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

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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

Between 1972 and 1975 Bangabandhu increased GDP per capita by 163% (USD 99 to USD 260).
Yet, between 1975 and 1997 it increased by only 52 percent (to USD 395).

Bangladesh started in the right direction after 1996, but the journey was halted once again in 2001.

The quantum jump began after 2008-09.
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
UN General Assembly has rightly set Bangladesh to graduate out of LDC status in November 2026.

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
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
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.

70% Merchandise exports currently enjoying preferential access

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

Source: UNCTAD, JUNE 2023
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)

Source: UNCTAD, JUNE 2023
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

Export to India and China (in 2022)- US$ 2.64 billion

Only 4.5% of Export

Export to World (in 2022)- US$ 59.1 billion

Total Import of India and China (in 2020)- US$ 4,048.4 billion

Source: World Bank, 2023
Dealing with the prevailing crisis in the financial sector
Previously, removal of rate caps resulted in quick containment of inflation. Whereas currently the low-interest-rate policy is resulting in elevated inflation rates.

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

Source: CAL Research, 2023
Both inflation and exchange rate have been adversely impacted by growth of domestic assets accelerated by debt monetization.

Source: CAL Research, 2023
Macroeconomic Stability - A must

1. Appropriate monetary & fiscal policies
2. Exchange rate stability
3. Increase forex flow to bolster export & remittance
4. Further revamp social protection measures
5. 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
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)

Source: World Bank, Standard Chartered Research
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).

Source: United Nations, Standard Chartered Research
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.
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)
“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