Hiccups of 'Bangladesh Development Surprise'

Selim Raihan

Bangladesh’s economic growth and development performance over the past two decades have been impressive. With the poor quality of institutions such a performance has often been termed as a ‘development surprise’ or ‘Bangladesh paradox’. But is it at all a ‘surprise’ or a ‘paradox’ - since anything beyond any reasonable explanation can appear as a paradox? Is Bangladesh’s development performance beyond any ‘reasonable’ explanation?

If we look at the quality of institutions in Bangladesh, the performance has been very poor. According to the World Governance Indicators (WGI), in 2016, out of 156 countries, Bangladesh ranked 114 in terms of ‘Voice and Accountability’, 101 for ‘Political Stability’, 138 for ‘Government Effectiveness’, 114 for ‘Regulatory Quality’, 101 for ‘Rule of Law’, and 117 for ‘Control of Corruption’. Other indicators of institutional quality also portray similar pictures. For example, in the case of the World Bank’s Doing Business indicator of 2019, out of 190 countries, Bangladesh’s ranking was 176. With respect to Transparency International’s Corruption Perceptions Index of 2018, Bangladesh’s ranking was 149 out of 180 countries. In the case of the Global Competitiveness Index (GCI) of 2017-2018, Bangladesh’s ranking was 99 out of 137 countries.

Against the aforementioned poor quality of institutions, the average GDP growth rate in Bangladesh increased from 3.7 percent in the 1970s to 6.6 percent in the 2010s. Bangladesh has been able to increase the average GDP growth rate by one percentage point for each decade since the 1990s. The country cut down the poverty rate from as high as 71 percent in the 1970s to 24 percent in 2016, became the second largest exporter of readymade garments in the world, and registered some notable progress in social sectors.

How do we reconcile the above mentioned two contrasting scenarios? Difficulty in such reconciliation perhaps has led to the emergence of the ideas of ‘surprise’ or ‘paradox’. However, we can try offering some reasonable explanations to this so-called ‘surprise’ or ‘paradox’. We also argue that, without significant improvements in the quality of institutions, such ‘surprise’ will continue to lead to periodic ‘hiccups’ like the accidents in the RMG sector (several fire incidents, Rana Plaza incident of factory collapse); frequent road accidents; frequent fires in the residential and commercial areas; repeated scams in the financial sector; serious environmental degradation in cities, rivers and forest areas; periodic labour unrest; uncontrolled scams in public examinations; social disintegration among youth in the forms of extremism and drugs; etc.

Now, coming back to some reasonable explanations of ‘surprise’ or ‘paradox’, if we look at the well-known institutional indicators (WGI, Doing Business, Transparency International, and GCI), all refer to the quality of formal institutions. However, in countries like Bangladesh, placed at the lower level of the development spectrum, what governs is a host of informal institutions, and the development of formal institutions is weak and fragile. There are some interesting political economy frameworks to understand the importance of informal institutions in developing countries. For example, Muthukrishnan’s framework of ‘growth-enhancing institutions’ in contrast to ‘market-enhancing institutions’ elaborates how the role of informal institutions can be critical in developing countries. Some developing countries, especially East and Southeast Asian countries, have been successful in steering the unconventional institutions to drive growth. Another framework, proposed by Lant Pritchett, Kunal Sen and Eric Wrecker, relates to the idea of ‘deals space’. Deals (informal), in contrast to rules (formal), among the political and economic elites, are prevalent in the developing countries. Deals can be open (access is open to all) or closed (access is restricted), and also they can be ordered (deals are respected) or disordered (deals are not respected). According to this view, countries are likely to exhibit high growth when deals are open and ordered.

Informal institutions can have two distinct roles with respect to the stages of development. At the early stage of development, if countries can steer the informal institutions to the extent they are ‘growth-enhancing’ as well as the ‘deals space’ is managed (either open or closed), countries can manage a regime of strong growth rate and can also achieve some improvements in the social sector. However, for the transition from a lower stage of development to a higher stage, whether the country can maintain the high growth rate and achieve larger development goals, is depended on the dynamics of how the informal institutions evolve and formal institutions become stronger and functional. Not many developing countries have been able to do this. Certainly, the East Asian and most of the Southeast Asian countries are the success stories in using the informal institutions efficiently at the early stage of development as well as making some notable successes in the transition towards functional formal institutions.

In contrast to many other comparable countries of Asia and Africa at the similar stage of development, least developed countries, in particular, Bangladesh has been successful in creating some efficient pockets of ‘growth-enhancing’ informal institutions against an overall distressing picture of formal institutions. This is how the ‘Bangladesh Surprise’ story unfolds. The examples of ‘pockets of efficient informal institutions’ in Bangladesh include the well-functioning privileges and special arrangements for the RMG sector, promotion of labour exports, agricultural research and development related to food security, and microfinance.

However, the next question is how could Bangladesh create such ‘pockets of efficient informal institutions’ and make the ‘best’ use of them? The explanations include both historical and political economy perspectives. Two historical events strongly influenced the mindset of the political and economic elites in Bangladesh. First, the 1971 liberation war led to the emergence of an independent Bangladesh state which gave unprecedented, enormous and first time independent power to the burgeoning political and economic elites of the Bengali nation of this part of the world. Also, the citizens, in general, enjoyed some benefits of such power. Largely, the entrepreneur nature of the people of this country is deeply rooted in this feeling of power. The reflection of successful entrepreneurship is seen in...
Will Bangladesh be able to sustain the current rate of growth if the inequality continues to rise?

Zubayer Hossen

There is no doubt that Bangladesh has performed well in many socio-economic indicators. One of the reasons why Bangladesh did well is that its development priorities have been reflected in the national development plans. The core of the development strategies of Bangladesh has been the poverty reduction. Bangladesh has successfully reduced its poverty rate to 24.3 percent in 2016 from 48.9 percent in 2000. However, there is another side of the coin. Recently, the growth elasticity of poverty for Bangladesh has declined. Besides, Bangladesh has experienced an increase in inequality. As a consequence, in spite of being one of the fastest growing economies and having moderate growth rate, Bangladesh may find it a difficult task to achieve the goal of inclusive development in the coming years. Therefore, the pertinent question is “Will Bangladesh be able to sustain the current rate of growth if the inequality continues to rise?”

The inequality is a phenomenon in Bangladesh, which is predominantly observed between income groups and regions. The Gini co-efficient, the measure of inequality, was estimated as 0.483 at the national level for 2016, where it was 0.458 in 2010. It indicates that the concentration of income increased during the period 2010-2016. This statement can be realized further by looking into the share of household income deciles to total income. In the year 2016, the share of decile 1 to decile 5 was only 19.24 percent of total income although they comprised 50 percent of the population, while the share was 20.33 percent in 2010. The higher disparity is observed in urban areas. In 2016, the urban areas had a Gini co-efficient of 0.498 and it was 0.454 for rural areas. Another key feature of inequality in Bangladesh is the disproportion of income between regions. Though the upper and lower poverty rates went down, they were still higher by 2.1 and 2.0 percentage points respectively than the national rates for rural areas in 2016. Out of eight divisions, five divisions (Barishal, Khulna, Mymensingh, Rajshahi and Rangpur) had higher upper poverty rates than national upper poverty rate in 2016. In the same year, Rangpur (47.2 percent) had the highest upper poverty rate amongst all divisions. The scenario is similar for lower poverty rate. During the years 2010-2016, even though the poverty rates at both upper line and lower line decreased for urban and rural areas, they were still higher for rural areas (26.4 percent and 14.9 percent respectively). The inequality between delta and non-delta regions is also needed to be considered while discussing the dynamics of inequality in Bangladesh. The delta region comprises of the districts that are at risk of climate change and environmental degradation and inequality makes the people from those districts the most vulnerable people.

Despite having mid-term and long-term poverty reduction strategies, why has Bangladesh been unsuccessful in reducing inequality? One of the potential answers is the Kuznets hypothesis “As an economy develops, market forces first increase and then decrease economic inequality”. Since Bangladesh is in its development stage, the inequality is showing increasing trend. Having said that, the two major factors are absence of focused policies and weak institutions. However, inequality can hurt the inclusive and sustainable economic growth by hindering human capital accumulation. There is empirical evidence that inequality does have a negative and statistically significant impact on growth. An OECD analysis suggests that rising inequality by 3 Gini points would drop down economic growth by 0.35 percentage point per year. Thus, if the inequality continues to rise, Bangladesh will fail to sustain the current growth rate.

The nature of economic growth for Bangladesh has been inequality enhancing. The available national statistics affirms that there is inequality at different levels and it is in upsurge. The existing interventions have remained unsuccessful to achieve the expected result of reducing regional inequality. The income gap between lower and higher income groups is rising. However, to sustain the current growth rate, there is no other choice but to reduce inequality. To do that, Bangladesh has to emphasize on reforming the policies and restructuring the institutions. The loopholes of the existing interventions have to be scrutinized. The national strategies for northern region, delta region, and rural and urban regions need to be revisited and reshaped. Under the social protection programme, the mis-targeting and leakages problems have to be resolved. Overall, there should be right policies and institutions promoting demand side driven skills development and generating more employment.

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Challenges facing the RMG sector in Bangladesh

Sunera Saba Khan

The Ready Made Garments (RMG) sector in Bangladesh has been responsible in playing a fundamental role in accelerating the country’s export earnings, accounting for 83.4% of total export. The RMG sector has been a catalyst in the creation of more and inclusive jobs for 4.4 million people, of which 60.8 percent are women. The RMG sector has played a crucial role in helping to maintain Bangladesh’s economic stability. Therefore, it is imperative to maintain steady growth for RMG export in the short to medium term. The growth of this sector has been rather insignificant during FY2017 - FY2018 and grew by 0.2% and 8.7% respectively. However, growth rates picked up in 2018 as a result of a depreciating currency and a rise in exports to the United States markets. Bangladesh greatly benefitted from the US government’s termination of Trans-Pacific Partnership (TPP) agreement with 11 partner countries- Australia, Japan, New Zealand, Canada, Mexico, Singapore, Malaysia, Vietnam, Brunei, Chile and Peru. This led to a newly imposed tariff on Vietnamese garments, one of Bangladesh’s major competitors. However, today the industry faces a number of challenges.

Once Bangladesh graduates to a middle-income country, it will have to wean off from the preferential trade benefits such as Generalized System of Preferences (GSP) which it enjoys from the European Union. Loss of cost competitiveness will be detrimental for the apparel sector. This is a major trade challenge for Bangladesh. Another challenge that awaits this sector is evading the low value-low margin market segment producing volume-driven products. However, the sector players lack preparedness for shifting to a higher margin segment and producing products with higher ticket price and developing high fashion products. The Tazreen fires fashion fire and Rana Plaza collapse threatened the RMG sector of the country and the credibility of purchasing garments from Bangladesh has been questioned. Approximately 1,500 companies were shut down as a result of failing to comply with the Accord and Alliance. A major problem in this sector is sub-contracting. Those apparel companies currently in operation need assistance with organizational and human resource development. The move towards higher margin apparel segment will be beneficial since incremental overhead costs will be absorbed and a higher profit margin can be attained.

As a result of the pressure exerted by the Accord and Alliance, Bangladesh has been able to change the perception of the RMG sector among foreign buyers to a certain extent. However, the compliance issues have interfered with profit margins. The Small and Medium Enterprises (SME) are not efficient enough and fail to comply with Labor Laws & Buyers’ Codes of Conduct. They fail to send their shipment on time and suffer from liquidity crisis and thus are unable to pay worker’s wages timely. Therefore, they face risk of losing their businesses. Consequently, there will be a rise in unemployment rates. However, the large factories will be able to sustain as they are cost effective and they meet compliance requirements. Some of the productive workers who lose jobs as a result of shutting down of the inefficient factories may attain employment in the large factories. This will help in creating a balance in terms of energy and help to raise industry image in importing countries. Regardless of the fact that some of the workers will be able to find their way back into employment in the apparel sector, majority of the workers will be losing their jobs and livelihoods. In this situation, the challenge for the country is to take measures to ensure their inclusive development.

The Bangladesh economy is highly dependent on the RMG sector for foreign export earnings. A major challenge that lies ahead is the hunt and the creation of export oriented sectors, in order to generate quality jobs. It is high time that the strong wage policy and setting minimum wages at an appropriate level and ensuring the sector’s cost competitiveness. As a consequence, some factories have opted for automation in order to reduce their dependency on labour. Automation will have adverse effects on those workers employed in the RMG industry.

Despite the challenges, the RMG sector has a target of $50 billion to be achieved by 2021. This target can be reached if the country grows at a higher rate. China will be moving on to high-tech segment from the lower one and Bangladesh can take advantage of shifting orders. The sector can overcome the current challenges by focusing on inclusive growth. Inclusive growth can be ensured by introducing a strong wage policy and making timely adjustments to the minimum wages prior to consultation. This strategy will also help to raise the competitiveness of the sector and ensure better social protection for garment workers.

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Inclusive growth and environmental quality: upcoming challenges for Bangladesh

Towhid Iqram Mahmood

With an annual GDP growth rate more than 7%, Bangladesh is considered to be the next ‘Asian Tiger’. With rapid industrialization and industrial production, Bangladesh sought to achieve middle income status by 2021. A clear indication of massive development can be seen from recent trends in development projects and facilitation of the booming industries with infrastructure and trade openness. However, these processes require heavy use of fossil fuel that makes environmental degradation inevitable. In theory till date, none of the countries in the world achieved development without harming the environment. In fact, the idea of Environmental Kuznets Curve (EKC) arises from this very incident of a concave correlation between growth and environment. As much as it is expected, the quality deterioration of the environment is one of the worst externalities of development left alone inclusive development.

To ensure inclusive growth for any developing country is a challenge in itself. Ensuring equal opportunities in education and employment is a tough job. In line in doing so, losing sight of maintaining a sustainable environmental quality is even harder. Thus, it is quite common that any political entity will look at more tangible outcome which helps them awe their constituents. A practice like this takes a heavy toll in long run which unfortunately has to be paid off by tax paying citizens of the same country.

On top of that, in most cases, the environmental quality cannot be reversed overnight, as an action like that will cost an insurmountable amount without any immediate effect. Evidence from countries like China can make the argument clearer.

China in the 1960’s had very low per capita income of 191.8 USD. According to World Bank data, the CO2 emission (kt) back then was 780,726 kt. For each decade from then, it has increased by only 1 million. It is interesting to see that from 2004-2014 the CO2 emissions has increased by about 5 million kt for China. For that short period of time, China’s per capita income has increased from 2,472.6 to 6,108.2. Rapid growth in manufacturing and export along with cheap source of labor and energy is the only reason for this boom in per capita income. It is prevalent from the discussion that the degradation in environmental quality is not a mere coincidence but was driven by the rapid economic growth in the country. The adverse effect of the bad environmental quality can be readily seen in China. Inhalable particles are so bad in China that there are approximately 300,000 premature deaths due to outdoor air pollution every year estimated by WHO. This air pollution is accompanied by water pollution and soil pollution. As we can see the positive correlation between growth and pollution, a discussion on Bangladesh economy can give us insights to look forward to taking measures to avoid the worst case scenario as China. After liberation in 1971, Bangladesh’s per capita GDP was 318 USD. CO2 emissions were 3,509 kt. Since then, CO2 emissions were moderate for the first two decades. However, post 1991 the emissions have started increasing rapidly and it has doubled from 37,704 to 73,190 during the years 2004-2014. For that period of time, Bangladesh’s per capita GDP increased from 570 USD to 922 USD. Looking at the reason for Bangladesh’s sharp increase in GDP, we can find similarities with the Chinese growth. Rapid growth in manufacturing and export, fast urbanization and utilization of cheap labor and energy sources enabled Bangladesh to almost double its GDP per capita. As mentioned earlier, if Bangladesh continues to grow like this, it will reach the middle-income status by 2021. However, it is very important that we take a moment to think over what sort of environmental challenges we will face in doing so.

Undoubtedly for inclusive growth, it is important that continuous development of a country is ensured in terms of urbanization, industrialization, human development and equal opportunity. However, it is also important that we look at the examples of other countries, while ensuring growth, who did not pay any heed to maintain a sustainable environment. Coming from the discussion on China, in recent times, China is investing massive amount of its GDP (about 1.2 %) to ensure better environmental quality. But, that is not enough to stop premature deaths and the continuous suffering of the inhabitants. As we can see that Bangladesh is following the same trajectory as China, measures such as using clean energy, planned urbanization and keeping track of the level of pollution is a must.

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Why does institutional quality matter for inclusive development and growth in Bangladesh?

Rafiqua Ferdousi

Bangladesh has achieved phenomenal growth in recent years and the country is on its way to achieve the middle-income status. However, many have argued that in order for growth to be sustainable, the process of development has to be inclusive and inclusive development implies that everyone in a society will have equal opportunity to participate in the process of development. Ensuring equal participation and equitable distribution for everyone in a society is a daunting task. Nevertheless, many academics have argued that the quality of institutions broadly determines the quality of growth, equitable distribution and welfare in a given society.

In order to explain the nexus between institutional quality and development, some have claimed that the formal institutions play a major role, while others explained that informal institutions have greater role in the overall process of development. In the early 90s, Nobel Laureate economist Douglass North explained that societies should emphasise on the creation and enforcement of rules and regulations because if everyone follows the rules, it will be beneficial for the whole society. North along with many other contemporary academics also discussed that the developed countries have become developed because their governments focused heavily on the creation of formal rules and strong enforcement. They have also stated that if developing countries want to become like the developed countries, the governments of those countries have to concentrate on the formation and implementation of formal rules as well.

However, this point of view has evolved over the years and North later on acknowledged that the social dynamics of developed countries are fundamentally different from those of developing countries. Thus, deeper analysis is required in order to understand the association between institution and development, especially in the context of developing countries. Professor Musthag Khan evaluated the role of informal institutions and organizational arrangements in developing countries. He has found that the way people or groups get organized can affect the way institutions develop both within and outside of the organization and these institutions can create differential benefits or rents for different groups. Therefore, it is not just the formal rules but also the historical and social context within which these rules are determined that affect the process of overall development. The reason behind such assertion is, if a set of rule is not favourable for someone who holds the power to modify it, then the rule might be modified and changed. Hence, overemphasis on the rules that are simply on pen and paper may not bring about welfare and equitable distribution for everyone in a society.

Similarly, a number of other literatures have also argued that the discussion of politics is often largely overlooked in the process of development. As a result, the question of the distribution of power also do not come into play in the discussion of growth and development. However, political institutions and processes may determine the distribution of wealth and benefits and this process may involve many different layers and strategies. Sharing of the rents or benefits can also be managed in a complete informal setting and between selected groups or people. Thus, an informal deals setting can be developed bypassing the formal rules which can create obstacles for the general people to participate in the process of development. At the same time, rent-sharing can also occur across political divides which may also undermine the voice and participation of people because if opposing political elites jointly control the rent space, this can limit the access to different amenities for the general public.

Likewise, some studies have also shown that institutional quality not only affect the quality of growth and development in the long run but it also has immediate bearings. This is because lower level of institutional quality along with exclusion undermines the overall human development scenario of a country which can instantly decelerate the growth rates. This again can significantly reduce the welfare for everyone in a society. Hence, institutional quality is one of the critical determinants of growth, equitable distribution and welfare.

As Bangladesh is one of the fastest growing countries of the world, increased emphasis is required to further understand the linkage between institution and development in the context of Bangladesh. Otherwise, the challenges towards inclusive development may not be rightly identified and ultimately the risk of growth collapse will persist. Therefore, to ensure sustainable development, proper measures have to be taken in Bangladesh to enhance both the capacity and quality of the overall institutions.

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South Asian Network on Economic Modeling (SANEM), a leading think-tank of South Asia, announces the competitive call for papers and participation for the "3rd SANEM-World Bank North America Discussion Forum 2019" to be jointly organized by SANEM and the World Bank group on July 12, 2019 at the World Bank premises in Washington, D.C., USA.

The call for papers is aimed at fostering a platform where researchers, policymakers, and practitioners can share their insights and experiences on key challenges and opportunities in South Asia. The forum will focus on emerging global challenges in the context of South Asia's development trajectory.

**Important Dates:**
- Last date of abstract submission: April 10, 2019
- Selection of abstract: April 15, 2019
- Last date of paper submission: June 15, 2019

**Submission of the Abstract:**
The abstract should not exceed 250 words and should be sent to sanem.conf@gmail.com

**Call for Participation:**
SANEM invites applications for the “12th South Asian Training Program on CGE Modeling” to be held on August 24-28, 2019 in Cox’s Bazar, Bangladesh. The program will be organized by South Asian Network on Economic Modeling (SANEM), Dhaka, the Centre for WTO Studies (CWS), New Delhi, and South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

**Eligibility:**
Applicants should have at least a Master’s degree in economics or a related subject and a good knowledge of applied micro and macroeconomics. Interested candidates are requested to visit this link to learn more about the training program: http://sanemnet.org/call-for-applications-12th-south-asian-training-program-on-cge-modeling-24-28-august-2019-coxes-bazar-bangladesh/

**Last date of application submission:** June 10, 2019.

**Instructor:**
Dr. Selim Raihan will conduct the training. He is a Professor at the Department of Economics, University of Dhaka, Bangladesh and the Executive Director of the South Asian Network on Economic Modeling (SANEM).

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**Themes:**
- Emerging challenges in global trade and implications for South Asia
- Challenges of financing inclusive development in South Asia
- Structural transformation in South Asia
- Challenges for industrialization in South Asia
- Labor market, employment and demographic challenges in South Asia
- Macroeconomic policies in South Asia in the context of emerging global challenges
- Social policies in South Asia in the context of emerging global challenges
- Environment policies in South Asia in the context of emerging global challenges

**Dr. Raihan delivered a special lecture at Jatiya Kabi Kazi Nazrul Islam University**

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