Bangladesh economy at a crossroads: Looking for ‘breakthroughs’

Selim Raihan

Bangladesh economy’s impressive growth performance over the past two and half decades has raised hopes about the country’s transition towards a middle income country as well as its graduation from the least developed country (LDC) status in the near future. In 1990, in the global ranking of top gross domestic product (GDP) of countries (in PPP, constant 2011 US$), Bangladesh’s position was 50th. Impressively, by 2015, Bangladesh could improve its position in this ranking to 31st. According to the PWC projection, Bangladesh should become the 28th largest economy by 2030 and 23rd largest economy by 2050 (see www.pwc.com).

In the 7th Five Year Plan of Bangladesh, the aim is to achieve 8% growth rate in GDP by 2020. Also, government’s other vision documents project for a 9-10% growth rate in GDP by 2030. Furthermore, the Sustainable Development Goals (SDGs) put forward a number of stiff economic, social and environmental goals and targets to be achieved by 2030. During the past two and half decades, the major features which outline the growth and development processes in Bangladesh include both internal and external factors and their interactions. The major internal factors include an overall stable macroeconomy, large expansion of the private sector, robust growth in manufacturing and trade, and a large expansion of the readymade garments export, robust growth in remittances, resilient growth in the agricultural sector, a reasonably stable political situation (albeit sporadic political conflicts and clashes), some expansion of social protection programs and wide coverage of the economic and social activities of non-governmental organizations (NGOs). The major external factors include favorable market access in major export destinations, a high export orientation, economic cooperation with Bangladesh’s major trading partner countries, Bangladesh’s stable political relations with neighboring countries leading to some degree of regional cooperation, and Bangladesh’s ‘weak’ financial linkages with the global economy which cushioned Bangladesh from the Global Financial Crisis.

The growth and development processes in Bangladesh over the past and half decades are a testament to the country’s ability to maintain positive economic and social as well as some structural changes in the economy. Now the fundamental question is whether Bangladesh can achieve the aforementioned statuses with the business as usual growth and development processes. Furthermore, what does it mean for Bangladesh to climb up in the GDP ranking ladder as far as meeting those stiff economic, social and environmental targets are concerned? These concerns are reinforced with the fact that Bangladesh is now facing persistent development challenges such as lack of economic and export diversification, poor physical infrastructure, poor working conditions, low productivity of labor, shortage of skilled workers, a high degree of informality, technological bottlenecks, low tax-GDP ratio, sluggish private investment and very high invisible costs of doing business. Furthermore, the emergence of ‘new-protectionism’, fueled by the BREXIT and recent presidential election in the USA, has posed worrying uncertainty and associated challenges in the global trade regime which is not conducive for countries like Bangladesh.

All these suggest that Bangladesh economy is now at a crossroads. The country needs to have important ‘breakthroughs’ in several areas of policy making and institutional processes to achieve the aforementioned ambitious targets.

First, large scale investments are needed in both ‘broad general’ and ‘sector-specific’ infrastructures. Policymakers are so inclined to improvement in the broad general infrastructure, that the developments of critical sector-specific infrastructure are largely overlooked. As a result, many potential growth enhancing sectors, critical for economic and export diversification, may fail to enjoy the benefit from the improvement in broad general infrastructure. It is also important to bear in mind that though infrastructural investment is conducive for growth acceleration, bad or poorly planned and delayed infrastructural investment hampers economic growth. Therefore, there is a need for a ‘breakthrough’ in the policy making process for infrastructural investment.

Second, the country needs to improve the tax-GDP ratio substantially from its currently poor level of around 10%. Bangladesh has one of the lowest tax-GDP ratios in the world. In Bangladesh, a large section of the population (able to pay taxes) as well as a large section of economic activities are outside of the tax coverage. Also, structural factors such as large informal economy and low literacy have hindered tax collection. Though, the country has undertaken some reforms, they have remained to be less successful due to various institutional weaknesses and vested political patronage. The fiscal policy process, therefore, needs a ‘breakthrough’ where there should be a strong political commitment on simplifying tax systems, strengthening tax administration, and broadening the tax base under a wider reform agenda aiming at improvement in governance and business environment as well as formalization of the economy.

Third, a major ‘breakthrough’ is needed in the monetary policy too. The monetary policy by the Bangladesh Bank has been, in general, able to maintain a so-called stable ‘status quo’, but has failed to generate a big push for accelerating private investment, which is much warranted at this moment. Recent banking scams and escalation of non-performing loans show major institutional weakness of the financial sector. Furthermore, lowering of the interest rate is not enough for private sector credit expansion. There are numerous other challenges with respect to business environment, which the private sector face, and these need to be addressed under the broader reform agenda mentioned above.

Fourth, a visible ‘breakthrough’ is indispensable in attracting both domestic and foreign investments. Weak infrastructure, poor business environment and risk of political conflicts are critical problems for Bangladesh to attract both domestic and foreign investments. Few Special Economic Zones (SEZs) need to be geared up very soon for regaining investors’ confidence. In this context, a major departure is needed in terms of enhancing government’s institutional efficiency to ensure timely delivery of such projects. Furthermore, there is a need for strong commitments from the political elites in Bangladesh for necessary economic and institutional reforms towards realizing the bright prospects of SEZs. Undoubtedly, political stability and avoidance of economic policy reversal can ensure the success of the SEZs.

Fifth, given the growing uncertainty in the global trading regime, Bangladesh has to pursue the south-south trade and economic cooperation agenda more than ever. There is a need for an important ‘breakthrough’ in the mindset of the policy makers in Bangladesh, so that the country is able to be in the driving seat for meaningful trade agreements with leading southern countries.

Finally, an important ‘breakthrough’ is needed with respect to achieving social and environmental targets under the SDGs by 2030, as the business as usual process will not fill the gaps. There is a need to improve social and environmental developments as envisaged in the SDGs. The need for effective economic and social policies and programs as well as improvement in economic and political institutions is now more than ever.
The inaugural session of the 2nd SANEM Annual Economists’ Conference 2017 on “Managing Growth for Social Inclusion” was chaired by Dr. Bazlul Haque Khondker, Chairman, SANEM and Professor at the Department of Economics, University of Dhaka. To his opening remarks, Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka stated the objective of the conference as to promote quality economic research and provide a platform to budding and experienced researchers to exchange views. The two keynote speakers of the inaugural session were Dr. Siddiquur Rahman Osmani, Professor, Environmental Economics, University of Ulsan, UK, and Dr. Professor David Hume, Professor, Development Studies, University of Manchester, UK, and CEO, Effective States and Inclusive Development (ESID) Research Center, University of Manchester, UK.

The first keynote speaker Dr. Siddiquur Rahman Osmani discussed on “Democracy and Development”. He focused on the role of democracy in the development of the economy. He argued that the supremacy of authority over democracy is possible only in the short run. He commented on both in favor of democracy and autocracy and raised the question whether Bangladesh is ready for democracy or not.

The second keynote speaker of the session, Professor David Hume discussed about “Bangladesh Confronts Climate Change: helping our heads above water”. He explained the effects Bangladesh is facing due to this climate change which included stronger cyclones, increased rainfall, increased river flooding, sea level rise, as well as other factors. He highlighted the need for reducing inequality and ensuring social inclusion. Professor Hume concluded that Bangladesh needs to challenge its helpless vulnerable image and take serious measures to cope with these environmental changes. It also needs to take mitigation strategies without further delay.

Book Launch: Let’s Think Aloud, Shall We?

A compilation of the articles and interviews published in SANEM’s monthly digest Thinking Aloud was released at the book launch titled “Let’s Think Aloud, Shall We?”. The book launching ceremony was held at the end of the inaugural session. SANEM’s Thinking Aloud embarked its journey in June, 2014. The inception of Thinking Aloud joined the intent to address contemporary economic problems of Bangladesh and other developing countries that needs persistent attention. Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS) Dr. M. Ismail Hossain, Professor, and Chairman, SANEM and Professor, Department of Economics, University of Dhaka presented the book. The book has policy, tax collection and social protection mechanisms were key concerns of this session.

The Poverty, Inequality and Growth session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, Department of Economics, North South University. The special guest was Mr. Sirajul Aley, AVP, Investor Relations & Corporate Planning, Mutual Trust Financial Services Ltd., India who discussed the impact of climate change on the economy. He proposed raising the land to match sea-level to match sea level rise, tidal river by 2055 but the cost of adapting to these changes are very high and substantial.

The Politics of Growth session was chaired by Dr. Rehman Sobhan, Eminent Economist of Bangladesh. Professor Rehman Sobhan indicated that tackling inequality is not just a value, it also has significant instrumental implication both for proper growth and efficiency of growth for development. He further commented that inequality may be responsible in part for social exclusion outcomes and process. Other distinguished economists also emphasized on reducing inequality and ensuring social inclusion in South Asia.

Almost all South Asian countries have been able to continue a higher growth of national income than World average. However, there are considerable reasons to believe that the benefit of growth does not affect all individuals of the society to the same degree. Hence, growth in South Asia is not fully socially inclusive. In this context, a high level panel discussion on “Managing Growth for Social Inclusion in South Asia” was held in the conference. Professor Rehman Sobhan, Chairman, CPRD was present as the Guest of Honor. The session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, SANEM and Professor, Department of Economics, University of Dhaka. Dr. Mustafizur Rahman, Executive Director, Bangladesh Institute of Development Studies (BIDS) presented the third paper titled “Impact of Remittances on Human Capital and Economic Growth: Estimates from the Time Series Data of Bangladesh” was presented by Mr. S. M. Abdullah, Associate Professor, and Dr. Mas Yunus, Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS). The first paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. "Impact of Remittances on Human Capital and Economic Growth: Estimates from the Time Series Data of Bangladesh” was presented by Mr. S. M. Abdullah, Associate Professor, and Dr. Mas Yunus, Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS). The first paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. The second paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. The second paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts.

The Sectoral Economy session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, Department of Economics, South North University. The special guest was Mr. Sirajul Aley, AVP, Investor Relations & Corporate Planning, Mutual Trust Financial Services Ltd., India who discussed the impact of climate change on the economy. He proposed raising the land to match sea-level to match sea level rise, tidal river by 2055 but the cost of adapting to these changes are very high and substantial.

The The Economics of Growth session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, Department of Economics, South North University. The special guest was Mr. Sirajul Aley, AVP, Investor Relations & Corporate Planning, Mutual Trust Financial Services Ltd., India who discussed the impact of climate change on the economy. He proposed raising the land to match sea-level to match sea level rise, tidal river by 2055 but the cost of adapting to these changes are very high and substantial.

The The Politics of Growth session was chaired by Dr. Rehman Sobhan, Eminent Economist of Bangladesh. Professor Rehman Sobhan indicated that tackling inequality is not just a value, it also has significant instrumental implication both for proper growth and efficiency of growth for development. He further commented that inequality may be responsible in part for social exclusion outcomes and process. Other distinguished economists also emphasized on reducing inequality and ensuring social inclusion in South Asia.

Almost all South Asian countries have been able to continue a higher growth of national income than World average. However, there are considerable reasons to believe that the benefit of growth does not affect all individuals of the society to the same degree. Hence, growth in South Asia is not fully socially inclusive. In this context, a high level panel discussion on “Managing Growth for Social Inclusion in South Asia” was held in the conference. Professor Rehman Sobhan, Chairman, CPRD was present as the Guest of Honor. The session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, SANEM and Professor, Department of Economics, University of Dhaka. Dr. Mustafizur Rahman, Executive Director, Bangladesh Institute of Development Studies (BIDS) presented the third paper titled “Impact of Remittances on Human Capital and Economic Growth: Estimates from the Time Series Data of Bangladesh” was presented by Mr. S. M. Abdullah, Associate Professor, and Dr. Mas Yunus, Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS). The first paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. "Impact of Remittances on Human Capital and Economic Growth: Estimates from the Time Series Data of Bangladesh” was presented by Mr. S. M. Abdullah, Associate Professor, and Dr. Mas Yunus, Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS). The first paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. The second paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. The second paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts. The third paper was on “What Drives Workers’ Remittances Flows of Bangladesh? A Dynamic Panel Data Analysis” by Mr. Nobinobir Kundu, Assistant Professor, Department of Economics, Comilla University found that technical short-hand and midterm illness but it has no long term impacts.

The Sectoral Economy session was chaired by Dr. M. Ismail Hossain, Professor, and Chairman, Department of Economics, South North University. The special guest was Mr. Sirajul Aley, AVP, Investor Relations & Corporate Planning, Mutual Trust Financial Services Ltd., India who discussed the impact of climate change on the economy. He proposed raising the land to match sea-level to match sea level rise, tidal river by 2055 but the cost of adapting to these changes are very high and substantial.

The The Politics of Growth session was chaired by Dr. Rehman Sobhan, Eminent Economist of Bangladesh. Professor Rehman Sobhan indicated that tackling inequality is not just a value, it also has significant instrumental implication both for proper growth and efficiency of growth for development. He further commented that inequality may be responsible in part for social exclusion outcomes and process. Other distinguished economists also emphasized on reducing inequality and ensuring social inclusion in South Asia.
The former central bank Governor emphasized on ensuring the quality of financial service at lowest possible cost. Mr. Kamal S. Quadir remarked that financial inclusion through mobile banking could be solved if the government and the private sector cooperated hand in hand. Mr. Pial Islam argued that about 65% of intra-government payment is done through digital platforms which shows that the digitalization of government services is in the right direction.

Economic growth in Bangladesh has been at par with high performing competitor countries such as Vietnam, India and China and this growth has been driven mostly by the industrial sector. However, the unplanned urbanization and industrialization deteriorated the environment. Dr. Selim Raihan, Executive Director, SANEM, facilitated the SANEM-MCCI organized session on “Responsible Ways of Doing Business in a High Growth Environment”. Mr. Habibullah N. Karim, Member, MCCI Committee and former President, BASIS, chaired the session and Dr. Ahsan H. Mansur, Executive Director, PRI, remarked as the keynote speaker. Mr. Rubaiyat Jamil, Managing Director, ICT Technologies, Dhaka, Dr. Mohammad Abu Eusuf, Professor, Department of Development Studies, University of Dhaka, Dr. Monzur Hossain, Senior Research Fellow, Bangladesh Institute of Development Studies (BIDS), Mr. Khandaker Mainuddin, Senior Fellow, Bangladesh Centre for Advance Studies (BCAS) and Dr. Farazi Binti Ferdous, Research Fellow, SANEM, were present in the session as panelists.

As one of the objectives of 2nd SANEM annual economists’ conference was to promote young aspiring economists, there was a separate session for budding researchers in the conference. Ms. Semab Rahman a student of Economics at the University of Dhaka, presented a paper on “Assessing Preparedness of Physical Transport Infrastructure for Regional Economic Cooperation in South Asia”. Mr. Abrar Uddin Ahmad from Department of Economics and Social Science, BRAC University, presented a paper on “The Comparative Effect of Corruption and Piketty’s Second Fundamental Law of Capitalism on Inequality” followed by a paper presented by Ms. Tahia Anan Dhira from Department of Economics, University of Dhaka on “Institutional barriers and potential for trading services in South Asia compared to the world”. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka chaired the session. Dr. Sayema Haque Bidisha, Research Director, SANEM and Associate Professor, Department of Economics, University of Dhaka was present in the session as the discussant who provided her valuable paper-specific comments.

SANEM is a non-profit research organization registered with the Registrar of Joint Stock Companies and Firms in Bangladesh. Launched in January 2007 in Dhaka, it is a network of economists and policy makers in South Asia with a special emphasis on economic modeling. The organization seeks to produce objective, high quality country- and South Asian region-specific policy and thematic research. SANEM contributes in governments’ policy-making by providing research supports both at individual and organizational capacities. SANEM has maintained strong research collaboration with global, regional and local think-tanks, research and development organizations, universities and individual researchers.