country for decades, results got stretched out; it is necessary to review the goals, instruments, persons and institutions of the Reformative Economic Policy for the sake of an objective and

undistorted history. Certainly, there is a reason why there are no critical study works: In the context of the lack of qualified human resources in the market economy, processes were not alternatively analyzed. In addition, educational programmes and research directions specializing in studying the history of the Georgian economy including the transformation period have been discontinued. These processes contributed to the given situation, which means that years later the assessment of the transformational economic policy needs to be revisited, and we believe that studying the transformational economic policy will become an important direction for young research economists at university. Thus, in case of Georgia, lack of highly qualified professionals in charge of putting transformation processes on the right track and assessing flaws in the Transformation Policy to ensure effectiveness should be included among the basic problems considered in the theory of Transformational Economic Order.

Thus, efficiency of the Transformational Economic Order can be increased through the transformation of public society's outlook (Todua 2010; p. 14). This requires establishment of the freedom of culture in society which can be achieved at the expense of intellectual fights.

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# Public opinion towards the Worker's Dissatisfaction in Ready-Made Garments (RMG) Industry of Bangladesh

By Md. Motiar Rahman & Md. Amimul Ehasan

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**Abstract-** The ready-made garments industry is the potential economic sector in Bangladesh. Bangladeshi RMG sector has been flourished because of cheap and available workers. The cheap worker is helpful to minimize production cost that has increased customer's attention. And so Bangladeshi RMG sector has captured the world market. But today the RMG sector is facing difficulty due to worker's dissatisfaction. They are deprived of minimum facilities. That is why; they have often agitated that damages the image of RMG to abroad. The public opinion present that if this situation is going on for a long time, Bangladesh will lose a valuable sector. Data have been collected from primary and secondary sources by questionnaire and interview method. The purpose of the study is to know the public notion about worker's dissatisfaction. The researchers have represented the opinions of the respondents towards the worker's dissatisfaction as well as its impacts on RMG. The researchers have addressed the position of RMG in the global market as well as the remarks of the global customers towards worker's dissatisfaction. If the workers are given minimum facilities regularly and the labor union plays a decent role to build up a good relation between RMG manufacturers and workers, the unexpected predicament like worker's dissatisfaction will be removed and it will definitely lead the future economy.

**Keywords:** ready-made garment industry, worker's dissatisfaction, manufacturers, bangladesh, foreign earnings, wage.

**GJMBR-B Classification:** JEL Code: L69



*Strictly as per the compliance and regulations of:*



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## I. INTRODUCTION

The readymade garments industry acts as the backbone of Bangladeshi economy and as a catalyst for the development of the country. Bangladesh takes pride in the sector that has been earning billions of dollars as export earnings and creating jobs for millions of people in the country for last few decades. The "Made in Bangladesh" tag has also brought glory for Bangladesh, making it a prestigious brand across the globe. Bangladesh, which was once termed by cynics a "bottomless basket", has now become a "basketful of wonders." The country with its limited resources has been maintaining 7.24% annual average GDP growth rate and has brought about remarkable social and human development (Chowdhury, S.I., 1991).

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Bangladesh has achieved the middle-income country status by 2021. Bangladesh firmly believes that the dream will come true within the stipulated time and the RMG industry will certainly play a crucial role in materializing the dream. The first garment industry, established in 1974 in Dhaka, could not establish itself in the export-oriented business. But in 1976, the National economy listed garment industries as foreign money earner industries. In 1978, the first well-planned "Desh Garments" was established in Chittagong. It has emerged as a fast-growing industry in 1980. In 1983, there were 50 industries in private sector. From then till the gulf war and lastly till September 11, 2000, the industries need not look back even currently in the period of global recession. Now the total amount of RMG industry is about 5 thousand 200. Bangladesh usually earns about 25641026 US dollar (BGMEA <http://www.bgmea.com.bd/home/pages/tradeinformation#.VfjdwC6370s>). RMG sector earns almost 65%-76% of the total foreign earnings of Bangladesh national economy. Bangladesh being a developing country has very few sectors to earn foreign currency; however, Bangladesh has meanwhile achieved name and fame in the Ready Made Garments (RMG) sector. During 2009-10, the RMG sector has earned 4329 million US dollars (Bangladesh budget 2017-18 <http://www>). During two decades the RMG sector has developed on its export sector. About 5 millions laborers are directly involved in the RMG sector and 85% of them are women. Bangladesh's industrial sector has got a new life for the RMG sector. The bank port, transport, textile packaging, backward linkage industries, buying house, clearing and forwarding agency all depend on the RMG sector. But the emerging industry has meanwhile faced some crises like labor unrest. It continues to grow at a steady pace, sometimes even when rowing against the tide. (Ahmed, M.N and M.S. Hossain, 2006).

Worker's dissatisfaction has been a common phenomenon in the RMG industry of Bangladesh. Workers are being embroiled in clashes frequently; they call strikes often to make their demand home. It causes enormous loss to the owners, cripples the economy and tarnishes the image of the country abroad. It also makes foreign buyers reluctant to render future orders. In July 2009, due to workers' dissatisfaction, Hamim Group, a leading garment manufacturing factory incurred a loss

of around US 1282051 dollars and two workers died with resultant loss of 2000 jobs. (Kamrul Hasan, Ashraf Islam, Md. Arifuzzaman, 2015). The reason behind the worker's dissatisfaction is the absence of legal and institutional arrangements to ensure worker rights in the RMG sector (Ferdous R., 2012). Rumor, fear of job loss, jhoot business, case with police stations, fear of shutdown of factories, arrears, checking at entry point and identity cards, pay hike and discrimination in grades, bad relation with workers and mid-level management, provocation by locally influential people and international conspirators and some NGOs, fear of police and role of industrial police, sudden order cut by international buyers, accommodation and higher house rent, lack of motivational training program, inflation etc. are also the reasons for worker's dissatisfaction in ready-made garment industry of Bangladesh (Mridha R.U., 2012).

The garment manufacturers are dependent on workers. But the workers are deprived of minimum facilities. They are paid the minimum amount as salary. They live a sub-standard life in city slums. Often they are not paid salary, overtime bills, and bonus in time. (Azim, M. Tahlil, and Nasir Uddin, 2003). There is no job contract; they are not given recruitment letter, any time they will be dismissed by the owners for a silly reason. The workers are mistreated by owners or mid-level officers. They work long hours in a congested environment without rest. They are not given nutritious food, medicine at the working time. They have no rights of legitimate protest against ruthless exploitations (Kamrul Hasan, Ashraf Islam, Md. Arifuzzaman, 2015). They cannot take part to make a decision. So, though there are available cheap workers in Bangladesh, the owners of garment factories cannot utilize the large resource due to job dissatisfaction.

The rest of the article the researchers have addressed the contribution and background of RMG, history of worker's dissatisfaction, causes of worker's dissatisfaction in Bangladeshi RMG sector, global opinion towards worker's dissatisfaction and some recommendations.

## II. BACKGROUND OF THE RESEARCH

Worker's dissatisfaction is the common issue in Bangladeshi RMG sector. An important cause of worker's dissatisfaction is a communication gap between owners and workers. Low wages and not pay in time lead the worker to dissatisfaction. The workers demand minimum wage to be fixed 63 US dollars while the owners fixed it 39 US dollars. The workers should be included in regular meetings inside the factory as well as decision-making process at national level. They are also to be included in various committees with the factory owners and managers. Public-private cooperation in addressing labor unrest in the RMG sector of Bangladesh can be a viable and effective measure.

However, level of mutual trust, communication, and cooperation between workers and management of a garment factory as well as a public and private sector should be uplifted (Kamrul Hasan, Ashraf Islam, Md. Arifuzzaman, 2015).

The manufactures can introduce modern HR and IR activities and get many benefits. The Bangladeshi RMG manufacturers should establish human resource management unit in the factory. The government needs to pay much more attention to monitoring compliance. A modified Code and an effective Compliance Monitoring Cell (CMC) are also required (Ferdous Ahamed, 2014).

The workers have to work from dawn to dusk but they are paid the low amount. The labor unrest factors are also independently and significantly related to the overall dissatisfaction of the ready-made garments in Bangladesh. The factors which are responsible for labor unrest in RMG sector are minimum facility and safety, sub-standard living conditions, deferred benefits, international conspiracy and coercive role of law enforcing agency, pressure from worker and hooligan, illiterate, political instability, too much workload, no promotion opportunity etc. If these factors can be changed, there will significantly impact on the overall dissatisfaction of workers. The factors might be identified as the main reasons for the labor unrest in RMG sector of Bangladesh. If the manufacturers take steps for the factors, the situation might be changed and improved (Shaheen Ahmed<sup>1</sup>, Mohammad Zahir Raihan<sup>2</sup> & Nazrul Islam 2013).

Standard working conditions, better wages, minimum working hours, incentives and respect for equality can change into better and more satisfied workers and lower turnover of staff. In RMG sector the workers are deprived of the rights and benefits of existing law. There are no appointment letter, job security, provident fund, and gratuity. Most garments factories do not practice HR and IR issues and any well-defined HR or personnel unit. In RMG sector the workers are controlled by the supervisor who works on behalf of the factory owner and they have no training in leadership, human resource policies, law and legislation and health and safety policies (Ahamed F, 2011).

In the RMG sector, workers never receive their payment regularly and late payment is common. Payments are delayed routinely by two or three months or more, sometimes held back deliberately to ensure that workers do not leave, or because employers themselves face delays in payment from buyers (Priyo, 2010).

The workers work in a congested environment that causes occupational hazards such as musculoskeletal disorders and contagious disease. The workers have to face different difficulties such as injuries, fatalities, disablement from fire and building collapses even death. The workers are dissatisfied due



to the proper monitoring system and inefficient building code, poor enforcement, obsolete labor laws, lack of awareness of labor rights (Md. Nasir Uddin, 2012). It is not necessary to be dependent on labor union only, the workers and owners should be concern about their rights. The workers and manufacturers should negotiate everything to prevent worker dissatisfaction.

### III. OBJECTIVES

- i. To know about the real causes of worker's dissatisfaction in RMG sector of Bangladesh.
- ii. To know the duty and responsibilities of a labor union.
- iii. To know about public opinion towards worker's dissatisfaction.
- iv. To know about the laws for workers development.
- v. To know the impact of worker's dissatisfaction on RMG industry.

### IV. HISTORY OF WORKER'S DISSATISFACTION

The industrial revolution changed the socio-economic condition in eighteen century. But at that time the sorrow of the workers knew no bound. In nineteen century, the workers demanded the 8-hour work a day. It was very common to work from 10 to 16 hours. In 1880 the workers agitated for 8-hour workday without cuts in pay. And they declared the 8- hour workday without the consent of the employer. The workers carried on their agitation for the 8-hour workday. In 1884, a group of workers agitated against their various demand including the 8-hour workday. The workers went out on strike to gain the demand. More and more workers continued to walk off the jobs. On May 3, 1886, violence broke out at the McCormick Reaper Works between police and strikers. On 4<sup>th</sup> May 1886, a riot broke out between police and workers in Hage market area of Chicago city and eight workers were killed by police shoot. (The brief origins of May Day, origins\_of\_mayday).

### V. WORKER'S DISSATISFACTION IN RMG SECTORS

Bangladesh is earning 78% of its export earnings from the RMG sector. From the last part of 2014 to till today there has been labor unrest consecutively in this sector. Almost 4.2 million workers are working in this sector. Sometimes the workers came out in the streets of Dhaka city and damaged vehicles and set fire on the garments factories. It is happening so violently that many of the roads of the city had to be kept close for quite a few hours (Abrar, A. A. 2007).

### VI. RATIONALE OF THE STUDY

The readymade garments industries, for the last two decades, have been the lifeline of Bangladesh's economy (Uddin, M.S. and Jahed M.A., 2007). At the last count, the sector accounted for nearly 80% of the export earning that drives the economy further forward

and it also provides jobs for hundred of thousand semi-skilled workers, mostly, who in turn provide a livelihood for millions (Uddin, M.S. and Jahed M.A., 2007). But it is a matter of regret that this sector is going to be threatened due to worker's dissatisfaction that may impact on economic growth of Bangladesh. It is the important time to find out the causes of worker's dissatisfaction. The manufacturers and workers should have a good relation. The demand of the workers should be negotiated by the workers and manufacturers. But there are labor leaders among owners and workers as agents who do not reduce the gap between workers and owners. The labor union refrains from their real responsibilities. The labor leaders make causes of antagonism between workers and manufacturers. The other studies on such field emphasizing no causes of worker's dissatisfaction, the impact of worker's dissatisfaction, causes of worker's dissatisfaction and its solution, ignorance of worker safety rule and worker's dissatisfaction. Whereas this study is presenting worker's dissatisfaction and public opinion towards the worker's dissatisfaction which makes the study different from other studies. So this study is authentic.

### VII. DATA COLLECTION PROCESS

Face to face conversation with owners, workers, foreign and local buyers, labor leaders, and staff.

#### a) Sources of Data

##### 1. Primary Source

- Interview of owners, workers, foreign and local buyers, labor leaders, and staff, university teacher, politician and member of civil society.

##### 2. Secondary Source

- Different books and articles.
- Evidence from newspaper.
- BGMEA website.

#### b) Data Collection Instrument

##### A. Questionnaire

Data had been collected by questioning owners, workers, foreign and local buyers, labor leaders, and staff, university teacher, politician and civil society.

##### B. Checklist

The Checklist was used at the time of preparing a dissertation.

#### c) Variables Covered

- i The Active labor union of the company.
- ii Perception of stakeholders about the necessity of labor union to minimize the risk of worker's dissatisfaction.

#### d) Analytical Tools Used

- a. *Statistical Method*: Mode.
- b. *Diagram*: Pie chart.
- c. Opinions of the public are expressed in term of percentage of the total number of respondents.

### e) Sample Size and Structure

The survey was conducted on only five factories for short time. These factories were chosen at a random and it was the intention of the researchers to face the real experience of worker's dissatisfaction. Fifteen respondents were interviewed from each factory and the respondents were owners, workers, and staff, top and mid-level managers. Since workers are the major portion of a total number of people engaged in RMG sector, the researchers choose workers as a major portion of respondents.

1. Total 100 sample from five factories.
2. 15 samples from each factory that means total 75 respondents from five factories.
3. Other 25 respondents are university teachers, politicians, and civil society.

## VIII. LIMITATIONS

1. Time constraint.
2. Huge procedure to enter the factory.
3. The workers are reluctant to talk.
4. The manufacturers are reluctant to disclose internal information.
5. The workers are not aware of labor law, job environment, job contract, and their rights.

## IX. CAUSES OF WORKER'S DISSATISFACTION IN RMG SECTOR

### a) Rise of monthly pay

It is decided to increase monthly minimum wages 20 to 64 dollars in a month. About 145 garments manufacturers have not implemented the 25 dollar minimum wage while 262 factories do not pay regular salaries to workers. Institute of Food and Nutrition department of the University of Dhaka estimated a worker needs 3200 calories per day for 8 hours working day which costs Tk.64.50 daily. That means a worker needs Tk.1935 per month for calorie. As the wage is poor he/she cannot meet daily necessities. A table of the sector-wise minimum wage of workers in Bangladesh is given below. Absar & Syeda, S. (2001).

*Table 5:* Sector-wise minimum wage of workers in Bangladesh

Sector	Minimum wage in Tk.
Oil-milk	7420
Re-rolling	6100
Foundry	5100
Ship breaking	4645
Pharmaceutical	3645
Soap and cosmetic	3300
RMG	3000
Shrimp processing unit	2645
Tailoring shop	235

*Source:* Bangladesh Garment Manufacturer and Exporters Association (BGMEA)

### b) They cannot subsist with their present salary

According to Dhaka University, the wage should be raised as per the market commodity price. If a family consists of five members they need calorie of Tk.9675 per month. Besides it, he spent for utilities, house rent, transportation cost, medicine, and outfits. So the total amount will be Tk. 16210 for a month. Dhaka University also thinks each worker earns Tk.7120. According to Bangladesh Institute of Labor Studies (BILS), the minimum wage of a single worker should be Tk.5277 and a family consists of five members need Tk. 10565 to lead a standard life. A comparison of average hourly wage in the RMG industry of different countries is given below. (Azim, M. Tahlil, and Nasir Uddin, 2003)

*Table 6:* Inter-country comparative average hourly wages in the RMG industry

Country	Wages / hours (US \$)
German	25.00
USA	16.00
China	0.5
Sri Lanka	0.45
Pakistan	0.41
Indonesia	0.40
India	0.35
Cambodia	0.32
Nepal	0.30
Bangladesh	.015

*Source:* Bangladesh Garment Manufacturer and Exporters Association (BGMEA)

### c) Leave and holiday as per the international worker organization (ILO)

A survey by Bangladesh Institute of Labor Studies (2010) on ready-made garments (RMG) and construction industries showed that factories provide maternity leave without pay. Another survey by Bangladesh Institute of Worker Studies (2010) on ready-made garments (RMG) industries and construction industries showed that factories do not provide maternity leave for four months. The survey exposed that female worker do not want to bear a child because of fear of losing their job as majority end up being fired by their employers when they become pregnant or sent on leave without pay (BILS, 2010). While the public sector workers are privileged, where most recently the maternity leave period has been extended to 6 months or 24 weeks, the situation is much worse in the largest manufacturing sector of the country. (ILO.https://en.wikipedia.org)

### d) Working environment and health facilities should be developed

The factories floor is damp and dirty and the workers are not given hygienic food as snacks. Building collapse down, fire is the threat of life. The workers have to work 8 hours in a single day and then overtime for extra earning. This hardworking can tell upon health. (Bhuiyan, Manir Ibn Hafiz, 2010).

e) *Physical or sexual harassment by the owners or beneficiaries*

The observation made by the gender expert, who presented the keynote paper at a program held at the BGMEA conference room on December 3, 2014, that sexual violence-free environment is still elusive in the apparel sector aimed factory compliance focusing more on occupational health and hazards is indeed important'. 'The expert also referred to the baseline survey-2011 of the International Labor Organization, which found 84.7 percent of women garment workers and 100 percent of day workers facing harassment in their workplaces'. In 2011, a survey jointly conducted by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the Labor Ministry, the United Nations Populated Fund found out that the incidents of sexual harassment even rape of women in different parts of Bangladesh occurred continue due to in the absence of adequate enforcement of relevant laws and rules. The RMG sector is not free from this situation. The survey also found out that when any sexual harassment or rape incident occurred, the victims were a poor or vulnerable group. About 85% of the workers in RMG are women and unexpectedly they are poor and vulnerable. In 1976, Dhaka Metropolitan Police Ordinance first addressed public sexual harassment directly under the name of 'eve teasing' and it provides imprisonment for a term which may extend to one year or a fine up to TK 2000 or both. In section 10(2), the law defined sexual harassment as "if a man with a view to fulfilling his sexual desire outrages a woman's modesty or makes erotic gesture such as act of the man will amount to sexual harassment" This law provides imprisonment for 2 to 7 years and an indefinite amount of fine. But it is not implemented in RMG sector for women harassment (Kamrul Hasan, Ashraful Islam, Md. Arifuzzaman, 2015).

f) *Regular salary for the workers*

Though the salary is not satisfactory, it is not paid in time. The owners of factory do not pay the salary before Eid or Puja (worship) even not regularly in every month. A survey conducted on few workers of five factories. The workers live in a slum and they do not pay house rent and cannot buy their daily necessary because the salary is not paid regularly. (Shaheen Ahmed, Mohammad Zahir Raihan, Dr. Nazrul Islam, 2013).

g) *Rumor*

Sometimes there is some rumor that any worker will be dismissed or the salary payment will be a delay or some workers are beaten by the authority or financial benefit such as bonus, increment etc will not be given properly. These types of rumor increase dissatisfaction and the workers involve into vandal activities. (Kamrul Hasan, Ashraful Islam, Md. Arifuzzaman, 2015).

h) *Unlawful Activities*

The workers are not paid standard salary. They work eight hours in a single day and then overtime. After the hard work, they live from hand to mouth. There is no job security in RMG sector. There is no democratic management system in RMG sector. (Kamrul Hasan, Ashraful Islam, Md. Arifuzzaman, 2015).

i) *Deprived of Rights*

The workers are not aware of their rights. The factory owners take the opportunity of illiteracy. The workers do not know the standard scale, daily working hour, job environment and labor laws. The workers cannot form a labor union and cannot join a labor union. That is why the workers are deprived of their legal rights. (Morshed. M.M, 2007).

j) *Poor Compensation System*

The workers are dissatisfied with compensation system. In RMG sector, the workers are underpaid and ill-treated. There is no proper sick leave facility in the maximum factory (on basis of five factories survey). There is no payment system and treatment facility for injured workers. There is limited maternity leave for the women workers. (Priyo 2010).

k) *Lack of day care facility for women workers*

In Bangladesh, women workers do not have access to daycare facilities for their baby. In Bangladesh, 80% of 4 million workers in the RMG industry are women. Although the 1965 factory Act states that companies employing 50 or more women must provide day care facilities, in practice such facilities are often not available. (Islam, Farmin, 1994).

l) *Working hour and environment is not satisfactory*

On the basis of a survey of five factories, it is found that the working place is dirty and dumpy. The working hour is excess. Being staying at the unhygienic environment and working eight hours every day the workers lose the productivity and are suffering from various diseases. A study carried out in 2003 by a Bangladeshi institute on over 800 textile workers discovered that 42% of women workers and 24% of the male workers are suffering from some chronic diseases such as gastrointestinal infections, urinary complaints, blood pressure and anemia etc. 45% of the women and 36% of men who were interviewed said they felt weak. (Mohammad Aminul Islam Khan, 2015).

m) *Not implementing of minimum wage*

According to a government inspection study in January 2008, there are about 52000 garment industries in Bangladesh but at least 145 factories have not implemented the 25 dollar minimum wage while 262 factories do not pay regular salaries. (Shaheen Ahmed, Mohammad Zahir Raihan, Nazrul Islam, 2013).

n) *Lack of job security*

Job stability is the decent principle. Job stability increases motivation and responsibility. In the RMG sector, the workers are terminated for a tiny reason. Sometimes the workers are terminated brutally and if the workers protest they are threatened by different types of harassment such as arrest, even physical assault by the hired hooligan. (Azim, M. Tahlil, and Nasir Uddin, 2003).

o) *Building collapse, fire accident*

The structure of some RMG industry is not satisfactory. The fear of death or fatal injury peeps into the mind of workers due to a building collapse or fire accident as like as Rana Plaza, Tazreen Fashion, and Standard Fashion. (Kamrul Hasan, Ashraful Islam, Md. Arifuzzaman, 2015).

p) *Not implementing worker development law*

The Industrial Revolution began in Great Britain at eighteen century. That time working environment was worst. Labor law was inherited in British, India and Pakistan period. The first labor law was developed in this sub-continent 'Worker's Compensation Act 1923'. The worker got the rights under 'Trade Union Act 1926'. 'Trade Union Act and Industrial Dispute Settlement Act' were developed in Pakistan period and these two were merged into Industrial Relation Ordinance, 1969. Factory Act, Shops, and Establishment Act, Employment of Labor Act were developed in 1965. In 1992 'National Labor Law Commission' was formed. But it's a matter of regret that all laws are trapped by the industrialists. (Itcilo 2008).

q) *Mistreatment of the Workers*

Bangladeshi garment industry depends on the hard working of the labor force. Here workers can be hired at a cheap rate. But the workers are mistreated by the owners, managers, officers. The salary, bonus, overtime bills are not paid in time. The workers are recruited without recruitment letter. There is no job contract. They work a long time in a congested environment without rest, nutritious food, and medicine. (Ittefaq 2007).

r) *Absence of trade union*

A trade union is the labor organization which establishes workers rights. Trade union bargains with the employers and negotiates work contract. Trade union negotiates for salary, working rules, complaint procedures, promotion, benefits of workplace safety, working hour and condition etc. But the activity of trade union is not acting out and out. (Itcilo 2008)

s) *Conspiracy*

Bangladeshi RMG is not conspiracy free. When Bangladeshi RMG takes top place at the world market then the foreign competitors are engaged in the conspiracy. The foreign companies increase the price of raw materials and Bangladeshi RMG industries

dependent on foreign raw materials. Sometimes the workers involve into the conspiracy by internal and external competitors. (The Daily Star, 2012).

t) *Unruly nature of workers*

There some workers who are vulgar by born. Though salary, bonus, promotion, and job environment everything is satisfactory, they are unruly in nature. (The News Today, 2012)

u) *Lack of sincerity and honesty towards job*

There some arrogant workers in every factory who are given all facilities but they are not dutiful that is why they will make botheration in the factory. The insincere and dishonest workers are a threat to the organization. (Abrar, A. A. 2007).

v) *Discrimination among male and female workers*

Sexual harassment is the fear for female workers in the job sector. In RMG sector, the male workers are given more priority than female workers in every sector that is the cause of female worker's dissatisfaction. (Islam, Farmin, 1994).

## X. PUBLIC OPINION

The researchers surveyed to university teachers, civil society, and workers, local and foreign buyers. Their opinions are discussed here. The public thinks that the workers will be dissatisfied with the workload, job environment, nepotism, unlimited unfairness, insufficient reward, stress, and frustration. Job dissatisfaction leads low confidence, low productivity, high employee turnover cost. The university teachers think that the readymade garment plays an important role in the economy. About 4.4 million workers employed in RMG sector and 80% of them are women. The RMG sector earns 21.5 billion US dollar each year for the last two decades which is 79% of the total foreign earnings of Bangladesh. The last three decades the Bangladeshi RMG achieved phenomenal growth which influenced the government and entrepreneurs as a result 5200 RMG factories lead the world market and ensure \$22 billion each year. They also think that reasons of Bangladeshi RMG flourishing are available cheap workers. The development of Bangladeshi RMG mostly depends on hard work of labor force. The Bangladeshi government and entrepreneurs are a concern for RMG sector development but for whom the RMG leads the economic development they are being deprived. That is why the workers are dissatisfied. It is the notion of the intellectuals if the worker's dissatisfaction can be controlled, Bangladeshi RMG will lead the world market for a long time. (Uddin M. Salim & Jahed Abu Mohammed 2007).

## XI. OPINION OF WORLD MARKET

The global market is anxious for workers dissatisfaction in Bangladesh. In December 2012, the

fire in Tazreen Fashions, a garment factory killed 112 innocent skilled workers and Rana Plaza building collapse down increased the level of worker dissatisfaction which influenced huge negative impact on Bangladeshi RMG. As a result, Walt Disney Corporation, the world's largest licensor withdrew from Bangladesh in March 2013. Along with Walt Disney Co., Wal-Mart and Levi Strauss & Co. became averse to Bangladeshi RMG. Target Corporation & Nike Inc. also reduced the number of factories they would use in Bangladesh. It had caused losses of up to \$ 25.7 million daily and a 40% dropped in foreign orders. Bangladesh faced a large threat which could affect the economy. That is why, Britain's Primark, Canada's Loblaw, Walt Disney Co., Wal-Mart and Levi Strauss & Co. advocated to sign the Bangladesh Fire and Building Safety Agreements and to ensure workers safety and rights. They suggested for inspection building independently, training in worker's rights and reviewing safety standards for factories regularly to save the probable economic sector of Bangladesh. (Azim, M. Tahlil, and Nasir Uddin, 2003)

**XII. DATA ANALYSIS AND FINDINGS**

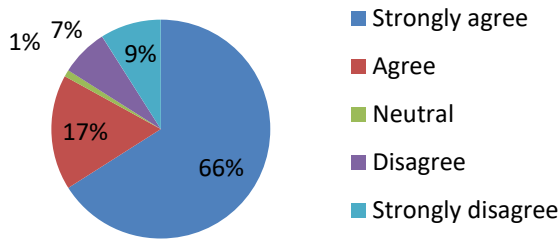


Figure 1: Poor Salary

Here 66% of the respondent's response that the salary which is paid at RMG sector is not sufficient to subsist. According to the survey, a family needs 205 US dollars per month to lead life. But this amount is not paid. The workers live a sub-standard life in city slums. Often they are not paid salary, overtime bills, and bonus in time. The respondents think the workers cannot meet their daily necessities. They share an egg between two persons. They are deprived of nutritious food. But they work hard for a long time that tells upon their health.

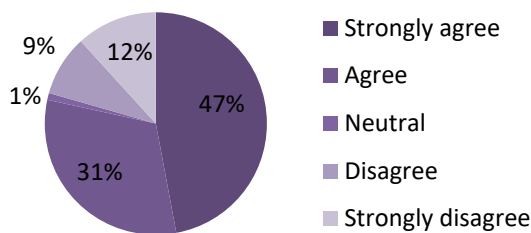


Figure 2: Leave and holiday facility

47% respondents agree that the leave and holiday facilities are not satisfactory. All Bangladeshi workers are entitled to 21 days of paid casual leave and paid public holiday each year and three months maternal leave but it is not maintained properly. On the basis of a survey of five factories, after maternal leave, the women workers have to lose the job. They have to be recruited newly.

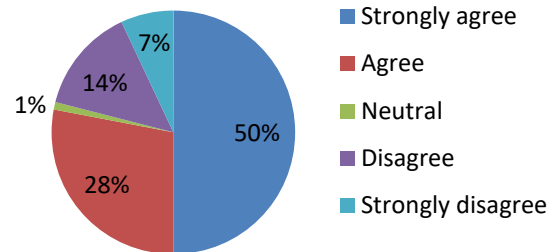


Figure 3: Lack of Security

50% think that there is no friendly job environment at RMG sector for the workers. The workers are recruited without recruitment letter. They have to work a long time but not paid in time. The workers are mistreated by owners or mid-level officers. If the workers protest they will be dismissed, threatened, physically assault even sue against them.

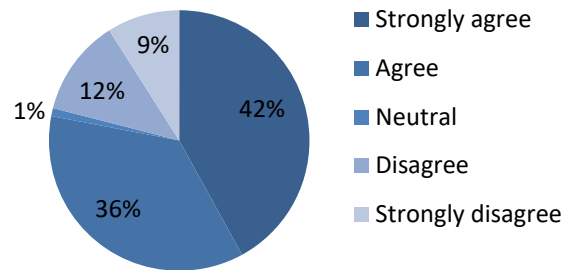


Figure 4: Rumor provokes the workers

42% of the respondents think that sometimes there is rumor at RMG sector that the workers are terminated, arrested or beaten and these types of rumor instigate the workers to involve into vandal activities which damage the image.

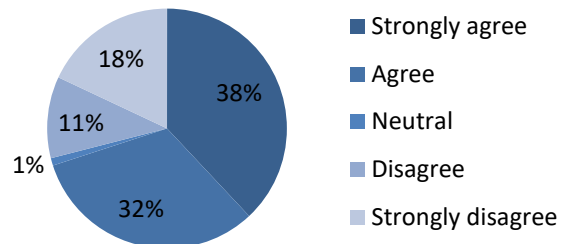


Figure 5: Lack of sincerity and honesty

38% of the respondents agree that all factories have some careless workers who are unruly in nature. They do not play a proper role for the job and if managers create pressure on them for better output, they will complain they are tortured. If these types of workers get chance, they harm the organization.

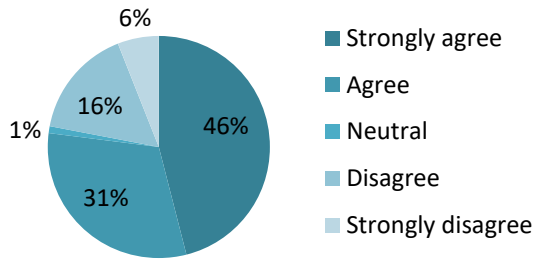


Figure 6: Inactive Trade Union

The labor leaders are not responsible to their duty. They are convinced by offering high amount. Their duty is to bargain with the employers for the betterment of the employees. They can contract for work rules, complaint procedures, offer for promotion and ensure safety at workplace etc. But they do not play its role properly.

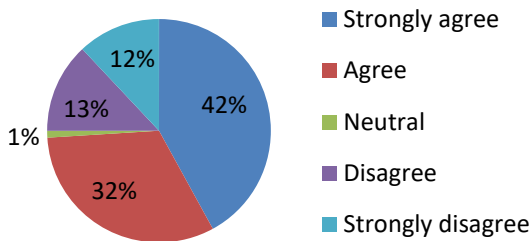


Figure 7: Mistreatment of Workers

42% respondents agree that the workers are mistreated by the managers and mid-level officers. The workers are hired at a cheap rate. The salary, bonus, overtime bills are not paid in time. The workers are recruited without recruitment letter. There is no job contract. They work a long time in a congested environment without rest, nutritious food, and medicine.

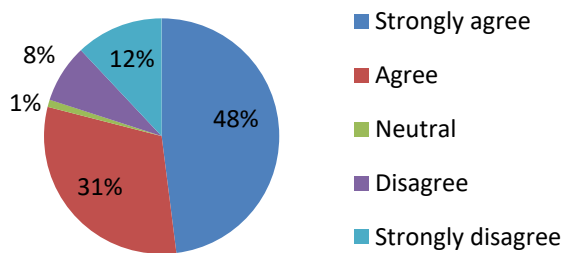


Figure 8: Inactive Laws

There are a lot of laws in Bangladesh labor law but 48% respondents agree that it is not implemented

properly for workers development. There is the specific scale of salary, leave and holiday contract, bonus, increment and promotion rules in labor law but 145 factories do not apply it.

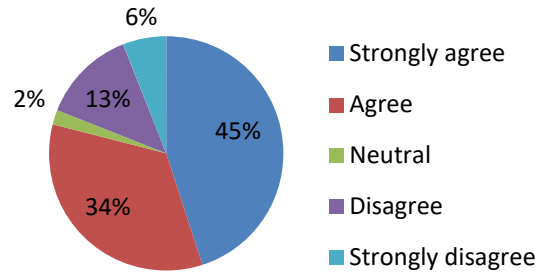


Figure 9: Conspiracy

Bangladeshi RMG depends on foreign country's raw materials. 45% respondents agree that when Bangladeshi garment industries place top position in world market then the foreign competitors increase the price of raw materials and they use the workers to make botheration in Bangladeshi RMG sector.

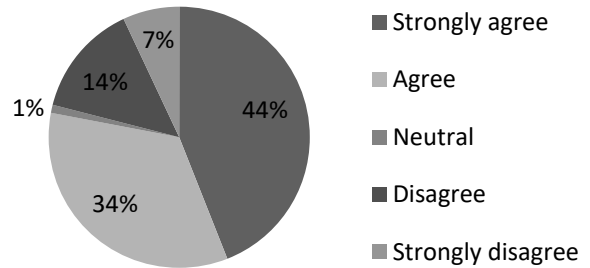


Figure 10: Discrimination

In RMG about 80% of the total workers are female. But the female workers are neglected. Form the above diagram it is observed that 44% respondents agree that the female workers are discriminated.

### XIII. RECOMMENDATIONS

- Take a new approach to labor law: Though good labor law is a precondition for all business whether it is related to development, in Bangladesh, the most neglected sector is labor law. The government so far never showed goodwill for reforming this sector. If the matter is well addressed, and the government is not influenced and biased by the businessman, then the situation is sure to improve. If labor law is improved, the garments sector will be benefited from all other sectors.
- Ensure welfare and training of the personnel: All over the world, it is recognized that training and welfare of the personnel are highly significant. But in Bangladesh, it is most neglected. If the welfare of the garments worker is looked after, the output will definitely rise.

- *Financial support:* Workers are the most important stakeholder of RMG. The entrepreneurs should not only understand it but also exercise. The workers should be given salary side by side bonus, increment, promotion and other financial support. Workers are not competitors they are boosters; the industrialists should think in such way.
- *Change Attitude:* The industrialists should change their attitude towards making happy the foreign buyers by anything else but the satisfaction of the workers. From now onwards the entrepreneurs should try to make the buyers happy through the satisfaction of worker, not by anything else.
- Skilled workers should be built up and the payments must be increased as the market price is too high.
- *Discrimination is to be annihilated:* Only male workers play a vital role in RMG development that is not true. Both are equal to development. So no one should be discriminated.
- The workers should not be mistreated by the managers and mid-level officers. The workers must be hired at a standard rate. The salary, bonus, overtime bills should be paid in time. The workers should be recruited with recruitment letter. There should be specific job contract.
- *Respectful of Workers Laws:* Labor laws may be developed to ensure the worker's rights so that they cannot be neglected.
- The manufacturers should be careful so that any workers cannot be biased to involve into the conspiracy.
- The manufacturers should develop a good relationship with workers, top and mid-level managers.

#### XIV. CONCLUSION

Not only the government intervention but also owners-workers joint venture could face the challenge of the competitive free market economy and its fast-growing impact. Time has come to renovate reorganize the whole garments sector. The entrepreneurs must look for the competitive and effective market in future; otherwise, they will be in serious trouble. The garment manufacturers have to face a lot of tribulations to fight in the international market. The strength of Bangladeshi manufacturers is cheap and available workers. So the manufacturers should use this resource properly. They should meet the workers' demand otherwise it may be the causes of worker's dissatisfaction. Worker's dissatisfaction declines job attraction, motivation, and productivity. RMG sector has opened a new window of economic development. In order to survive in the world market, Bangladesh should concentrate on preparation for global competition. By saving from all problems remaining the sector, this promising sector of Bangladeshi national economy will succeed to get the

world market and will lead to property. It is the responsibility of the government to protect the interest of this industry which has given the economy strong footing, created jobs for millions of people, especially for women, lifted them from the abyss of chronic poverty and given them a dignified life. The manufacturers know all causes of worker's dissatisfaction, now what they need to do is deal with all causes of dissatisfaction facing the garment industry, paving the way for its further development.

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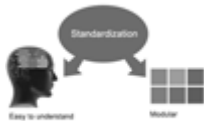
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<i>References</i>	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring





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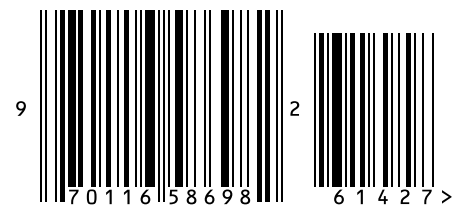
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