SANEM Thinking Aloud

VOLUME 11 | ISSUE 11 | APRIL 1, 2025

NAVIGATING GLOBAL TRADE TURBULENCE: BANGLADESH'S STRATEGIC PATHWAY

by Selim Raihan

There are several emerging trends in international trade and investment. First, there are ongoing trends of fragmentation of trade and reorganization of geopolitics. The growing US-China, US-Canada, and US-Mexico trade war is compelling trade diversification and regionalisation. The "China+1" approach is compelling the multinationals to divert the production to other destinations, including Southeast Asia, India, and Mexico. Increased focus on friend-shoring and nearshoring—when nations focus more on investment and trade with politically aligned partners—is driving trade fragmentation even more. Increased regional trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the African Continental Free Trade Area (AfCFTA), are transforming trade flows.

Second, protectionism is increasing because governments are using tariffs, non-tariff measures, and trade restrictions to protect domestic industries. Sanctions, export controls, and screening of investments are increasingly being utilized in strategic sectors like semiconductors and strategic minerals. The trend from globalization to regionalization is also increasing localized production trends. Recently, U.S. President Donald Trump once again stirred the global trade landscape with his unveiling of plans to impose "reciprocal tariffs" on America's trading partners. This signals a new phase of economic protectionism that could have wide-ranging consequences. While the move is primarily targeted at China, other major economies, including the European Union, India, and Mexico, and many other developing countries are also likely to face trade pressures. Such tariffs could escalate trade disputes, leading to retaliatory measures that might further strain international economic relations.

Third, supply chains are changing. Companies are embracing automation, artificial intelligence, and robotics to make them leaner and less dependent on traditional labour-intensive production centres. Concerns around sustainability are also the driving force for ethical supply chains and circular economy structures.

Fourth, the emerging economies of India, ASEAN, Latin America, and Africa are becoming increasingly significant as a source of investment as well as trade. South-South trade is also on the upswing, with burgeoning intra-regional trade in Asia and Africa. Global development finance institutions such as the Asian Infrastructure Investment Bank (AIIB) and BRICS Bank are increasingly making global investments.

Fifth, the ongoing digital platform growth is transforming cross-border business, and access to foreign markets is within reach of SMEs. More rapidly growing digital payments, blockchain trade finance, and AI-driven logistics are transforming global business efficiency.

Sixth, while sustainability is informing trade policy, policy interventions such as the EU's Carbon Border Adjustment Mechanism (CBAM) are pushing firms toward low-carbon production practices. Green finance and ESG-friendly investment are guiding FDI choices, and renewable energy trade in solar, wind, and hydrogen is reconfiguring energy geopolitics worldwide.

> "BY ACTING AHEAD OF ANY CHANGE IN GLOBAL TRADE AND INVESTMENT, BANGLADESH CAN ENHANCE ITS ECONOMIC RESILIENCE AND ALLOW LONG-TERM GROWTH IN AN INCREASINGLY FRAGMENTED WORLD."

Finally, FDI is shifting away from traditional industries such as fossil fuels to digital, green, and high-tech industries. Sovereign wealth funds, impact investing, and venture capital are increasingly playing a role in funding emerging markets. State intervention in trade and investment is also on the rise, as seen in the US Inflation Reduction Act, which provides huge subsidies to strategic industries.

Questions may arise about whether there is any antidote to turn these trends around. Though full reversal is not possible, certain strategic steps can minimize the dislocations. Reviving multilateralism by making international trade institutions like the WTO, G20, and regional economic blocs stronger can stabilize global trade. Also, deepened regional and bilateral free trade agreements can create more balanced trade flows and less reliance on speculative markets. Third, technological diplomacy through collaboration on AI, digital trade, and semiconductors can end trade fragmentation in priority sectors.

Besides, strategic supply chain coordination of major minerals, vaccine security, and food supply chains can bring stability. Lastly, private sector adaptability by adopting dual sourcing, regional hubs, and AI-driven supply chain management will be essential for businesses to build resilience. By taking these strategic actions, Bangladesh will be able to ride the turbulent global trends more successfully and improve its economic resilience.

In its effort to ride these turbulent world waves, Bangladesh needs a vision-oriented trade and investment policy. The country needs to diversify its exports and export market from its long-time partners like the US and EU to newer markets in ASEAN, Latin America, and Africa. This is to prevent over-dependence on narrow markets.

Also, Bangladesh needs to support regional integration through joining dynamic forums such as RCEP and BIMSTEC. Regional arrangements could offer new market access to export markets as well as a means of economic cooperation.

Moreover, green industry development and adherence to ESG standards are the other important measures through which Bangladesh can guarantee that it has ongoing access to export markets increasingly focusing on environment and social governance.

Furthermore, investment in e-commerce infrastructure is also required to facilitate cross-border e-commerce. Industrial policy improvements to attract high-tech and impact investment will also enrich the country's economic portfolio.

Finally, by acting ahead of any change in global trade and investment, Bangladesh can enhance its economic resilience and allow long-term growth in an increasingly fragmented world.

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REMITTANCES AND LABOR MARKET DYNAMICS IN BANGLADESH

by Afia Mubasshira Tiasha

Many studies have shown how remittances affect labour supply decisions and other labour market outcomes. Furthermore, by supporting consumption-led growth, remittances have an impact on macroeconomic stability; but if productive investments do not keep pace with rising demand, they may potentially exacerbate inflationary pressures. Therefore, there might be a mixed effect of remittances on the labour force.

Moreover, in recent years, remittances have contributed to substantial capital transfers in various developing countries. According to the recent estimates of the World Bank, with more than $26 billion in remittances, Bangladesh is among the world's top recipients of remittances. Moreover, in 2023, personal remittances received in Bangladesh were estimated to be 5.1% of GDP, according to the recent World Development Indicators (WDI).

Empirical research illustrates the fact that remittances reduce the likelihood of labour market participation, indicating a disincentive impact (engaging in non-market activities) among those who do not participate. Therefore, although remittances can raise living standards, they can also discourage labour supply and lead to reliance on external income. It is anticipated that remittance payments will have a detrimental impact on labour force participation, addressing the moral hazard issue. Remittances have the possibility to lower the labour supply and foster a culture of dependency, which limits economic expansion and increases inequality. However, in another study it was found that remittances do not significantly influence the labour force participation of men. In another study it was found that self-employment is increased by remittances. The increase in self-employment can be attributed to remittances directed towards entrepreneurial investment activity. Thus, there might be a mixed effect of remittances.

> “POLICYMAKERS SHOULD TAKE INITIATIVES TO ESTABLISH SUPPORTIVE ENVIRONMENTS TO FACILITATE REMITTANCE INFLOWS TOWARDS PRODUCTIVE INVESTMENTS.”

Even though a lot of research has been done on the macroeconomic implications of remittances, few studies have used advanced econometric techniques like Vector Error Correction Models (VECM) to examine their direct effects on labour force participation in Bangladesh. Previous studies have primarily focused on micro-level household survey data or cross-country analyses, which might overlook the short-term and long-term linkages between remittances, labour force participation, and exchange rates. In one of my studies titled “Analysing the Impact of Remittance on the Labour Force Participation Rate: Evidence from Bangladesh”, we identified this gap and looked into the short- and long-term relationships. Data for Bangladesh was taken from the World Development Indicators (WDI) database, which spans the years 1991 to 2022.

The study revealed various key insights. Remittances had no substantial short-run impact on the labour force participation rate (LFPR). However, there was a positive and statistically significant effect of remittances on the LFPR in the long run; specifically, every one-unit increase in remittances is associated with an increase of 0.00267 units in LFPR, implying that increased remittance inflows promote labour market participation over time. A possible explanation for this long-term positive effect is that remittances are channelled into productive investments that enhance employability and entrepreneurship. Remittances improve labour market participation by aiding households in funding skill development, education, and vocational training. In addition, they provide small enterprises with startup capital, creating jobs and encouraging workforce engagement.

Both in the short and long term, the exchange rate has a significant impact on labour force participation; as the domestic currency depreciates in relation to other currencies, participation increases. The result showed that a one-unit depreciation is specifically linked to an LFPR increase of roughly 0.06890 units. The findings demonstrated the presence of a long-run relationship between the LFPR and its determinants, indicating that currency depreciation significantly boosts labour force participation, possibly due to enhanced export competitiveness, increased employment opportunities, or pressures on households to maintain real income levels amid rising prices.

Policymakers should take initiatives to establish supportive environments to facilitate the transformation of remittance inflows towards productive investments and human capital development in order to maximize the positive impact on labour market participation. These inflows may contribute to the creation of additional jobs through financial literacy initiatives, focused incentives for entrepreneurship supported by remittances, and easy access to financial services for households who receive remittances. Moreover, considering the vulnerability of the LFPR to changes in currencies, especially in the short run, the macroeconomic focus should be on guaranteeing exchange rate stability. Maintaining currency stabilization, it could help to alleviate volatility-induced labour market distortions, especially in sectors that are highly responsive to trade and migration-related financial flows. Incorporating remittance and exchange rate management into wider labour market and development activities may result in more resilient and inclusive labour market outcomes in Bangladesh.

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INVESTING IN HUMAN CAPITAL: BANGLADESH'S PATH TO DEMOGRAPHIC GAINS

by Shafa Tasneem

Bangladesh has roughly 15 years left to enjoy its first demographic dividend. But, have we been able to connect all the necessary dots of developing our human capital to harness the benefits of this unique opportunity?

According to the Human Capital Index by the World Bank, if a child is born in Bangladesh, she will be 46% productive even if she grows up enjoying complete education and full health. This percentage is lower than the South Asian and Lower Middle Income Countries' (LMIC) average of 48%. The youth employment scenario is not much satisfactory as well. According to the 2022 Labour Force Survey, 22% of Bangladeshi youth are Not in Education, Employment or Training (NEET) and the crisis is more pronounced among females who make up 65.5% of the unemployed.

The major challenge lies in prioritization of the policies and lack of consistent follow-up mechanisms. It is seen that while Bangladesh could make some notable achievements by focusing on the 'low hanging fruits', we could not harvest our 'high-hanging fruits' much.

In the education sector, Bangladesh has attained notable success in primary school enrollment rate, achieving gender parity at the primary and secondary level and distributing free textbooks countrywide. According to Annual Primary School Census 2021, the net enrollment rate in primary education is 97.42% with girls comprising 49.54% of the total enrolled. Targeted interventions like Food for Education Program, Primary Education Development Programme (PEDP) and stipend programs contributed to this success. Along with the government interventions, a major role in this success was played by the

> "THE MAJOR CHALLENGE LIES IN PRIORITIZATION OF THE POLICIES AND LACK OF CONSISTENT FOLLOW-UP MECHANISMS"

development partners and NGOs. On the other hand, due to lack of timely and long-term planning, the quality of education system has not improved much. The Human Capital Index found that the learning outcomes are severely low especially in rural areas reflected by 51% of the children not being able to read and understand a simple text by age 10. This is resulted by lack of deeper systematic investment and reforms. Lack of investment is evident from the national budget. Bangladesh's education budget as a percentage of GDP has consistently hovered around or below 2% over the last 15 years, significantly falling short of UNESCO's recommended minimum investment of 6% of total GDP.

The healthcare sector shows a similar pattern. Bangladesh has earned significant achievement in child immunization, reducing maternal mortality through initiatives like the Expanded Programme on Immunization (EPI). The initiatives were largely supported by external funding and targeted, vertical programs. However, core systemic issues persist. We have high out-of-pocket heath expenditure, critical shortage of skilled healthcare professionals, urban-rural disparities, and a growing burden of non-communicable diseases (NCDs). According to the World Health Organization (WHO), Bangladesh has only 0.67 physicians per 1000 people which is lower than the WHO's recommended minimum of 1:1000. Combined with the lowest health spending among 45 LDCs in 2021, this limits the country's ability to effectively tackle critical issues like malnutrition, urban health, NCDs and Water, Sanitation and Hygiene (WASH). To fully benefit from its demographic window, Bangladesh must ensure a healthy, skilled, and productive population through stronger, sustained investments in healthcare systems, cross-sectoral collaboration, and long-term strategic planning, which currently lack adequate prioritization and follow-through.

In an attempt to find the impact of government prioritization in human capital, we conducted a study titled 'Impact of Government Investment in Human Capital on Harnessing Bangladesh's Demographic Dividend'. Considering employment growth as an indicator for demographic dividend, the study attempted to find out whether government spending on human capital influence employment growth both in short and long term for Bangladesh. In the short run, increasing government spending on education leads to a significant immediate boost. For every unit increase in education spending, there is a 5.39 unit improvement while in long run the impact is slightly smaller (0.24 units increase). Similarly, a 1 unit rise in healthcare spending results in 10.38 units rise in employment growth. However, there is a negative long-run effect of healthcare spending (-6.28 units).

The study result echoes existing literature highlighting that while education and health spending yields quick returns in employment, sustaining that impact over time may require deeper structural reforms and higher investments. Without well-targeted planning, the long term impact on employment growth will be diminishing. To improve education quality in Bangladesh, it is essential to increase national budget allocations for teacher training, curriculum update and to enhance the employability of graduates from both tertiary and technical and vocational education. For health, increasing the budget in public health services, hiring more nurses and doctors, emphasizing nutrition for children etc. needs to be focused on. Overall, Bangladesh needs to spend more on capacity building of human capital rather than heavily investing on building infrastructure. Rather than focusing on achieving quick wins, we need to undertake structural, high-impact reforms to avoid stagnation despite early successes. A clear roadmap, political commitment, and evidence-based policymaking along with higher public spending are essential to translate short-term gains into sustainable development.

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SANEM Events

SEMINAR: Dr Selim Raihan, Professor of Economics at the University of Dhaka and Executive Director of SANEM shared the findings of the White Paper and the Task Force reports at a seminar organised by the Economics Study Center (ESC) at the Department of Economics, University of Dhaka on March 10, 2025.

POLICY DIALOGUE: SANEM in collaboration with BIMSTEC Secretariat organised a BIMSTEC Policy Dialogue on "Regional Cooperation and Development: Curtain Raiser to the Sixth BIMSTEC Summit" at the BIMSTEC Secretariat in Dhaka on March 12, 2025. The event was chaired by Indra Mani Pandey, Secretary General of BIMSTEC. Dr Selim Raihan delivered the keynote presentation "The New World Order, Global Challenges, and BIMSTEC". The dialogue also featured Ambassador Sumith Nakandala, Former Secretary General, BIMSTEC; Dr Zaidi Sattar, PRI; Professor Mustafizur Rahman, Distinguished Fellow, CPD; Dr Sineenat Sermcheep, Director, ASEAN Studies Center, Chulalongkorn University, Bangkok; Dr Prabir De, Professor, RIS, New Delhi; Dr Nisha Taneja, Professor, ICRIER, New Delhi; Dr Paras Kharel, Executive Director, SAWTEE, Kathmandu; Dr M. Masrur Reaz, Chairman and Founder, Policy Exchange Bangladesh; and Mr Kazi Faisal Bin Seraj, Country Representative, Bangladesh, The Asia Foundation.

DISCUSSION: Dr Selim Raihan was a distinguished speaker at a pre-budget discussion organised by Bangladesh Mahila Parishad on "Incorporating Gender Budgeting in the National Budget" at the Anwara Begum Munira Khan Auditorium, Dhaka on March 12, 2025. Dr Fauzia Moslem, President, Bangladesh Mahila Parishad, and Ms Maleka Banu, General Secretary, Bangladesh Mahila Parishad were also present in the discussion. Other distinguished speakers included Professor Sharmind Neelormi, Department of Economics, Jahangirnagar University, and Mr Towfiqul Islam Khan, Senior Research Fellow, CPD.

TRAINING: The International Food Policy Research Institute (IFPRI) in partnership with SANEM and the Indian Council of Agricultural Research-Indian Agricultural Research Institute (ICAR-IARI) organised the "International Training Program on Foundation of Computable General Equilibrium (CGE) Modeling for Economic Policy Analysis in South Asia" at the IARI Campus in Pusa, New Delhi from March 17 to 21, 2025. Dr Selim Raihan conducted the training. Ms Eshrat Sharmin, Deputy Director, SANEM; Ms Afia Mubasshira Tiasha, Senior Research Associate, SANEM; and Ms Shafa Tasneem, Research Associate, SANEM also joined the training.

LECTURE: Dr Selim Raihan delivered a lecture at the "11th Late Suresh Tendulkar Memorial Lecture" organised by Symbiosis School of Economics at the Vishwa Bhavan Auditorium, Pune on March 24, 2025.

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E-versions: www.sanemnet.org/thinking-aloud/