

**Editor's Desk**

The March 1, 2016 issue of *Thinking Aloud* has been dedicated to covering the news and happenings of SANEM Annual Economists' Conference 2016, as this conference also brings a new onset for the organization. The first page article on "Is Bangladesh poised for leaping towards a middle income country?" emphasizes on the importance of assessing the country's current status of social infrastructure in achieving desired level of economic growth rate and targeted per capita income level. On its journey towards becoming a middle income country, Bangladesh needs to increase public expenditures on education and health as shares of GDP substantially from the current insignificant levels. In pages two and three, readers will get a brief overview of different sessions of the conference including the inaugural session, four parallel sessions named "Economic Growth", "Poverty and Human Development", "Trade and Regional Integration", and "Sectoral Economy". Along with the parallel sessions, there was a book launching ceremony that took place during the conference to launch the book titled "Structural Change and Dynamics of Labor Markets in Bangladesh: Studies on Labor and Employment". The last session of the conference was a session for young budding researchers where three BSS Economics students presented their papers. Readers will get some glimpses of the conference in photographs provided on the fourth page. SANEM-DFID workshop news, book launching ceremony at the University of Dhaka and other events news have also been provided on the last page. Furthermore, this month has been an exciting one for SANEM as the organization has endorsed its new logo which is visible on *Thinking Aloud*, SANEM's website and other communication materials.

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**Editor:**  
Selim Raihan

**Associate Editors:**  
Farazi Binti Ferdous  
Raisa Tamanna Khan  
Mahtab Uddin

**Is Bangladesh poised for leaping towards a middle income country?**

**Selim Raihan**

Bangladesh has recently been upgraded from low income country (LIC) to lower-middle income country (LMIC) as per the World Bank's classification. There is an aspiration for graduating from the LDC status to that of a middle income country by 2021 as per the United Nations' classification. In this context, it is very important to assess the capacity of the country's social infrastructure in achieving the desired level of economic growth rate and subsequently the targeted per capita income level.

As far as the social infrastructure, in terms of education and health, is concerned, there is a valid question to ask, whether Bangladesh is poised for leaping towards a middle income country. In this paper, we focus on two indicators, public expenditure on education as % of GDP and public expenditure on health as % of GDP. It is well established in economic literature that strong bases of education and health are needed for a country to accelerate and sustain economic growth.

In Figure 1 and Figure 2 we have presented two scatter-plots involving public expenditure on education as % of GDP and public expenditure on health as % of GDP respectively against the log of GDP per capita for the lower-middle income countries and upper middle income countries as per the World Bank's classification. The data are the averages for the years between 2010 and 2014 and they are derived from World Bank's WDI. In both scatter-plots, the horizontal line at the level of 8 of log GDP per capita separates lower-middle income countries from upper-middle income countries. Bangladesh's position is shown by the red circle.

Even these simple scatter-plots present some very interesting insights. In Figure 1, the trend line suggests that the association between public expenditure on education as % of GDP and log of GDP per capita for 80 countries (involving both

lower-middle income and upper-middle income countries) is positive. This evokes that countries with a higher public expenditure on education as % of GDP tend to be associated with a higher GDP per capita. It is interesting to see that all upper-middle income countries are well above the trend line; whereas, most of the lower-middle income countries are well below the trend line while some of them are just on the trend line. Bangladesh's position is among the worst performing countries, as its public expenditure on education as % of GDP (around 2%) is much lower than those of all upper-middle income countries, and is even much lower than most of the

lower-middle income countries. Similar pattern is observed, as depicted in Figure 2, in case of the association between public expenditure on health as % of GDP and the log of GDP per capita. Once again, Bangladesh appears to be

among the worst performing countries with only 1.2% share of public expenditure on health in GDP. Interestingly, the positive association between health expenditure and GDP per capita (Figure 2) seems to be stronger than that of between education expenditure and GDP per capita (Figure 1), which is supported by empirical literature that health expenditure has a relatively more immediate positive effect than education expenditure on economic growth.

The aforementioned exercises suggest that Bangladesh has to improve social infrastructure significantly in her way towards a middle income country. There are two critical lessons for

Bangladesh. First, the current allocations for education and health expenditure as % of GDP need to be almost doubled from their current meagre levels (China and Malaysia, depicted in Figures 1 and 2, are good examples). Second,

the efficiency of the public expenditure on education and health in Bangladesh needs to be improved. There are some countries (both in categories of lower-middle income and upper-middle income) who have been able to achieve much higher levels of GDP per capita than that of Bangladesh even with similar proportions of education and health expenditures that Bangladesh has.

Dr. Selim Raihan. Email: [selim.raihan@gmail.com](mailto:selim.raihan@gmail.com)

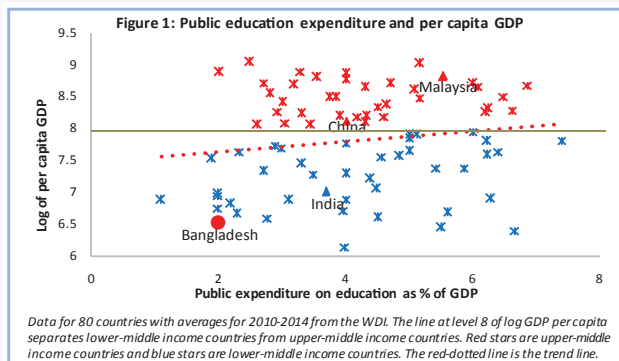


Figure 1: Public education expenditure and per capita GDP

Data for 80 countries with averages for 2010-2014 from the WDI. The line at level 8 of log GDP per capita separates lower-middle income countries from upper-middle income countries. Red stars are upper-middle income countries and blue stars are lower-middle income countries. The red-dotted line is the trend line.

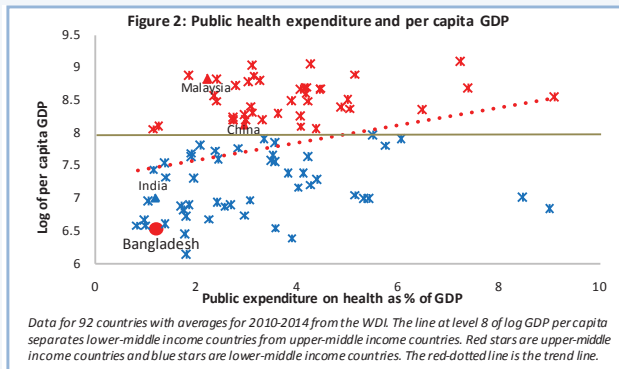


Figure 2: Public health expenditure and per capita GDP

Data for 92 countries with averages for 2010-2014 from the WDI. The line at level 8 of log GDP per capita separates lower-middle income countries from upper-middle income countries. Red stars are upper-middle income countries and blue stars are lower-middle income countries. The red-dotted line is the trend line.

## First SANEM Annual Economists' Conference 2016

## Inaugural Session and Keynote Speech

Despite significant achievements over the past four decades in structural change, economic growth, poverty reduction and socio-economic indicators, still there are numerous challenges for Bangladesh in its way towards a middle income country. The first SANEM Annual Economists' Conference 2016 thus had the theme "Bangladesh: Way towards a Middle Income Country".

The inaugural session of the conference was chaired by Dr. Bazlul Haque Khondker (Chairman, SANEM). The convener of the conference, Dr. Selim Raihan (Executive Director, SANEM), in his opening remarks, set the contexts of the conference. Dr. Stuart Davies (Senior Economic Adviser, DFID, Bangladesh) and Mr. Christian Tardif (Representative of the High Commission of Canada in Bangladesh) provided their welcome remarks. Professor Wahiduddin Mahmud (Eminent Economist of Bangladesh) and Dr. Martin Rama (Chief Economist, South Asia, the World Bank) were the keynote speakers in the inaugural session.

The first keynote speaker, Professor Wahiduddin Mahmud emphasized on the need of appropriate policies to reap the benefits of demographic dividend for inclusive growth in Bangladesh. He noted that, as Bangladesh started early in the demographic dividend phase in the 1990s, the country might have the risk of exhausting this dividend much earlier when dependency ratio would start to increase because of the increased number of elderly people. To utilize this window of demographic dividend, there is a need for large improvement in human capital. He identified ready-made garments, manpower export and small and medium enterprises as three major drivers of growth. Finally, he stressed the need for larger investment in education and health-care to ensure a healthy, skilled and productive workforce for ensuring inclusive growth.

Through video conferencing, the second keynote speaker of the conference, Dr. Martin Rama discussed on the current prospects as well as major challenges of the Bangladesh economy. In his view, Bangladesh has done well in accelerating economic growth by 1 percentage point per decade. Meanwhile, Bangladesh has an impressive performance in terms of improvements in human development and attaining most of the MDGs. Moreover, Bangladesh has reduced the prevalence of poverty by 50% over the last three decades. Despite these achievements, there are still persistent challenges of doing business in Bangladesh. According to Dr. Rama, political instability, electricity crisis, access to finance, corruption and unskilled labor are the major obstacles for further sustainable development. Finally, he suggested that, appropriate structural policies embedded with improved management of resources and institutions would be essential to overcome these challenges.

## Session 1: Economic Growth

Although Bangladesh has been experiencing a growth rate of around 6% per annum for the last one decade, it is not reflecting Bangladesh's true growth potential. To transcend Bangladesh's true growth potentials, it is necessary to explore the drivers of economic growth and the associated challenges. In this context, the first session of the SANEM Annual Economists' Conference focused on "Economic Growth". The session was chaired by Dr. Sadiq Ahmed (Vice Chairman, PRI). Dr. Biru Paksha Paul (Chief Economist, Bangladesh Bank) was present as the special guest. Dr. Hossain Zillur Rahman (Executive Director, PPRC) and Dr. Monzur Hossain (Senior Research Fellow, BIDS) were also present as discussants. A total of four papers were presented during the session.

The first paper was on "Governance Challenges for Inclusive Growth" presented by Professor Mushtaq Khan (SOAS, University of London). In his paper, he pointed out the major political economy challenges for ensuring inclusive growth in Bangladesh. He critically examined the proponents of so called "good governance" and argued for 'developmental governance'. In his view, Bangladesh needs to pursue 'developmental governance' which would legitimate the state with strong enforcement capabilities in key areas, rule out corruption in critical developmental areas, ensure fair level of contract enforcement and property rights, and promote democracy. The topic of the second paper was "Relationship between Inflation and Economic Growth: Determining the threshold level of Inflation in Bangladesh" and was presented by Mr. Bishnu Pada Biswas (Deputy General Manager, Bangladesh Bank). He examined the inflation-growth nexus empirically using annual data of Bangladesh and in particular, he estimated the threshold level of inflation rate for the Bangladesh economy. Mr. S. M. Abdullah (Assistant Professor, Department of Economics, University of Dhaka) presented a paper on "Consequence of Interactive Effect of Exchange Rate Volatility on GDP Growth". He explored the impact of exchange rate volatility on economic growth and also the interaction of exchange rate volatility and international trade impact on growth. The last paper of the session was presented by Mr. Md. Abdul Khaleque (Assistant Professor, Department of Development Studies, University of Dhaka) on "Economic Growth Forecast in 2021". He was in a quest to forecast the GDP growth rate for 2021 and also the projected share of three main sectors namely – agriculture, industry and services. In his remarks, Dr. Sadiq Ahmed, the chair of the session, emphasized on pursuing and implementing better policies and improving the bureaucracy quality of policy implementing institutions to ensure a high growth trajectory of Bangladesh.

## Session 2: Poverty and Human Development

It is now well established that, for growth to be pro-poor, it must have to be 'inclusive' in nature. Hence, it is equally important to look at the status of poverty and human development along with economic growth. Against this backdrop, "Poverty and Human Development" was the theme of the second session. The session was chaired by Dr. K. A. S. Murshid (Director General, BIDS). Dr. Sajjad Zohir (Executive Director, ERG) was present as the special guest for the session. The two discussants for the session were Dr. Minhaj Mahmud (Head of Research, BIGD) and Dr. Atonu Rabbani (Associate Professor, Department of Economics, University of Dhaka). Four papers were designated for this session.

Dr. Syed Naimul Wadood (Associate Professor, Department of Economics, University of Dhaka) presented the first paper titled "Microeconomic Impact of Remittance on Household Welfare: Evidence from Bangladesh". In his paper, he investigated whether remittances have any positive impact on household welfare and also whether there are any differences in impact of external and internal remittances. The second paper was presented by Mr. Md. Amzad Hossain (Lecturer, Department of Economics, University of Dhaka) on "Impact Assessment of Credit Program for the Tenant Farmers in Bangladesh: Evidences from the Field Experiment". In this study, he assessed the overall impact of the rural credit program on the tenant farmers' livelihoods, on farm productivity and also on food security and nutritional status of households. Mr. Muhammad Shahadat Hossain Siddiquee (Associate Professor, University of Dhaka and PhD Researcher, University of Manchester) presented his paper on "Gender Wage Gap in Urban Areas of Bangladesh". He measured the extent of gender wage gap in Bangladesh's urban labor market at different quantiles of wage distribution and also decomposed this gap as per their productive components using Blinder-Oaxaca decomposition and quantile regression approaches. The last paper of the session was on "Effect of Strenuous Job on Health: A Study on Rural Bangladesh". This paper was presented by Mr. Md. Azhar Uddin (Lecturer, Institute of Health Economics, University of Dhaka) where he measured the effects of strenuous occupation measured in terms of longer working hours on health of the rural labor force of Bangladesh. In his remarks, Dr. K. A. S. Murshid, the chair of the session, emphasized on carefully handling the 'demographic divided' issue, as Bangladesh is losing a sizeable part of that dividend due to outward migration.

## First SANEM Annual Economists' Conference 2016

## Session 3: Trade and Regional Integration

The topic of the third session was related to trade and regional integration. Dr. Mustafizur Rahman (Executive Director, CPD) chaired the session while Ambassador Sumith Nakandala (Secretary General, BIMSTEC) was present as the special guest. Two designated discussants were Dr. Khondaker Golam Moazzem (Additional Director, CPD) and Dr. A. K. M. Atiqur Rahman (Professor, Department of Economics, North South University). Papers presented in this session were focused on four essential topics related to trade and regional integration.

Dr. Saman Kelegama (Executive Director, IPS, Colombo) presented his paper on "Prospects and Challenges of South Asian Regional Integration". In his presentation, Dr. Kelegama discussed about prospects for regional integration in South Asia, regional framework for economic integration, and impediments to these prospects. The second presentation on "Measuring NTM Restrictiveness in South Asia" was by Dr. Prabir De (Professor, RIS, New Delhi, India). He focused on assessing the restrictiveness of NTMs in South Asia and mentioned that exporters and importers in Bangladesh have to comply with higher number of NTMs compared to those of India and Nepal. Dr. Sandeep Kaur Bhatia (Assistant Professor, Centre for Economic Studies, Central University of Punjab, India) presented the third paper on "Has Bangladesh's Trade Potential Explored in SAFTA? Evidence from Gravity Model". She focused on issues including increasing number of regional trade agreements involving South countries, the current status of SAFTA, and how could the unexplored potential of trade under SAFTA be realized. Mr. Kishore Kumer Basak (Senior Research Associate, CPD) presented the last paper of the session on "Exploring Trade Potential in BCIM EC: Possible Sectors for Developing Production Network". In that paper, he explored the economic potential of 'Bangladesh, China, India and Myanmar - Economic Cooperation (BCIM EC)' initiative in view of trade opportunities and possibilities of developing production network. The designated discussants commented on the papers and remarked that regional integration is essential and more policy driven research is required in this field. The special guest of the session, Ambassador Sumith Nakandala urged for proper implementation of agreements under SAFTA and BIMSTEC. Finally, Dr. Mustafizur Rahman, the chair of the session, emphasized on pro-active policy driven initiatives for deeper regional integration in South Asia.

## A Session for Budding Researchers

As one of the objectives of "SANEM Annual Economists' Conference 2016" was promoting young aspiring economists by giving them a platform, there was a separate session for the young researchers in the conference. The session was chaired by Dr. Selim Raihan (Professor, Department of Economics, University of Dhaka and Executive Director, SANEM). Dr. Kazi Iqbal (Research Fellow, BIDS) was the designated discussant. Three papers were presented during the session. Mr. Muhammad Nahian Bin Khaled presented a paper titled "Bilateral FDI in South Asian Countries: A Panel Data Analysis Using the Gravity Model". Mr. Mahir A. Rahman presented a paper titled "Demographic Dividend for Accelerating Growth and Confronting Development Challenges of South Asia" followed by a paper presentation by Ms. Tonni Hasan on "Enhancing Capabilities in the Manufacturing Sector: An Approach of Skill Development". All the presenters are BSS Economics students at the University of Dhaka. The session concluded with remarks from the discussant and comments from the chair.

## Session 4: Sectoral Economy

The fourth session of the conference was designated for the papers on "Sectoral Economy". The chair for the session was Dr. Mustafa K. Mujeri (Executive Director, InM). Mr. Syed Nasim Manzur (President, MCCI) was the special guest for the session. Discussants included Dr. A. K. Enamul Haque (Professor, Department of Economics, East West University) and Dr. Sayema H. Bidisha (Associate Professor, Department of Economics, University of Dhaka). Four papers were presented during this session.

Mr. Muntaseer Kamal (Research Associate, CPD) presented the first paper titled "Is Bangladesh Approaching to Lewis Turning Point of Economic Development?". The paper tested the hypothesis of whether Bangladesh is approaching or has reached the Lewis Turning Point (LTP) in its economic development in a setting of the Lewis-Ranis-Fei economic framework. The paper also attempted to identify the sources of sectoral growth and estimated the contribution of labor migrating from agricultural sector on economic growth. The second paper titled "Estimating Impacts of Increasing Export-intensities on Productivity Spillovers" was written by Ms. Azreen Benazir Abdullah (Lecturer, Department of Economics, North South University). The author discussed the spillover effects of increase in export intensity of garments and textiles industry of Bangladesh in light of horizontal spillovers and backward spillovers. The third presentation of the session was on "Economic Benefit of Secondary Bond Market Interventions". This was presented by Mr. Mohammed Mahinur Alam (Assistant Director, Bangladesh Bank). In his paper, Mr. Alam estimated the associated benefits and costs of secondary bond market in Bangladesh. He emphasized on the relevance of the existence of secondary bond market in the process of financing long-term investment projects. Ms. Tahera Ahsan (Assistant Consultant, Oxford Policy Management (OPM) Ltd., UK) presented the last paper on "Economic Impacts of Seventh Five Year Plan Tourism Targets". Ms. Ahsan used a SAM based multiplier model to assess the economic impacts of Seventh Five Year Plan tourism targets. She also discussed on the immense potentials of Bangladesh to become a major tourist spot based on its natural endowment and rich archeological history. The chair of the session, Dr. Mustafa K. Mujeri, emphasized on accelerated structural transformation in favor of the manufacturing industry for Bangladesh to become a middle income country.

## Book Launching Ceremony



Launching of the book titled "Structural Change and Dynamics of Labor Markets in Bangladesh: Studies on Labor and Employment" was held during the conference on 20<sup>th</sup> February, 2016. Dr. Bazlul Haque Khondker (Chairman, SANEM) chaired the session. Dr. Selim Raihan (Executive Director, SANEM), the editor of the book, provided a brief presentation on the book. Dr. Edgard Rodriguez (Senior Program Specialist, IDRC, Canada) and Dr. Rizwanul Islam (Former Special Adviser, ILO, Geneva) were the two discussants. Professor Syed Saad Andaleeb (Vice-Chancellor, BRAC University) was the special guest.

In his presentation, Dr. Selim Raihan highlighted that the publication is an outcome of the research project of SANEM with IDRC, Canada, that has been carried out over a period of three years. Key messages that came up in the book include the importance of structural change and economic diversification for further accelerated economic growth in Bangladesh. The book also emphasizes on the promotion of rural nonfarm sector and other productive sectors and rise in female labor force participation. Papers in this book made extensive use of the latest available socio-economic and labor force data in Bangladesh and also applied advanced quantitative methods in analyzing the issues.

Dr. Edgard Rodriguez emphasized that this book is not only a combination of economic views rather it incorporates issues of political economy and defects of institutions in Bangladesh. He added that this book contains several chapters on female labor force participation which is an essential discussion topic for a country like Bangladesh where the country still has very low participation of females in labor force. Dr. Rodriguez articulated that the most important asset for Bangladesh is the citizens and by making effective investments on human capital, the country can utilize the benefits of its current demographic transition phase.

Dr. Rizwanul Islam commented that this publication is a detailed work on labor market in Bangladesh and it has made very good use of primary data from two major surveys including HIES (Household Income and Expenditure Survey) and LFS (Labor Force Survey). Looking at the pattern of structural transformation in Bangladesh with a high dominance of services sector, Dr. Islam highlighted the danger of 'de-industrialization' if appropriate measures are not taken.



## Conference Photos



## SANEM launched book at University of Dhaka



SANEM launched a book titled **“Structural Change and Dynamics of Labor Markets in Bangladesh: Studies on Labor and Employment”** at Muzaffar Ahmed Choudhury Auditorium, Faculty of Social Sciences, University of Dhaka on 24th February 2016. Professor Nazma Begum (Chairperson, Department of Economics, University of Dhaka) and Professor Farid Uddin Ahmed (Dean, Faculty of Social Sciences, University of Dhaka) were present as Chief Guest and Special Guest respectively. Eminent professors of the Department of Economics including Professor Momtaz Uddin Ahmed, Professor Barkat-e-Khuda, Professor Shafiq uz Zaman and Professor M. M. Akash provided their comments on the book during the launching ceremony. The editor of the book, Dr. Selim Raihan, (Professor, Department of Economics, University of Dhaka and Executive Director, SANEM) provided a brief presentation on the book. The book has focused on various issues and ongoing debates on labor markets in Bangladesh. Among others, many respected faculty members and students from the Department of Economics, Department of Development Studies and Department of Population Sciences of the University of Dhaka attended the event. Books were distributed for free among all participants.

## In-house lecture held at SANEM

An in-house lecture was held at SANEM office, Dhaka on 22nd February, 2016. Dr. Mohammad Anisur Rahman (Associate Professor, Department of Public Health, College of Health and Human Resources, California State University Fresno, U.S.A.) conducted the lecture session on various theories of behavioral change related to Health Economics. Research Associates of SANEM and other research organizations attended the lecture.

## Second BIMSTEC roundtable meeting held at Dhaka

The Second BIMSTEC Roundtable Meeting was held on 19<sup>th</sup> February, 2016 at BIMSTEC Secretariat, Dhaka. HE Ambassador Sumith Nakandala (Secretary General of BIMSTEC) provided the introductory remarks. It was followed by remarks from Dr. Saman Kelegama (Executive Director, Institute of Policy Studies of Sri Lanka). The meeting ended with Q & A session. Dr. Farazi Binti Ferdous (Fellow, SANEM) attended the roundtable meeting.

## MCCI organized lecture session at Dhaka

Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka organized a lecture on **“The Business of The Family Business”** on 27th February, 2016 at the Chamber Conference Hall, Chamber Building, Dhaka. Globally renowned family business advisor, Mr. Mirza Yawar Baig (Founder of Yawar Baig and Associates) provided the lecture. During his lecture, he talked about oldest family businesses, family dynasty, how they do it, challenges they face, CTS parameters and so on. Mr. Md. Mahedi Hassan (Research Associate, SANEM) participated in the event.

## SANEM-DFID workshop held at Dhaka



SANEM and DFID jointly organized a capacity building workshop titled **“Cutting Edge Research on Economic Growth”** on 19<sup>th</sup> February, 2016 at BRAC Center Inn, Mohakhali, Dhaka. It was a daylong workshop consisting of three different sessions. During the first session titled **“Political Economy of Growth”**, Dr. Mushtaq Khan (Professor of Economics, SOAS, University of London) delivered a lecture where he emphasized on the importance of **“Political Settlement”** for LDCs to bring themselves into the developed country's group. Second session was on **“Growth Modeling”** and it was conducted by Dr. Zahid Hussain (World Bank, Dhaka). Third session was a **“Thematic Group Discussion”** where participants were divided into three different groups based on three separate themes. The first group on **“Macroeconomic Challenges and Growth”** was coordinated and facilitated by Dr. Atonu Rabbani (Associate Professor, Department of Economics, University of Dhaka). The second group was on **“Labor Market and Growth”** and Dr. Sayema Haque Bidisha (Associate Professor, Department of Economics, University of Dhaka) was the facilitator of this group. Dr. Selim Raihan facilitated the third group on the theme of **“Trade and Growth”**. The participants got an opportunity to get involved in hands on exercise and interactive group discussions during this session.

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