Are South Asian countries experiencing premature deindustrialization?

Selim Raihan

Industrialization is the process by which an economy can transform its base from agriculture to manufacturing of goods. In contrast, deindustrialization is a process of the reduction of manufacturing activities of an economy. Historically, all developed economies, after reaching a certain level of development, have experienced a secular decline in the share of manufacturing value-added in GDP with the rising share of services value-added. Deindustrialization thus appears to be a natural outcome of economic dynamism in those developed economies. Contrary to the aforementioned natural outcome, a premature deindustrialization is being observed in a number of developing countries where the share of manufacturing value-added in GDP, already much lower than those of the early industrializers, starts to decline even at a much lower level of income than those of early industrializers. As Rodrik (2016) suggests, this means that many developing countries are becoming service economies without having had a proper experience of industrialization. Latin American countries have been especially the hard hit of such premature deindustrialization.

Are South Asian countries also experiencing premature deindustrialization? To answer this question, we have generated a graph using data of GDP per capita and the share of manufacturing value-added in GDP for the years from 1960 to 2015 for three countries: Malaysia, India and Bangladesh. The graph shows that Malaysia, over the years, with the rise in GDP per capita, was able to firmly increase its manufacturing value-added share in GDP from 10% to 30% (during 1960 and 2004). However, after reaching a high level of per capita GDP of around US$ 8000, the share started to decline; and this pattern follows the typical pattern of the deindustrialization process of the advanced countries. In contrast, with many fluctuations, India could very slowly increase its share of manufacturing value-added in GDP from 13.7% to 18% (during 1960 and 2008). However, for India, the challenge is the declining share of manufacturing value-added in GDP since 2008 (by 2015 the share declined to 16.6%) which has a resemblance of a premature deindustrialization. Though not shown in the graph, the phenomenon of premature deindustrialization is also very prominent both for Pakistan (the share declined from 14.7% in 2000 to 13.4% in 2015) and Nepal (the share declined from 9.4% in 2000 to 6.3% in 2015). Sri Lanka too has started experiencing a declining share of manufacturing in recent years. Contrary to all other South Asian countries, as is shown in the graph, Bangladesh has been experiencing a rising share of manufacturing value-added in GDP at a much faster rate than both India and Pakistan at similar levels of per capita GDPs. This suggests that, so far, Bangladesh has been the only exception in South Asia with respect to premature deindustrialization. However, for Bangladesh the major challenge is that still the manufacturing value-added share in GDP is low (17.6% in 2015), and the country needs to increase this share substantially to turn the manufacturing sector as the major driver of economic growth.

What is then the concern for the South Asian countries? There is no denying the fact that manufacturing has played a key role in the economic growth and overall development processes for many developed and advanced developing countries. As Rodrik (2016) suggests, manufacturing contributes to growth both because of the positive reallocation effect and because manufacturing tends to experience relatively stronger productivity growth over the medium to longer term, which has large positive economic and social benefits. Successful countries have changed their economic structures to benefit from manufacturing as the driver of economic growth. Therefore, premature deindustrialization as well as low level of manufacturing base is not a good news for the South Asian countries. It thwarts the opportunities of rapid economic growth in these countries. It is very pertinent to mention here that one of the targets of the 9th Sustainable Development Goals (SDGs) is thus to “promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.” How to substantially increase the manufacturing value-added share in GDP and thus to promote manufacturing led economic growth in South Asia? South Asian countries have to embark on right kind of policies and programs which can trigger much faster rate of growth of the manufacturing sector compared to those of agricultural and services sectors. The experiences of the successful countries show that human capital has made a major difference. In South Asia, compared to the East and Southeast Asian countries, both the quantity and quality of human capital are at much lower levels. Therefore, policies and programs should be targeted at the rapid enhancement of human capital in South Asia. There is also a need for pro-active trade and industrial policies in terms of providing effective incentives to domestic investors, setting up special economic zones and attracting foreign direct investment (FDI) for diversified manufacturing industries. Such policies should also be aimed at integration of the domestic manufacturing industries with the global value chains.


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Financing of SDGs in Bangladesh

Bazlul Haque Khondker

The Sustainable Development Goals (SDGs), include 17 goals and 169 targets, are global and applicable to all countries. SDGs encompassing almost all aspects of sustainable development will need substantial amount of financial resources as well as enhanced implementation capacity to attain the targets in the coming 15 years. A very pertinent question is once SDGs needs assessment is conducted what would be the sources to finance them? This article explores this question considering Bangladesh as a test case. From an institutional perspective, development financing emerges from public and private sectors whereas both of them may mobilize resources from domestic as well as external sources. In line with past experiences of development financing, there will be five major sources of financing of SDGs in Bangladesh: (i) private sector; (ii) public sector; (iii) public-private partnership; (iv) external financing; and (v) non-government organizations (NGOs). In the case of Bangladesh, SDGs will be implemented under three five year plans – namely 7FYP (2016-2020); 8FYP (2021-2025); and 9FYP (2026-2030). Bangladesh also needs to align her short (annual budget), medium (five year plans), and long term plans to implement the SDGs.

Private sector has historically been playing an important role in economic development in Bangladesh. Almost all of the past medium term development plans have relied on private finance to implement the plans. In the 7FYP, private sector is expected to finance 77.3% of the total outlays (Figure 1). However, since scopes and coverage of SDGs are larger than the Five Year Plan, private sector would need to bear between 40% and 50% of the total SDG costs over the next 15 years. The major contribution of the private sector would be in SDG7, SDG8 and SDG9. Public sector has been providing 20-25% of development finances in Bangladesh. Again, given that SDG resource requirement is higher than medium term plans, public sector contribution to SDGs resource requirement needs to be higher in the range of 30% to 40%. Larger public sector financing has been constrained due to low tax effort (i.e. 10.5% tax effort reported for 2016 has been significantly lower than Bangladesh’s comparators). Against this backdrop, 7FYP has embarked on an ambitious revenue generation target, which is 23.9% , 6 percentage points higher than the 6FYP (i.e. 17.9%). Attaining 23.9% revenue growth rate during the 7FYP also suggests revenue effort (tax/GDP ratio) would increase from 10.5% in 2016 to 15% in 2020. The tax effort is expected to increase to 17.2% by the end of 8FYP and 19.3% in the terminal year of the 9FYP contingent upon full implementation of new reforms both in the VAT and income tax fronts. Although the idea of financing through issuing bond is not new in Bangladesh, in 2011 and 2014, there were plans to raise US$ 500 million and US$ 2 billion worth of sovereign bonds from the international market to implement development projects and Padma bridge respectively. However, the plan was aborted considering risks that included appreciation of local currency against the dollar. Bangladesh government has recently approved a proposal for launching a Bangladesh Sovereign Wealth Fund of US$ 10 billion. With the projected rise in per capita income, it may be possible to raise additional resources through bond market for SDG implementation. Low fuel price has provided an opportunity for Bangladesh to de-regulate the energy price and use it to raise taxes for development financing – especially roads and infrastructure financing. Although, a full deregulation involves two stages – (i) determination of fuel prices according to the market demand and supply condition; and (ii) opening up the market to more than one agency. In the first stage, Bangladesh may adopt option 1 whereby fuel prices would be determined by the market forces. Such a move would not only reduce fiscal burden – releases public funds for other priority activities (including SDG); improve balance of payment situation; but also pave way for fuel tax or carbon tax. The PPP Policy and Strategy 2010 were formulated in August 2010 and PPP Authority was established as a separate office under the Prime Minister Office. Furthermore, in 2012 Guideline for Public-Private Partnership Technical Assistance Financing (PPPTAF) and Scheme for Public-Private Partnership Technical Assistance Financing (PPPTAF) were issued by the government. Most importantly, Public-Private Partnership Act, 2015 ("PPP Act") was enacted in 2015. Despite these positive developments, PPP has yet to emerge as a major financing avenue in Bangladesh. Experts have identified three factors for slow progress in PPP. These include: (i) absence of a well-thought out legal framework; (ii) lack of internationally competent professional and management staff; and (iii) lack of PPP related capacities in most Ministries, including the Ministry of Road Transport and Bridges and its concerned Departments. Thus, in coming years, Bangladesh will need to take the right policies, strategies and steps for supporting the PPP projects.

External financing in the form of foreign direct investment and climate funds could potentially be another important source for SDG financing. Although, FDI inflow to Bangladesh is low, adoption of appropriate policies and incentives may increase the flow significantly in the coming years especially in the areas of physical infrastructure. As a vulnerable country, Bangladesh is expected to receive funds may likely to be mobilized from climate funds (i.e. Green Climate Fund and the Paris Agreement). Another financing source is NGOs. According to the NGO Affairs Bureau, numbers of approved project in FY15-16 was 986 in FY15-16 with an inflow foreign grant amounting to BDT 49,323 million. There is significant scope of contribution from NGOs in the SDGs related to poverty reduction, good health, quality education, gender equality, climate change, environmental sustainability and reducing inequalities. The SDG financing sources are summarized in an option matrix. The matrix suggests that 80% of resource may likely to be mobilized from conventional sources such as private sector (with an average contribution of 45%) and public sector (with an average contribution of 35%). Contribution from less conventional source has been estimated to be at 20%. The main sources in this category are external financing (FDI and climate funds) with average contribution of 10%. The average contributions of other two less conventional sources are 8% for the public-private partnership and 2% for NGOs. SDG financing will be a challenge for Bangladesh and hence maximum efforts are needed to raise adequate resources to implement them.

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**Figure 1: Source of financing for the 7FYP**

- Private Sector: 77.3%
- Public Sector: 22.7%

**SDG Financing Option Matrix**

<table>
<thead>
<tr>
<th>Source</th>
<th>Private</th>
<th>Public</th>
<th>External Financing</th>
<th>Public-Private Partnership</th>
<th>NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional source</td>
<td>45%</td>
<td>35%</td>
<td>10%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Less conventional</td>
<td>80%</td>
<td>8%</td>
<td>10%</td>
<td>8%</td>
<td>2%</td>
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Using the debt-sustainability model it is found that US$ 1 to 2 billion additional resources may be mobilized from global financial market with small impact on the debt-level and debt servicing. A potential yet not so successful financing source is public-private partnership.
"...Ensuring social inclusion is important in arresting the rise in violent extremism..."  

Sudipto Mukerjee is the Country Director of UNDP Bangladesh. He is an architect and urban planner with over two decades of experience in international development. Before his current assignment in Bangladesh, he was Country Director in UNDP Sierra Leone and prior to that he worked with UNDP Iraq. Before joining the United Nations system in 2005, he worked for the Government of India and the UK Department for International Development (DFID) as an Infrastructure & Urban Development Adviser. Mr. Mukerjee hails from West Bengal in India and believes his familiarity with the language and culture is helping to contribute more effectively to UNDP’s development cooperation partnership in Bangladesh. For May 2017 issue, SANEM speaks to Mr. Sudipto Mukerjee about Sustainable Development Goals (SDGs) with respect to the context of Bangladesh.

SANEM: How important are SDGs for Bangladesh? (Considering the existing development scenario of the country)

SM: SDGs are crucial to define the next development paradigm for Bangladesh, as well as for the rest of the world. To begin with, I would like to point out three aspects that make the SDG agenda significantly different from all previous development agendas such as the Millennium Development Goals (MDGs). First, unlike the MDGs, SDGs are applicable for all countries in the world. Second, SDGs espouse an unprecedented inclusive agenda as it aims to leave no one behind. Third, and for the first time ever, it encourages nations to think beyond their administrative boundaries to ensure a healthy planet and peaceful world for all.

For a developing country like Bangladesh that is aspiring to become a middle-income country by 2021, the importance of SDGs in the context of sustainable national development cannot be overemphasized. The SDGs aim to address developmental dimensions that are critical for any developing nation such as leaving no one behind, eradication of extreme poverty, elimination of hunger, addressing nutritional issues, human capacity development with focus on women empowerment, addressing climate issues, strengthen institutions for development, reducing inequality and most importantly addressing governance issues.

SANEM: How ambitious are the SDGs for Bangladesh with respect to the timeline of 15 years?

SM: The answer to this question is probably both YES and NO. Bangladesh did very well on the MDGs, finishing well ahead of most South Asian countries across a number of development indicators. Considering this fact alone, makes fifteen years appear a reasonable timeframe for achieving demonstrable results on the SDG front. A lot of the preparatory work is already either complete or in an advanced stage of completion. Bangladesh has quite efficiently integrated the SDGs in her ongoing 7th Five Year Plan and completed a number of upfront works like mapping of ministries responsible for different SDGs, completing data gap analysis and developing SDGs monitoring frameworks. In addition, a distinguished civil servant in the Prime Minister’s Office has been appointed as the Principle SDG Coordinator. Another positive factor in favour of Bangladesh is its consistent and impressive performance in GDP growth, having grown at 6-7% year after year for past several years and continuing to be well positioned to grow that way for a few more years to come.

Now, coming to some not so positive factors to look out and prepare for in Bangladesh, we need to realize that high GDP growth rates are often accompanied by rising inequality. This in turn can potentially impact on social cohesion, negatively so, and manifest itself as various social ills, including the rise in insecurity. That may pose some hurdles. Secondly, with Bangladesh all poised to graduate out of LDC status means reduced external development resources. To address this, urgent measures for creating society wide resource mobilization must be deployed.

SANEM: What will be the priorities for Bangladesh among all the goals?

SM: In my opinion, SDGs related to two areas are particularly important for Bangladesh. First, goals those are related to human development must be given special priority over others. Bangladesh’s greatest asset is its population of 160 million, if and when effectively transformed into human capital. Bangladesh is experiencing demographic dividend, with most of its workforce made up of young women and men. Therefore, adopting a strategic plan to invest more in developing ‘future relevant’ skills among the youth will benefit the nation in the long run. Such a strategic plan may also need to take into account the need for contingencies should other nations slow down recruiting Bangladeshi nationals in large number. The second important area relates to Goal 13 which aims to tackle climate change. A lot more investment need to be made on adaptation and in general on poverty reduction that noting the very strong nexus between climate change vulnerability and poverty. Further achieving Goal 1 on ending poverty may not be enough and concerted efforts must be made to reduce inequalities i.e. Goal 10. Increasing the coverage of social protection and social safety net programmes can help in reducing inequality within the country.

SANEM: What kind of challenges Bangladesh may face to achieve the goals?

SM: For smooth SDG implementation, development in Bangladesh must be made risk proof. The major challenges for Bangladesh is that it is the second most climate change vulnerable country in the world. Secondly, it is extremely disaster prone, although over the years Bangladesh has developed impressive capacity in reducing disaster risks. At the same time, Bangladesh remains vulnerable to mass casualty in Earthquakes and this needs serious public attention. The Rana Plaza incident must not be forgotten, which showed that building codes are not followed properly in Bangladesh and even a moderate intensity quake can result in major loss to life and property.

SANEM: How Bangladesh should address the financing of the SDGs?

SM: The financing of SDGs will be challenging for Bangladesh. With a rather low tax-GDP ratio, which is lower than the sub Saharan average, coupled with the fact that a probable graduation will reduce Bangladesh’s access to concessional and concessional finance, Bangladesh will need concerted efforts to generate the required resources. Three important strategies that the government may consider deploying include: a) increasing domestic revenue generation; b) fostering innovation; and c) curbing leakages. I wish to stress on the latter with two fronts being actively actioned: 1) reducing inefficiencies in public spending; and 2) curbing corruption, which is one of the biggest ills plaguing the whole world, with trillions of dollars of public resources lost every single year. Private sector investment (both domestic and external) can reduce the financing gap. For this to happen, Bangladesh requires to improve its image and lower the cost of doing businesses. The private sector will need to contribute across multiple SDGs. I must also mention about Goal 12 on responsible consumption and production, which is exclusively designed for private sector contribution. Therefore, involvement of private sector can largely fill up the resource gap.

SANEM: What will be the role of institutions in implementing the SDGs in Bangladesh? How will existing institutional inefficiency affect the progress towards satisfactory outcomes of SDGs?

SM: Strong institutions such as the various Ministries, public service commission, anti-corruption commission, election commission, judiciary, are prerequisites for effective implementation of SDGs. Only strong institutions and the prevalence of rule of law can ensure efficient and inclusive delivery of services, the upholding of human rights, and timely access to justice. There is significant room and need for their further strengthening of many of these critical institutions in Bangladesh.

SANEM: What will be the role of UNDP in Bangladesh in accomplishing SDGs?

SM: We will help the Government of Bangladesh in three ways: institution building, state building and peace building. During the MDG period, the role of UNDP was, amongst others, that of the official score keeper. For the SDGs, UNDP’s envisaged role is that of an ‘integrator’. That makes UNDP the lead international development partner of the Government of Bangladesh, especially in the preparatory process and later in monitoring, reporting etc. This is being provided through its Support to Sustainable and Inclusive Planning (SSIP) project, currently under implementation through the General Economics Division (GED) of the Planning Commission. Besides assisting GED in preparing Bangladesh’s 7th 5-Year Plan (7FYP), we have also helped GED to integrate SDGs into the 7FYP. The mapping exercise of Ministries for SDG implementation was also facilitated by our SSIP project. Alongside other UN agencies, funds and programmes, UNDP is helping to strengthen the planning, implementing, monitoring and reporting capacities at the national and local levels to attain the SDGs. UNDP is also taking the lead on the UN support to Bangladesh on SDG 16, which is about Peace, Security and Justice. Finally, Bangladesh is one of the countries that is going to participate in the Voluntary National Reviews on SDGs on the international platform, and UNDP is helping the government with it.

SANEM: Thank you for your time.

SM: My pleasure.
SANEM provides technical support and training to the DIFE

SANEM is providing technical support and training to The Department of Inspection for Factories and Establishments (DIFE), Ministry of Labor and Employment, Government of Bangladesh, under the project titled “Providing Technical Support to DIFE to Establish an Annual Inspection Reporting System”. The project team includes Dr. Mohammed Abu Eusuf, Professor and Chairman, Department of Development Studies, University of Dhaka, as the organizational development expert, Dr. Sayema Haque Bidisha, Research Director, SANEM and Associate Professor, Department of Economics, University of Dhaka, as the trainer and analyst, K.M Nafiz Iftikher Tulon, Senior Research Associate, SANEM and Assistant Professor, Department of Health Economics, University of Dhaka and Muhammad Moshiur Rahman, Senior Research Associate, SANEM, as the associate trainer and analyst and Iffat Anjum, Research Associate, SANEM, and Farhana Rifat, Research Assistant, SANEM, as the researchers for the project. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka is the team leader for the project. The training program, that started from April 1, 2017, is expected to be completed by June 16, 2017. The project outcome will include the publication of Annual Inspection Report 2016.

Conference on “Facilitating Connectivity in Bay of Bengal Region” held in Dhaka

A conference on “Facilitating Connectivity in Bay of Bengal Region”, organized jointly by CUTS International and BIMSTEC, was held on April 11, 2017, in Dhaka. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, was present as a discussant in the session on “Strengthening Land Corridor in the Bay of Bengal”. Dr. Raihan emphasized on the necessity of successful economic integration by linking market, investment and policies. He also focused on the importance of Sustainable Development Goals (SDGs) in regional policy making and addressing the political economic issues to overcome the structural factors within a country.

SANEM lecture on “The U.S Economy in 2017: Outlooks and Risks” held at SANEM office

Dr. Tanweer Akram, Director of Global Public Policy and Economics at Thrivent Financial, presented a lecture on “The U.S Economy in 2017: Outlooks and Risks” at SANEM office on April 6, 2017. In the 5th lecture of SANEM lecture series, Dr. Akram discussed the outlook for economic growth, monetary policy, and long-term interest rates for the United States in 2017 and identified the key risks ahead. The lecture was followed by a lively open discussion participated by young researchers.

Training program on “Trade Policy Research and Analysis” held in Dhaka

The WTO Cell, Ministry of Commerce, Secretariat of Bangladesh, Dhaka, with technical association from SANEM, organized a training program on “Trade Policy Research and Analysis”. The training program, consisting of three modules, started from March, 2017, with a view to equipping the participants with a compact knowledge of international trade, trade policies and empirical trade policy analysis. The second module of the program was held on 4-12 April, 2017 at BFTI Conference Room, Karwanbazar, Dhaka, covering the topic: “Gravity Model Using STATA”. The first and second modules of the training program was facilitated by Mr. Mahtab Uddin, Research Associate, SANEM and Lecturer, Department of Economics, University of Dhaka. Twenty participants from different Government and private organizations, including Ministry of Commerce, Bangladesh Tariff Commission, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), were present in the program. Mohammad Nazmul Hossain Avi, Senior Research Associate, SANEM, participated in the training program.

Workshop on “Trade Facilitation Measures that Support Cross-border Trade by Women in BBIN” held in New Delhi, India

A workshop for practitioners on “Trade Facilitation Measures that Support Cross-border Trade by Women in BBIN (Bangladesh, Bhutan, India and Nepal)” organized by ICRIER, in association with the Australian Department of Foreign Affairs and Trade (DFAT), The Asia Foundation and the World Bank, was held on April 27-28, 2017 in New Delhi, India. The main objective of the workshop was to explore the prospects of making cross-border trade facilitation measures within BBIN more gender responsive and increasing the economic opportunities for women entrepreneurs to ensure inclusive and sustainable regional economic development. The workshop consisted of four major sessions as well as a plenary and a roundtable discussion. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, participated as one of the distinguished discussants in the workshop.

Conference on “Strengthening Cooperation among BBIN Countries: The Road Ahead” held in Kathmandu, Nepal

The Conference on “Strengthening Cooperation among BBIN Countries (Bangladesh, Bhutan, India and Nepal): The Road Ahead” was held on April 17-18, 2017 in Kathmandu, Nepal. The conferences was organized by Institute for Strategic and Socio-Economic Research (ISSR) in collaboration with UN ESCAP, The Asia Foundation and Pavilion Group, with a view to strengthening cooperation among the BBIN countries in various issues including trade, climate change, electricity trade etc. Dr. Selim Raihan, Executive Director, SANEM and Professor, Department of Economics, University of Dhaka, alongside Joseph George, United Nations ESCAP, was present as the keynote speaker in the second session titled “Trade Facilitation among BBIN Countries”. In the session, chaired by Dr. Posh Raj Pande, Chairman, SAWTEE, Dr. Raihan emphasized on building a more liberalized and convenient trade environment among the BBIN countries.