



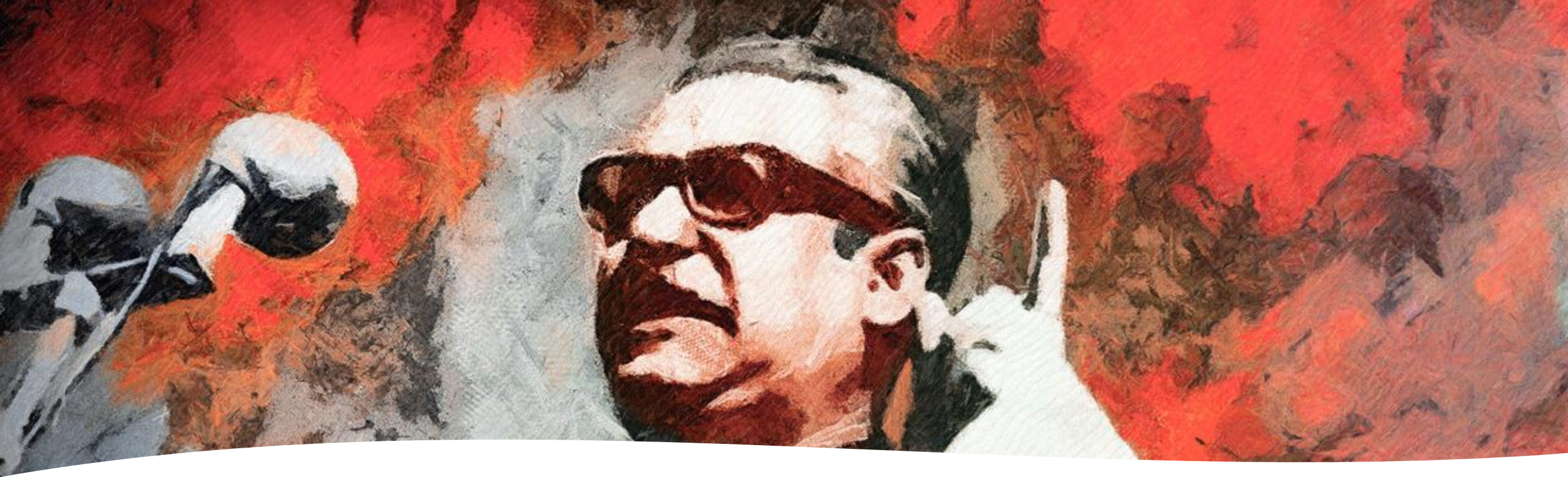
Sustainable Economic Development in Present Scenario: Opportunities & Challenges for Bangladesh

Dr. Atiur Rahman

Emeritus Professor, Dhaka University

Former Governor, Bangladesh Bank

Special lecture for the Capstone Course- 2023/2 of the National Defence College,
Dhaka on 04 September 2023



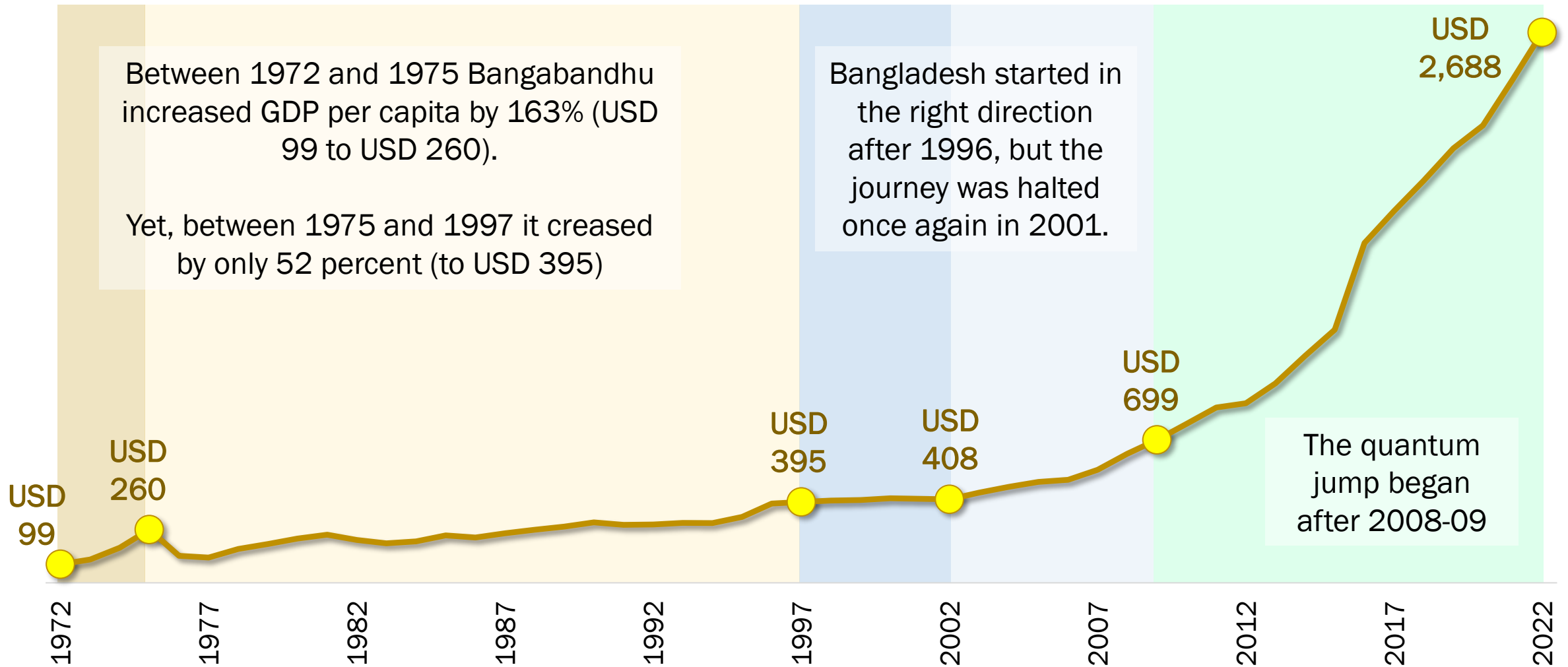
“ Our situation will not remain as dire as it is now. We are the people of Bangladesh, we have our soil, we have our Golden Bengal, we have jute, we have natural gas, we have tea, we have our forests, we have fisheries and livestock. If these can be developed properly, Insha' Allah these days will change for better

- Bangabandhu Sheikh Mujibur Rahman, 26 March 1975



Bangladesh's amazing economic transformation

GDP per capita (current USD) over the years



Amazing transformation reflected in economic achievements



GDP per capita
(current USD)
almost
quadrupled to
USD 2,688 in
last 13 years



Industrial
sector's share
in GDP rose
from 22% to
37% within a
decade



Cereals
production
increased from
34 thousand
tons to 43
thousand tons



Poverty rate
declined from
31.5% to 18.7%
between 2010
and 2022




Human development achievements have been equally impressive

Expected life span increased from 65.2 years in 2005 to 73 years today

Child mortality reduced from 68 per thousand to 35 per thousand (between 2005-2016)

Maternal mortality came down from 348 to 170 per one hundred thousand (between 2005-2016)





“ Bangladesh has now become a case study of economic development in the world, which few economists could have predicted ... When Bangladesh overtook Pakistan in GDP growth in 2006, many dismissed it as a fluke but since then, Bangladesh has surpassed Pakistan every year.

- Emilia Fernandez
Policy Watcher, July 2023



Sources of inspirational growth



Manufacturing (mostly led by RMG, but other export-led industries are growing)



Remittance (exporting unskilled or low-skilled labor)



Agriculture (ensuring food security as well as creating scope of agro-exports)



Inclusive financing (use of digital technology to reach the bottom of the social pyramid)



Women empowerment (female labor force participation rate increased from 30% to 38% between 2009 and 2022)

Pioneering inclusive and sustainable development

“Our achievements in agriculture, community health care, non-formal education, reproductive health, disaster management and micro-finance have reached out in other parts of the world. ...”

- HPM Sheikh Hasina

Paris Peace Forum, 12 November 2021





GNI per capita

Bangladesh has surpassed the graduation threshold (USD 1,222)

Still much below the average for developing countries (USD 6,666)



Human Asset Index

Bangladesh's index value is well above the graduation level (66 or above)

Commendable achievements in health, education, & gender



Economic Vulnerability Index

Lower risks of instability in exports and instability of agricultural production

Index value still far below developing country threshold

UN General Assembly has rightly set Bangladesh to graduate out of LDC status in November 2026



“

Progress is not at all the result of a grand design. Instead, it is, almost coincidentally, a matter of politics and economics not doing the wrong thing. It seems to have worked in Bangladesh and could serve as an example to others.

Stefan Dercon

Gambling on Development:
Why Some Countries Win and Others Lose





Bangladesh likely to lose preferential market access to the West (RMG likely to be most affected)



The country will have to be more stringent in implementing Intellectual Property Rights (IPR) which in turn would affect pharmaceutical and software industries

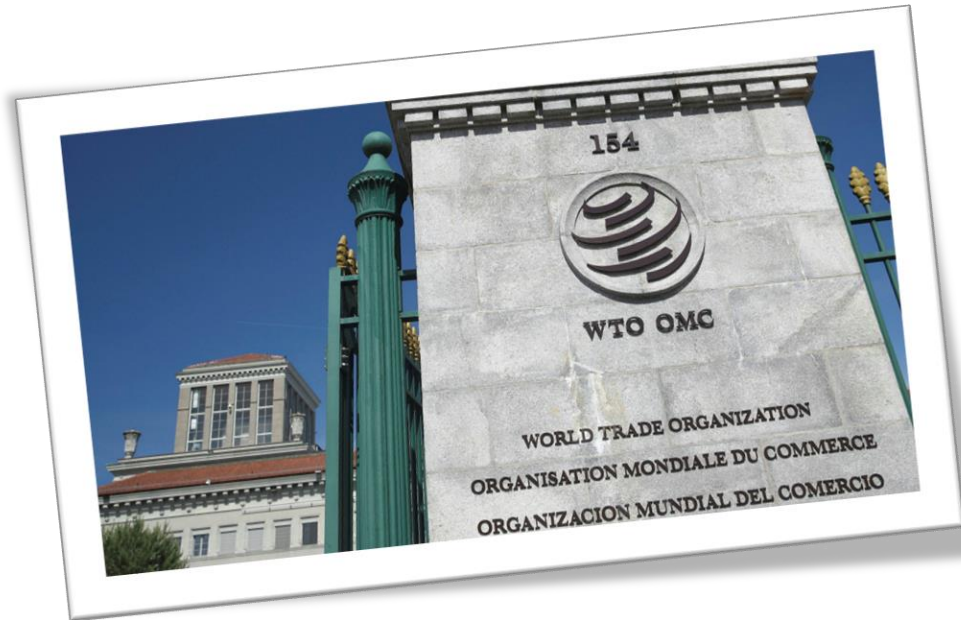


There may be lesser International Support Measures (ISM) as well as higher interest rates on loans from international development partners

Core challenges associated with graduating from the LDC group



Economic diplomacy for suitable ‘International Support Measures (ISM)’ must go on ...



“ We acknowledge the particular challenges that graduation presents ... We recognize the role that certain measures in the WTO can play in facilitating smooth and sustainable transition for these Members after graduation from the LDC category.

- Statement from the 12th Ministerial Conference of the WTO
(WTO-MC12), June 2022

Bangladesh must continue to lead other graduating countries in bargaining at the international forum for suitable international support measures for smooth and sustainable graduation.



We must capitalize on our 'triad identity'



Collaborate with LDCs to ensure on WTO's previously committed LDC-friendly initiatives (e.g., Duty-free Quota-free market access, LDC-friendly rules of origin, etc.) for the next three years (before Bangladesh graduates).



Lead a coalition of soon-to-graduate LDCs in pushing for a new set of International Support Measures (ISM) in favor of the countries in transition.



As a future Developing Country (beyond 2026), expedite negotiations with WTO related to fisheries subsidies, E-commerce, investment facilitation, MSME promotion, etc.



Bangladesh must also
prioritize domestic
preparedness for smooth
and sustainable graduation



We must look beyond reliance on LDC-specific International Support Measures (ISM)



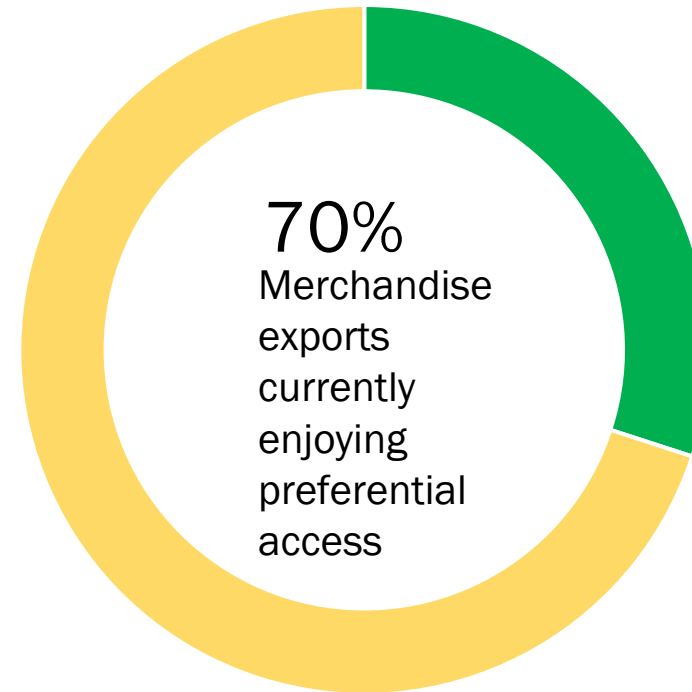
Loss of most-favored nation (MFN) tariffs in partner countries. (Maximum MFN applied rate is 25 percent.) or withdrawal of Duty-free Quota-free (DFQF) access



Possibility of 7-14 percent of baseline exports reduction

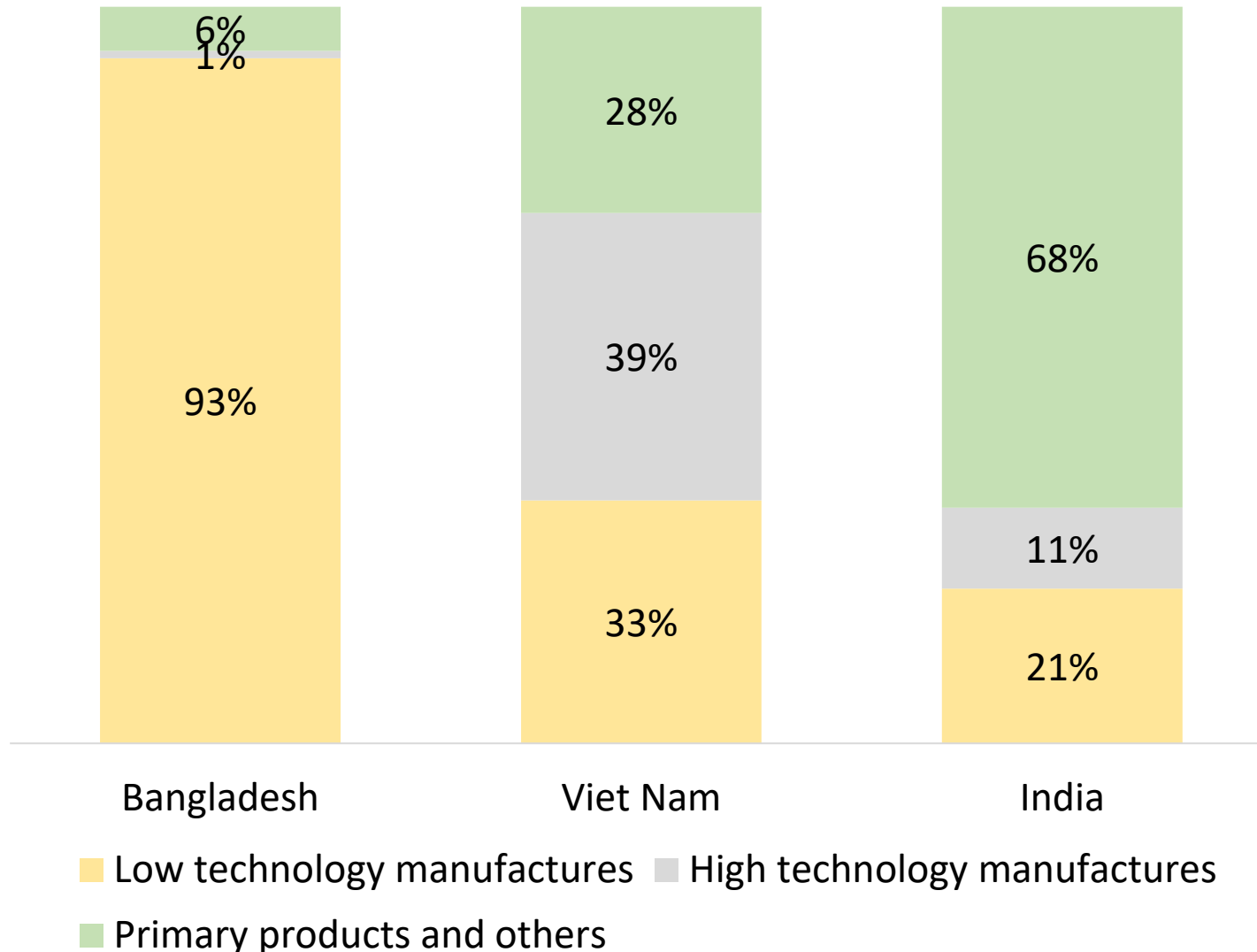


Stringent Rules of Origin upon graduation. Pharmaceutical sector to face trade-related intellectual property rights (TRIPS) obligations.



Must graduate from ISM-driven exports to skills- and productivity-driven competitiveness

A structural transformation of the external sector is necessary



Low-technology manufacturers dominate almost the entire export structure of Bangladesh (representing 93 percent of the total).

High dependence on Apparel exports (more than 75 per cent of merchandise exports)

Depend on buyer-driven value chains and are dominated by lead firms from the global north (lack of own distribution networks)



Not alternative to triangulation of transport, investment, and trade connectivity



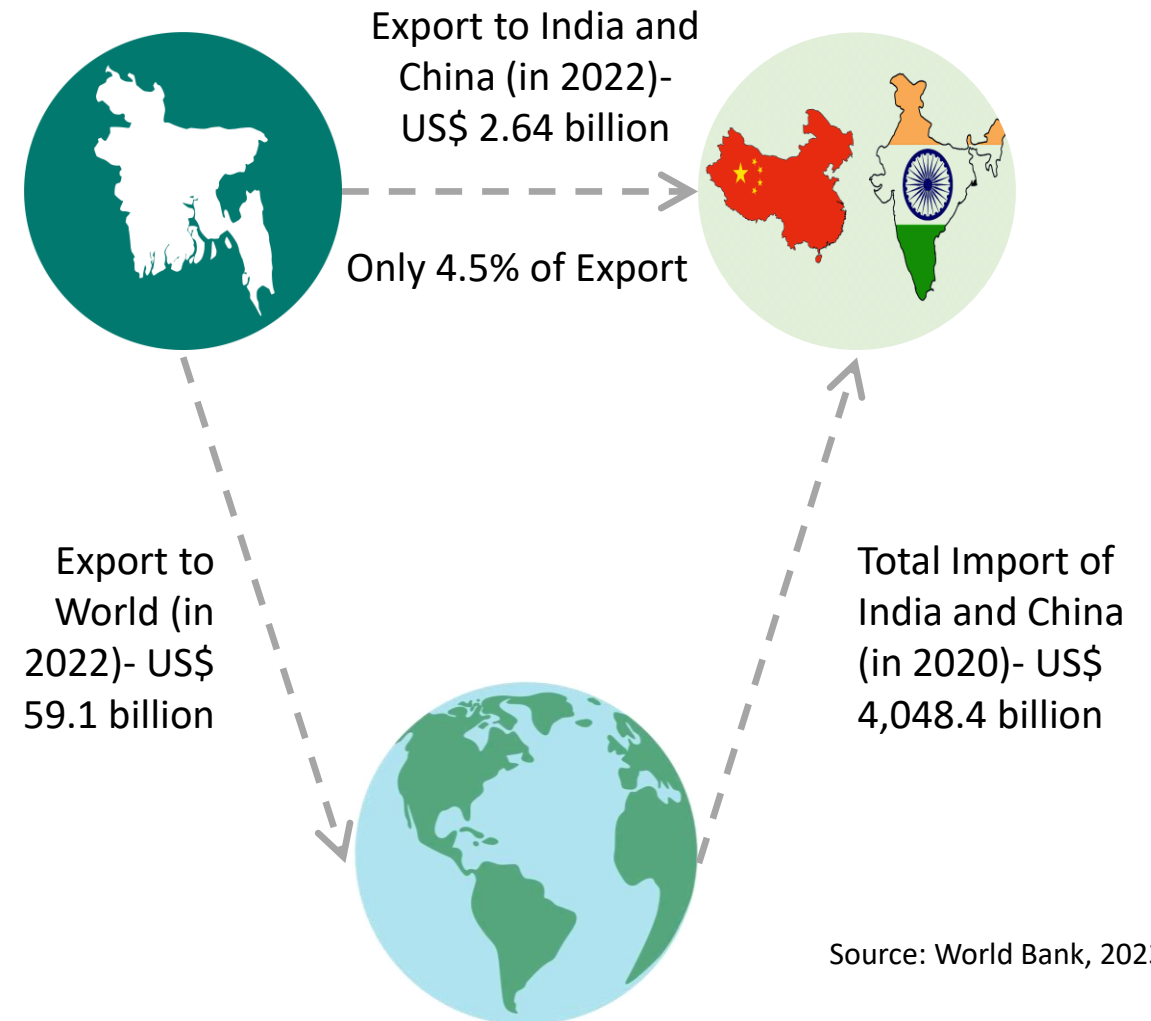
Low export to the Asian region (India, China, South Korea, Japan)



40-60% of export potential is untapped in Southeast Asia (ASEAN), South Asia, East Asia



Ineffective regional agreements compared to close competitors



Source: World Bank, 2023



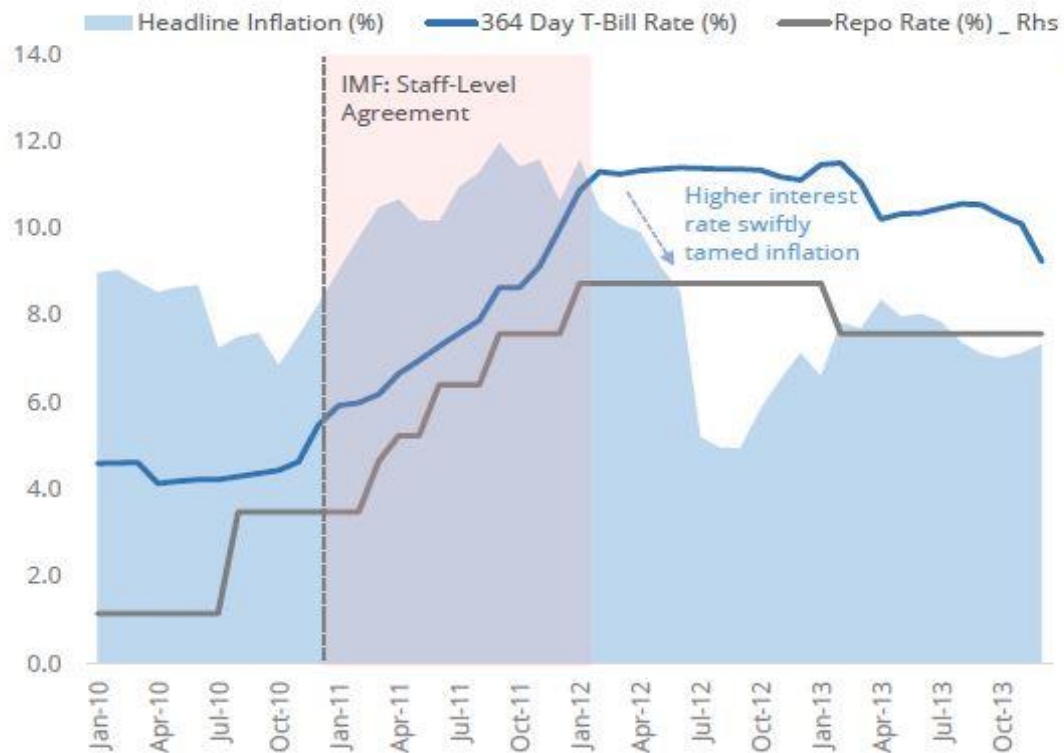
Dealing with the prevailing crisis in the financial sector



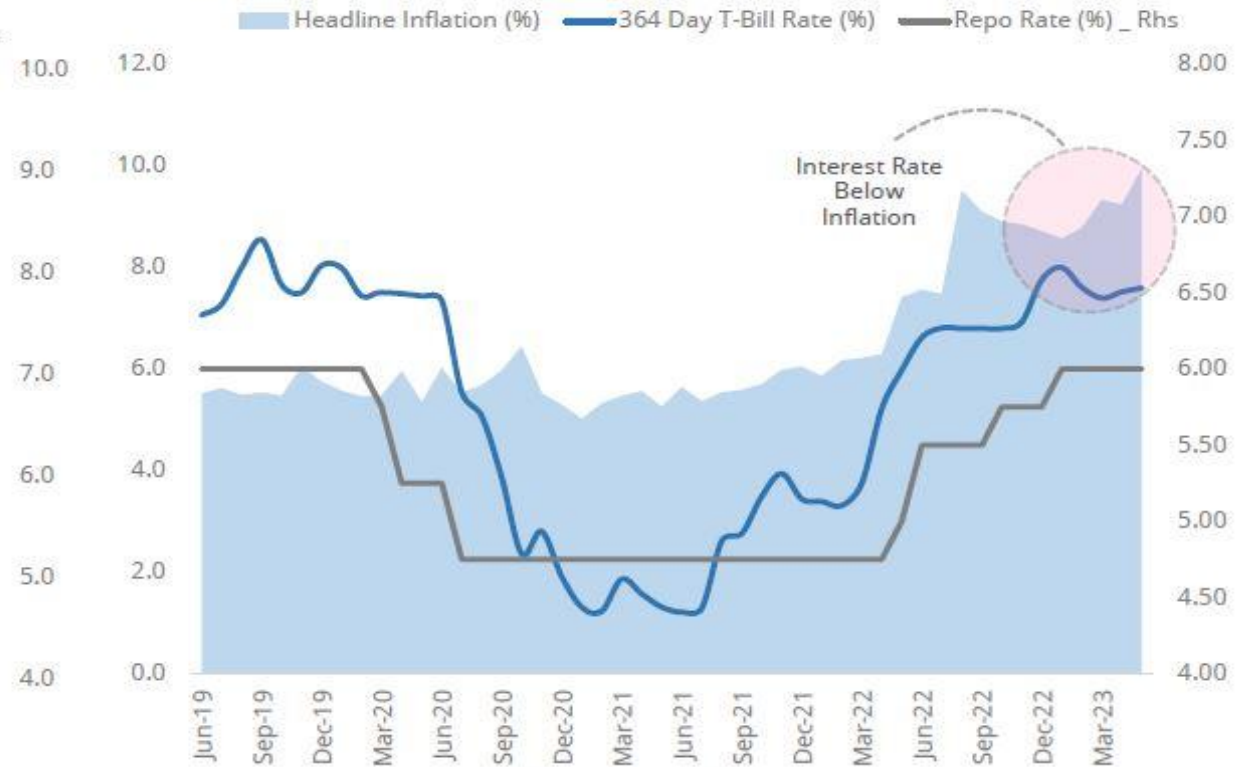
Current policy response differs from the previous one (2011-12)

Previously, removal of rate caps resulted in quick containment of inflation. Whereas currently the low-interest-rate policy is resulting in elevated inflation rates.

Inflation and Interest Rate Scenario During 2011-12



Current Inflation and Interest Rate Scenario

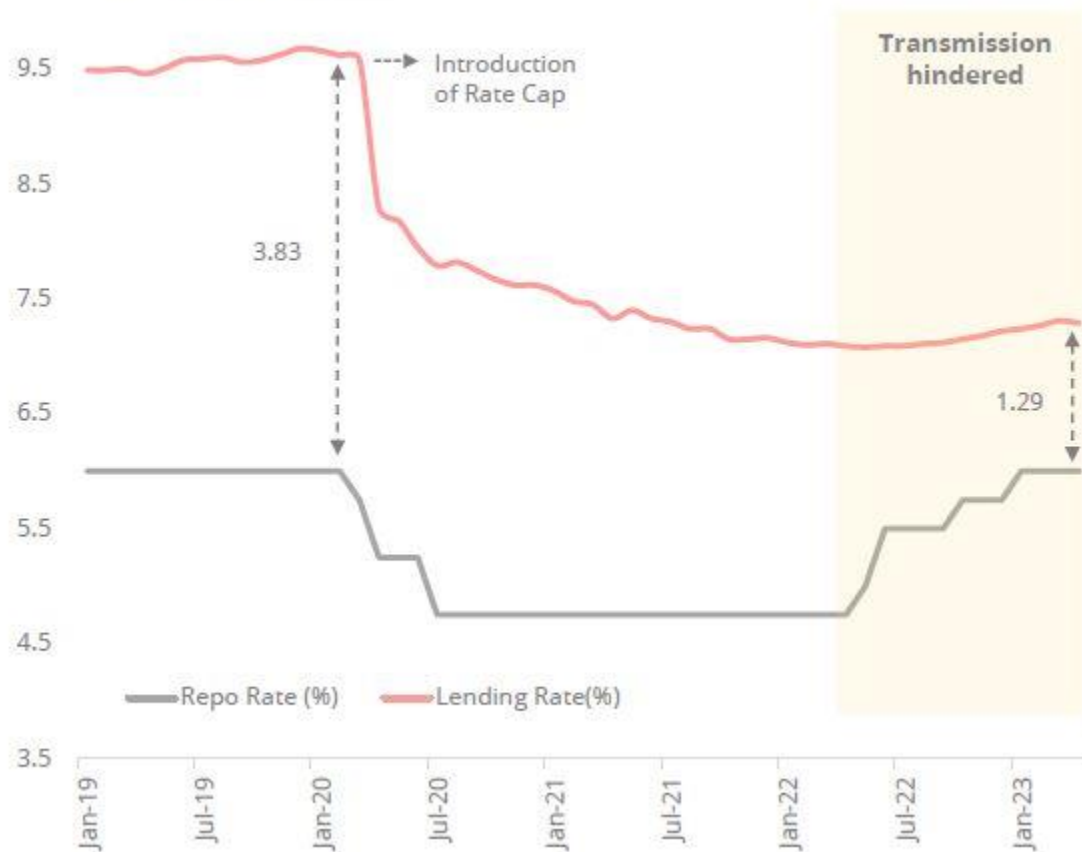


Source: CAL Research, 2023



Impact of policy rate hike has been limited by the current interest cap, as the gap between policy and lending rates have reached a historical low.

Repo Rate (%) vs Lending Rate (%)



Interest Rate (%) Vs BB's Asset Purchase (BDT Bn)

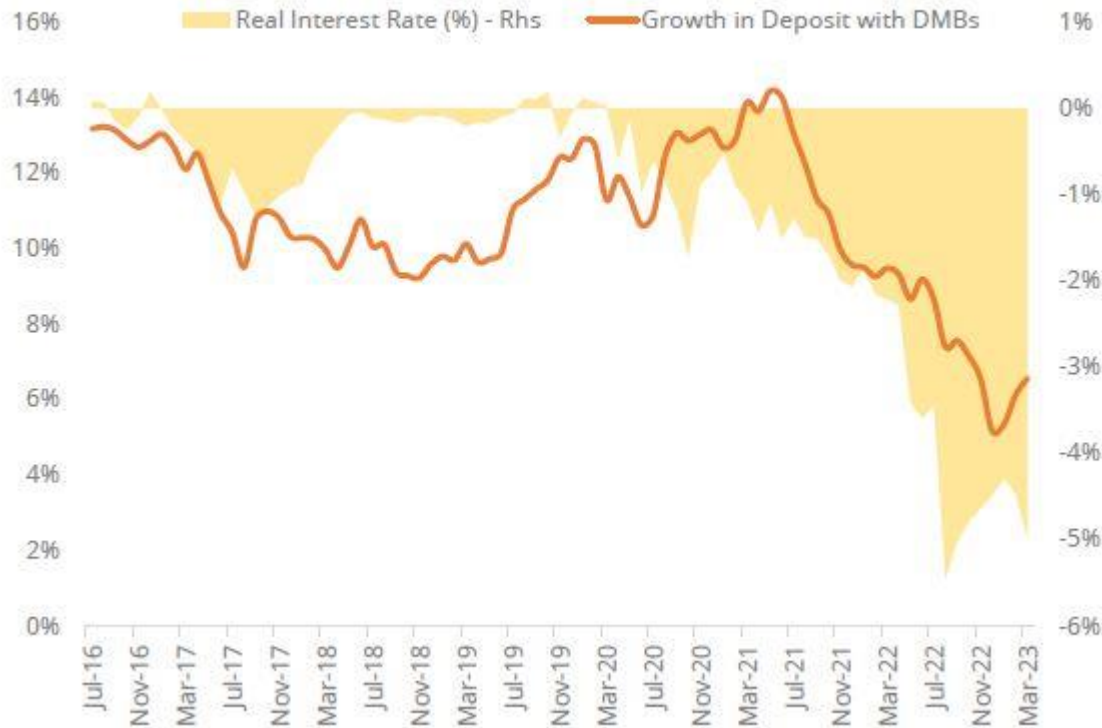


Source: CAL Research, 2023

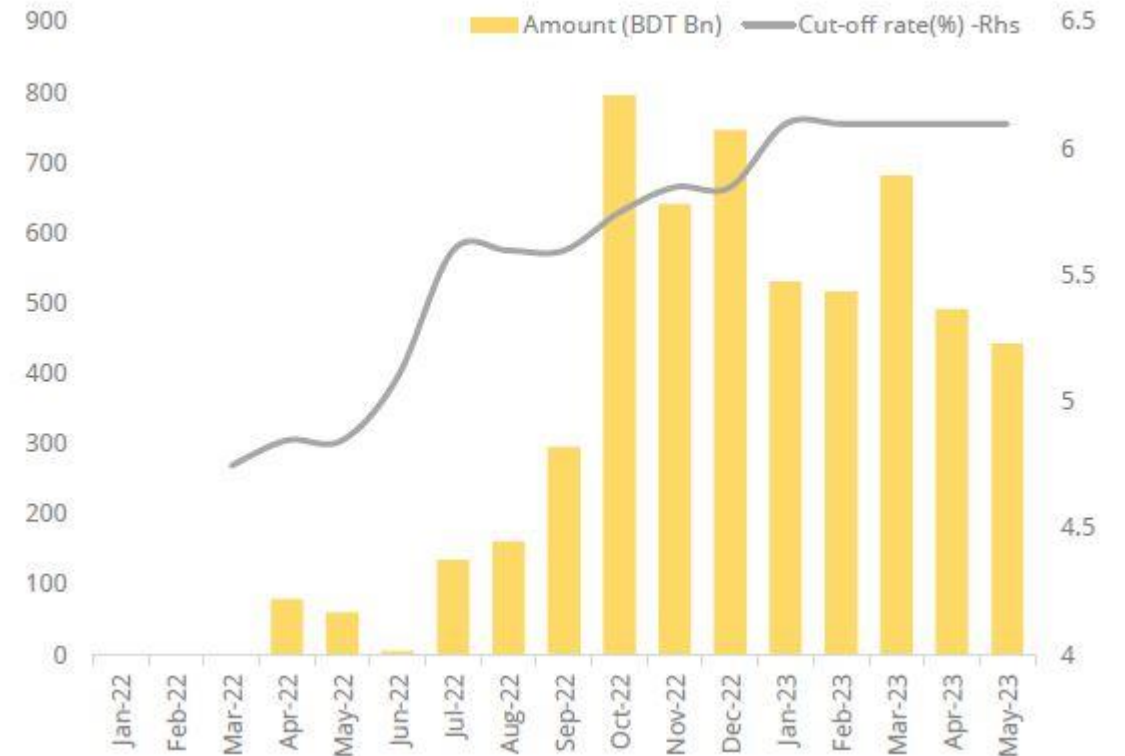


Deposit growth in the banking system has sharply declined (leading to liquidity shortage) because of the negative real interest rates.

Deposit Growth vs Real Interest Rate (%)



Repo with Bangladesh Bank

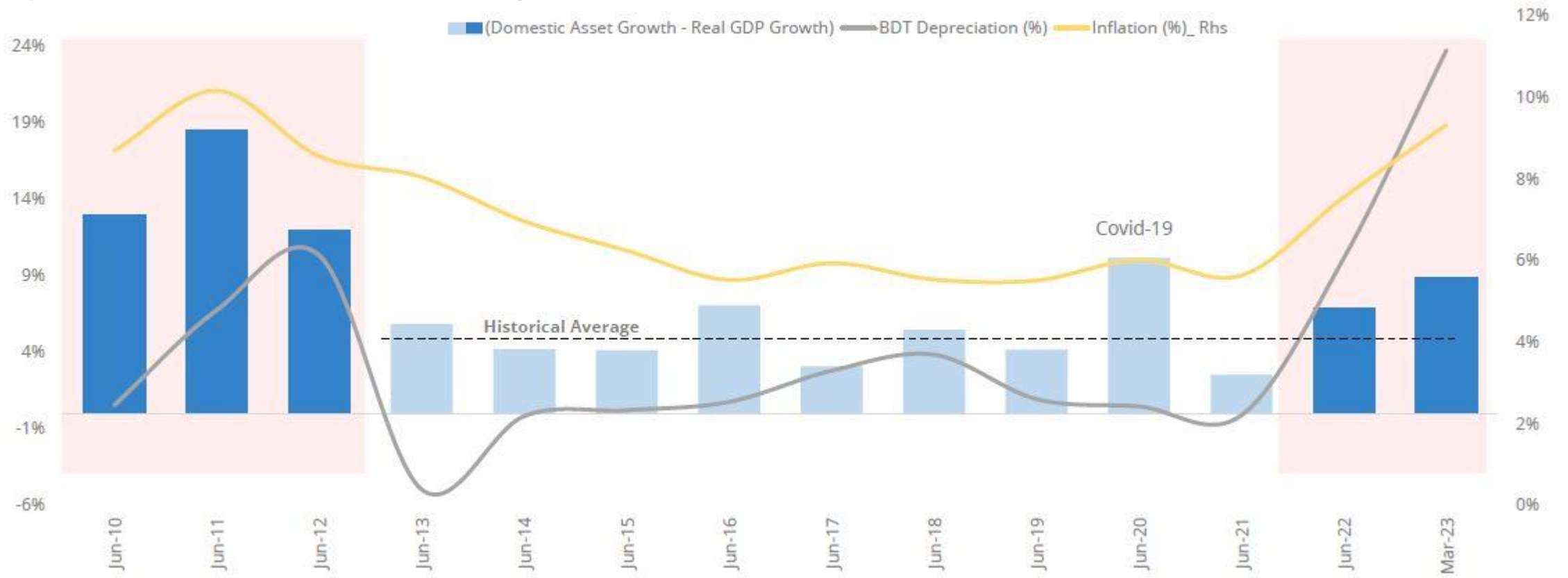


Source: CAL Research, 2023



Both inflation and exchange rate has been adversely impacted by growth of domestic assets accelerated by debt monetization

Impact of Domestic Asset Growth on Inflation and Currency



Source: CAL Research, 2023



Macroeconomic Stability- A must



Appropriate
monetary &
fiscal
policies



Exchange
rate stability



Increase
forex flow to
bolster
export &
remittance



Further
revamp
social
protection
measures



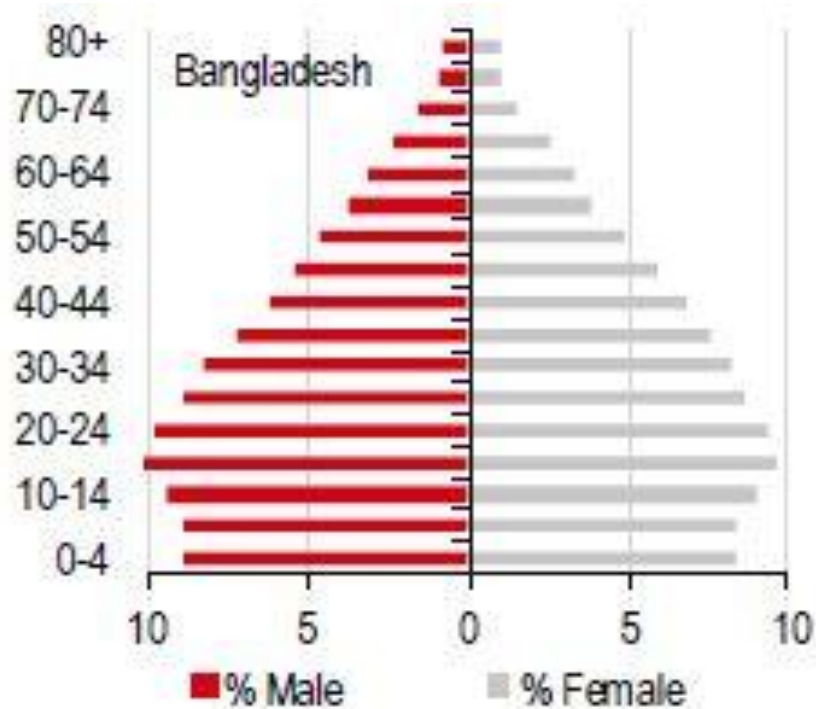
Above all,
maintain
socio-
political
stability

Advantages to capitalize ...

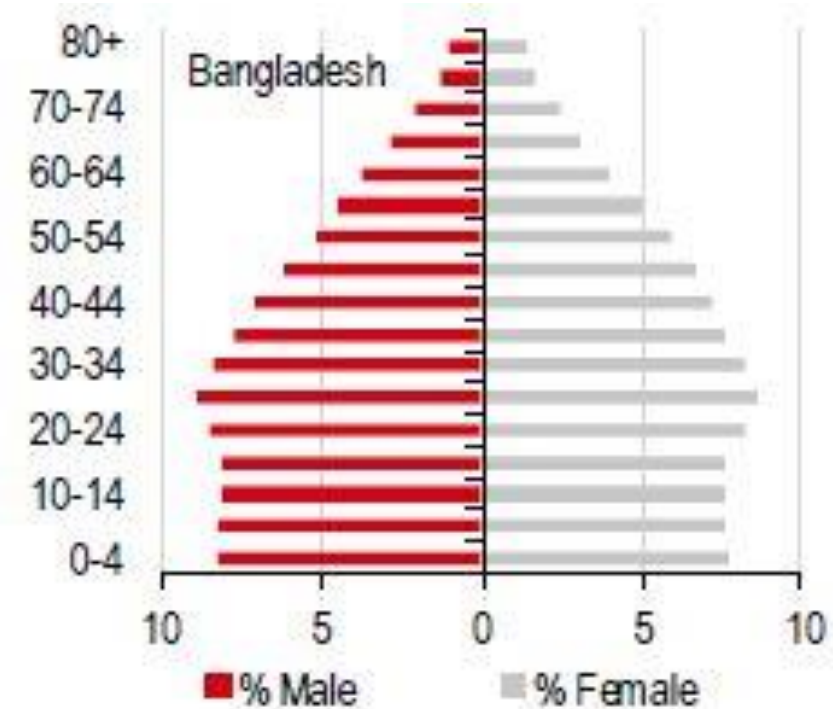


The demographic ‘window of opportunity’

Working age population constituted 55% of total population in 2021



Share of working age population is projected to rise further to 57% in 2030



Source: United Nations' World Population Prospects, HSBC

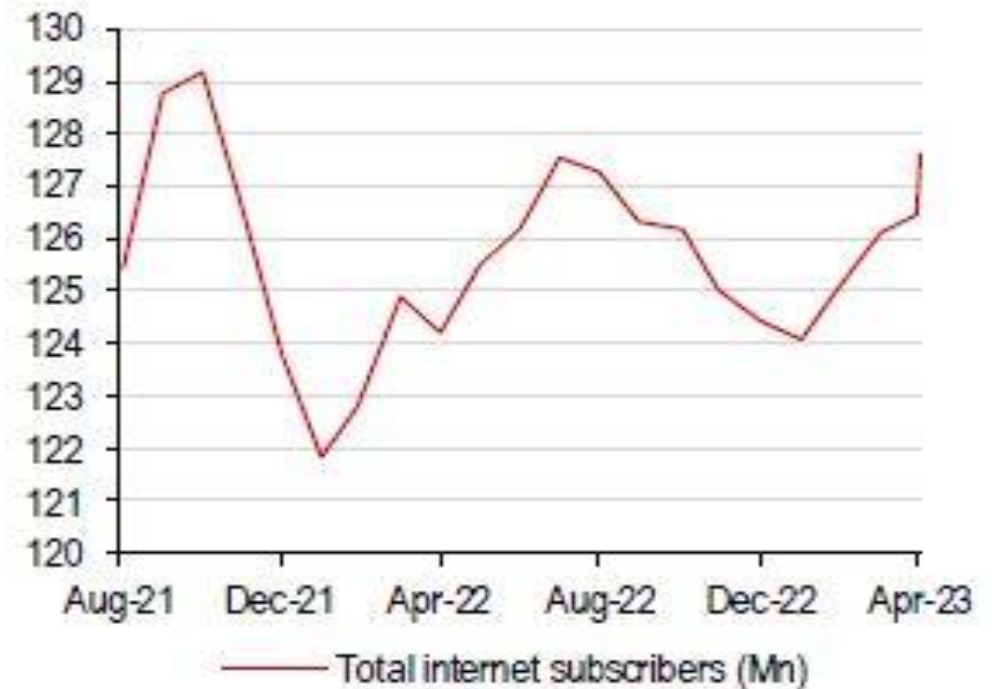


Digitalization of the demography

No. of mobile subscribers is now
at 185 million



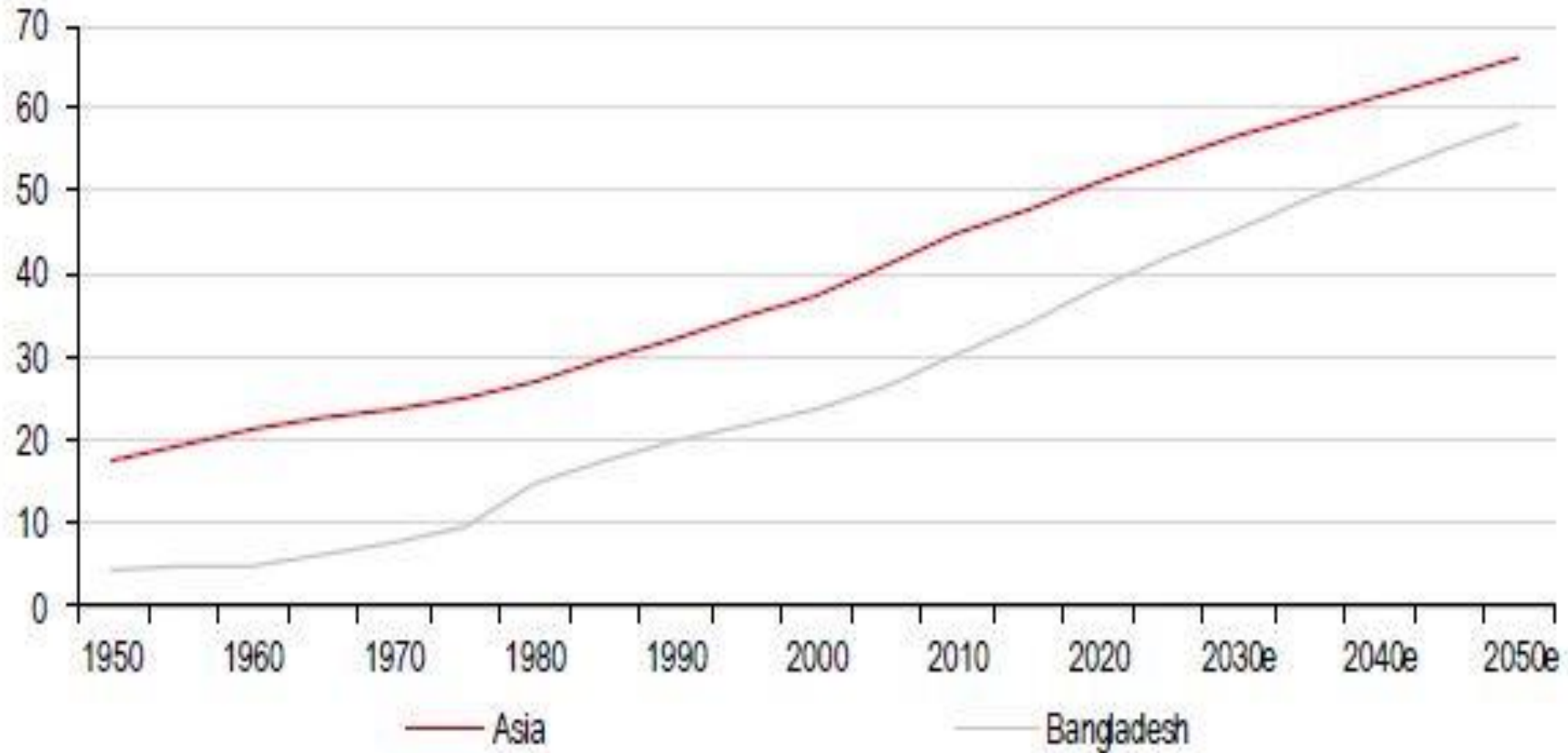
130 million internet subscribers
with 39% internet penetration



Source: BTRC, HSBC



Half of Bangladesh is expected to be urbanized by 2035



Source: United Nations: World Urbanization Prospects 218, HSBC



Enormous potential to capitalize



Bangladesh is expected to be the 9th largest consumer market by 2030, ahead of Germany and UK.



Much of this will be powered by the 'demographic dividend'.



Investment in areas like health, education, and skills can make the best use of this 'demographic window of opportunity'.

Roadmap to an even better future ...



Further policy-attention to Infrastructure is a must ...



Infrastructure should aim to enhance multimodal connectivity (28 days to export against 18 days in Asia, 34 days to import against 20 days in Asia)

Export-import costs will also be reduced if proper infrastructure is available (these costs in Bangladesh are highest in Asia)

Private participation in infrastructure development will be the key (only 1.1% of GDP now)

Need to sustainably overcome the challenges for realizing the potentials



The export-led growth of Bangladesh is likely to sustain further. However, export-GDP ratio is low (less than 13%). Middle-income Bangladesh cannot rely mostly on RMG exports (currently 84.5%).



Enabling regulatory environment can enhance cost-competitiveness. And enhanced use of technology can enhance productivity (25% increase in technology usage can yield 3% increase in profits per worker).



Export and market diversification initiatives need to be coupled with effective economic diplomacy (for better trade deals and increased FDI).

Looking Ahead



The future
will be all
about
digitization
and e-
commerce



SMEs and related innovations will be key to macro-economic success



The role of the private sector will be pivotal in attaining inclusive growth



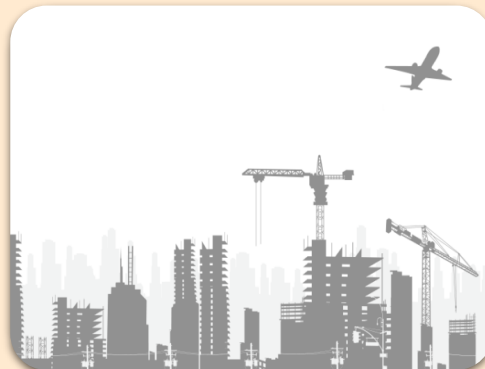
Linking higher education with industry



Looking Ahead



Modernization
and
mechanization
of Agriculture
needed



Smart
urbanization
for
sustainable
progress



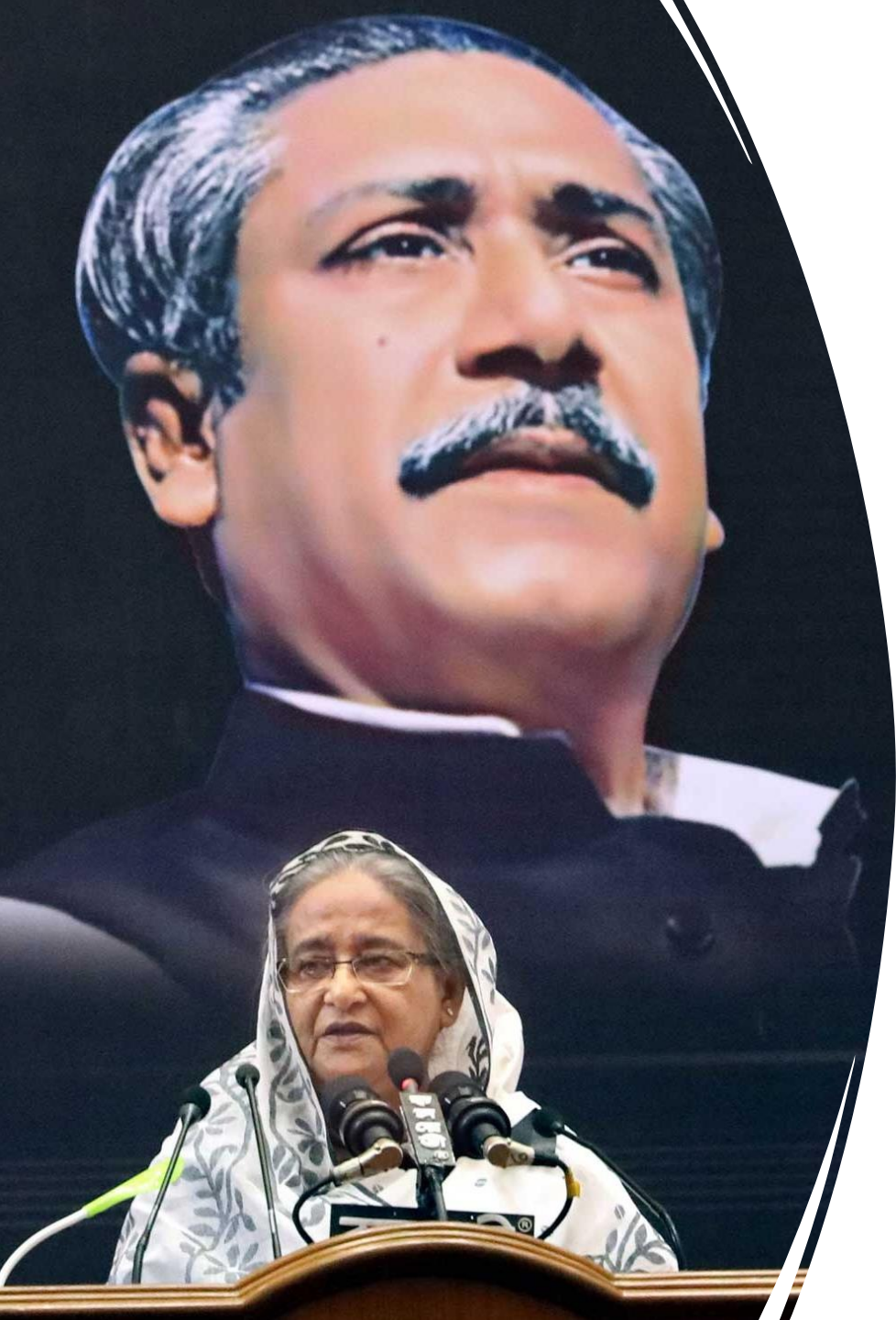
Potential as
regional
trade hub
must be
utilized

(further integration
into the local,
regional and global
value chains)



Fiscal Policy
Reforms

(tax-GDP
ratio must
reach the
20% mark)



The path shown by Bangabandhu will guide us to new heights

“With the birth centenary of Father of the Nation and golden jubilee of independence as the backdrop, we must vow to take the country to new heights.”

- Honorable Prime Minister, Sheikh Hasina
25 March 2021

