Can Bangladesh sustain its growth momentum?

Selim Raihan

What is the future economic growth prospect of Bangladesh? An analysis of Bangladesh’s past economic growth in a comparative perspective can help finding an answer to this question. The figure presents 30 countries in the world who registered an annual average GDP growth rate of 6% or more over a period of 10 years from 2007 to 2016. In the figure, these countries’ growth rates are plotted against the standard deviation of growth rates from their respective averages. The low standard deviation, in this case, would suggest low volatility of growth rate during the period under consideration. The figure shows that Bangladesh was among these 30 countries and also its GDP growth rate had been one of the least volatile during this period. Among these 30 countries, Bangladesh ranked 3rd in terms of least volatility of growth rate, and only Lao PDR and Vietnam were ahead of Bangladesh in this regard. Though countries like China and India had even growth rates higher than that of Bangladesh, they experienced much larger volatility than what Bangladesh experienced. All these suggest that Bangladesh’s experience of economic growth over the past one decade has been quite remarkable.

However, there are some apparent contradictions while analyzing Bangladesh’s past growth experience. Bangladesh is among the top five out of those 30 countries with a very high share of manufacturing exports in total merchandise exports. In 2016, among these top five countries, Bangladesh, Cambodia, and China had such shares of more than 90%, while India and Vietnam had shares of 73% and 82% respectively. Interestingly, from a 66% share of manufacturing exports in total merchandise exports in 1980, Bangladesh was able to increase this share to as high as 96% by 2016. Bangladesh’s progress in manufacturing exports is only comparable to China’s and Vietnam’s experience. Bangladesh increased while for Cambodia, China, India, and Vietnam declined. In 2015, Bangladesh’s ‘youth-bulge’ share (19.5%) was much higher than those of China (13%), India (18.4%) and Vietnam (16.9%).

With this high youth-bulge of the demographic dividend, Bangladesh also managed to maintain a ‘labor-regime’ for long characterized by an ‘equilibrium trap’ of low-skilled labor and low-wage, poor working conditions, and relaxed execution of labor laws defying workers’ rights. Despite overall weak governance and weak institutions, there have been supportive ‘efficient’ economic and political rents’ so high that these act as a disincentive for further economic and export diversification, moving up for the production and exports of high-value-added and sophisticated products, invest in workers’ skill development, improvement in working conditions and better execution of labor laws to ensure workers’ rights. Apparently, such high rents have also been able to offset much of the loss arising from the poor business environment.

Can Bangladesh sustain the current momentum of economic growth? From a political economy perspective, the ongoing economic growth momentum is likely to persist as long as Bangladesh can continue managing the ‘labor-regime’ riding on the youth bulge and comparative advantage in low-skilled labor. However, there are concerns that the challenges in the future are likely to be very different from what Bangladesh encountered in the past. In the coming days if proper investments are not made on human capital development, Bangladesh will lose much of the larger prospective productive returns from youth bulge and demographic dividend.

exports. In 2016, among these top five countries, Bangladesh, Cambodia, and China had such shares of more than 90%, while India and Vietnam had shares of 73% and 82% respectively. Interestingly, from a 66% share of manufacturing exports in total merchandise exports in 1980, Bangladesh was able to increase this share to as high as 96% by 2016. Bangladesh’s progress in manufacturing exports is only comparable to China’s and Vietnam’s experience. The apparent contradiction, however, lies in the fact that Bangladesh made such progress without any rapid structural transformation of the economy. Despite a very high share of manufacturing exports in total merchandise exports, the export basket of Bangladesh remained highly concentrated around low value-added and low-complex products. A measure of the complexity of the economy is the ‘economic complexity index (ECI)’ of Center for International Development at Harvard University. ECI measures the knowledge intensity of an economy by considering the knowledge intensity of the products it exports. Among the aforementioned top five countries, Bangladesh performed poorly in the ECI. Between 1972 and 2016, Bangladesh never had a positive ECI value and the country’s ECI deteriorated over time. In contrast, China, India, and Vietnam observed positive and growing ECI over the last two and half decades. Furthermore, Bangladesh also performed very poorly in terms of cost of doing business as the country ranked 177 out of 190 countries according to World Bank’s 2018 Doing Business Index. All these suggest that despite slow progress in structural transformation, poor business environment, index, and weak institutions, Bangladesh was able to keep the momentum of economic growth in the past.

One political economy explanation to this apparent contradiction could be that Bangladesh so far has used its ‘youth bulge’ of demographic dividend quite efficiently and also has tapped quite ‘remarkably’ on its comparative advantage in low-skilled labor in two major fronts: the readymade garment exports and exports of low-skilled labor. According to United Nations Population Fund (UNFPA), demographic dividend is the economic growth potential that can result from shifts in a population’s age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). One problem with UNFPA’s definition of ‘demographic dividend’ is that the age span (15-64) is quite long and it doesn’t capture the ‘youth bulge’ aspect of the demographic dividend. In this case, the share of the youth population (15-24) in total population would be a more relevant indicator. It appears that among the aforementioned five countries, the ‘youth bulge’ share of the population, between 1980 and 2015, for Bangladesh increased while for Cambodia, China, India, and Vietnam declined. In 2015, Bangladesh’s ‘youth-bulge’ share (19.5%) was much higher than those of China (13%), India (18.4%) and Vietnam (16.9%).
Looking beyond LDC graduation

On the occasion of 4th anniversary of Thinking Aloud, SANEM organized a roundtable discussion on “Looking beyond LDC graduation: strategies and actions for Bangladesh to graduate from the LDC status”. SANEM and Professor of Department of Economics, University of Dhaka Dr. Sadiq Ahmed was the Chief Guest. Dr. Selim Raihan (Chairman, Centre for Policy Dialogue) and Dr. Nazneen Ahmed (Research Director, Centre for Policy Dialogue) moderated the discussion.

LDC graduation is an opportunity for Bangladesh to transform into a middle-income country. This transformation is likely to impact the cost of doing business and shape the future trajectory of the country’s development.

Dr. Sadiq Ahmed chairing the discussion.

The discussion covered various aspects of LDC graduation and its implications for Bangladesh. The panelists emphasized the need for a comprehensive and integrated approach to address the challenges posed by LDC graduation.

Dr. Nazneen Ahmed reflecting on the implications of LDC graduation for Bangladesh.

The discussion highlighted the importance of focusing on strategic areas such as infrastructure development, education, and health.

Dr. Selim Raihan presenting the key takeaways from the discussion.

The panelists also discussed the potential benefits of LDC graduation, such as increased trade opportunities and access to higher educational institutions.

The discussion concluded with recommendations for policy makers and stakeholders to take proactive steps to prepare the country for LDC graduation.
To what extent can we refer to Bangladesh's phenomenon as 'jobless growth'? The low employment growth is partly because of technology, and shift in employment from agriculture to industry or service sector that is also related to migration. In addition, shift in skill mismatch in the industry is contributing to this. A lot of women are losing jobs because of low skill. Quality of education needs to be focused. Training and focus on secondary and tertiary education is necessary for human capital development. Redesigning the education system is important to increase employability. Our human resource development policy should be globally competitive and aligned with over all development policy. Bangladesh’s economic growth did not reduce the size of informal sector. Dynamic view of informal sector is entrepreneurial. Bangladesh has achieved so much despite weak institutions but that doesn’t mean it can be ignored. Implementation and perceptions of institutions are not doing well. Institutional quality can create distrust among the institutions.

We need to consider a much longer time horizon while examining the challenges. There are three big challenges ahead of us. GDP pressure on environment will be unbearable. We will have to find a way of dealing with it. Secondly, climate change will leave a maximum of 30 million or minimum of 10 million climate refugees. Finally, if business as usual scenario continues, this land space will become unlivable. Urbanization issues need to be addressed. Land space planning, dealing with environmental pressure, and dealing with climate change- these are the real issues, not what privileges we will lose because we are graduating from LDCs! We have to use whatever limited resources we have to focus on these real challenges.

e-version: http://sanemnet.org/thinking-aloud/