

Editor's Desk

The November 2019 issue of *Thinking Aloud* focuses on "Prospects and Challenges of LDC Graduation for Bangladesh". The first page article titled "Is There Any Syndrome of 'Policy Paralysis' in Bangladesh?" stresses that the government's inability to carry out critical economic reforms on time due to the syndrome of 'policy paralysis' can result in the high cost to the economy and society as far as ongoing development challenges and achievement of larger development goals are concerned. The second and third pages of this issue present three articles. The article titled "Trade Facilitation Beyond LDC Graduation" emphasizes that trade facilitation can support Bangladesh beyond LDC graduation. Trade facilitation will help expedite economic growth after Bangladesh graduates from LDC category. However, the country has a long way to go in terms of overcoming infrastructural bottlenecks. The article on "Challenges of Smooth Structural Transformation in Bangladesh in Post LDC Graduation Phase" identifies the structural transformation challenges awaiting Bangladesh as it graduates from LDC category. The article on "Accelerating Human Capital for Sustained Growth in the Post LDC Graduation Phase" highlights that as Bangladesh braces for the take off from LDC status, the government must focus on ensuring gender equity and increasing investment in the health and education sector of the country. Because, without increased investment in human capital development Bangladesh will miss out on the prospects and struggle to meet the challenges of the post LDC graduation phase. The fourth page covers the events that took place in the month of October.

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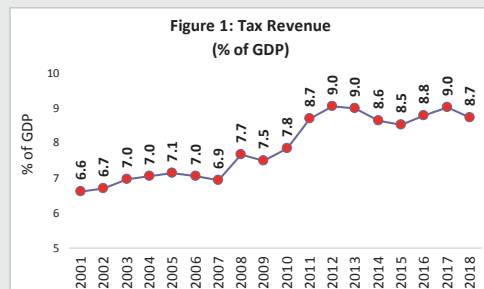
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Is there any syndrome of 'policy paralysis' in Bangladesh?

Selim Raihan

'Policy paralysis' can be described as a situation where critically important and necessary laws and reforms are not undertaken or, even if undertaken, not implemented as a result of lack of commitment from the government or inability of the political and economic elites in the country to reach a consensus over the nature of the reform. This is also a reflection of the dominance of indecisiveness of the government in the area of public policymaking. This can also refer to a situation where despite that the government makes policies for reform, they remain mostly limited to paper, and the government fails to implement them. It can undoubtedly be argued that government's inability to carry out critical economic reforms on time due to the syndrome of 'policy paralysis' can result in the high cost to the economy and society as far as ongoing development challenges and achievement of larger development goals are concerned.

Why is there a need for some critical policy reforms in Bangladesh? Bangladesh is expected to graduate from the LDC status by 2024, and studies have shown that along with this graduation, the country is going to face stiff challenges in its major export markets, which can lead to negative development implications. Also, as the country eyes to achieve the uphill targets of the

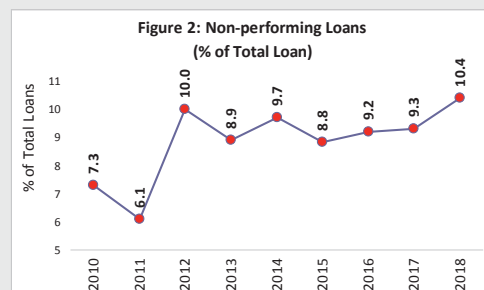


Sustainable Development Goals (SDGs) by 2030 and to become an upper-middle-income country by 2031, three major areas of policy reform have become vital. However, the syndrome of 'policy paralysis' is very prominent in all these three areas.

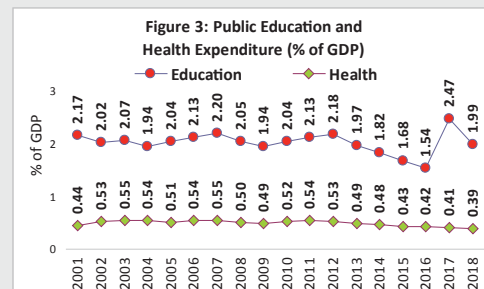
The first area of 'policy paralysis' is in the fiscal sector, where both the lack and ineffectiveness of reform process are resulting in the declining share of tax revenue in the gross domestic product (GDP) since 2011 (Figure 1). Bangladesh's tax-GDP ratio is also one of the lowest in the world. In the most recent years, the average tax-GDP ratio in Bangladesh is only 8.7%, while comparable countries like India, Nepal, Malaysia and Thailand have the tax-GDP ratio of 11%, 17.5%, 14.3%, and 15.8% respectively. The study by Bangladesh Planning Commission in 2017, on the resources required for attaining SDGs in Bangladesh, estimated that the tax-GDP ratio in Bangladesh needs to be increased to 16-17% by 2030 to achieve many of the SDGs. This seems to be a very ambitious target given the fact that the country's tax-GDP ratio is on a declining trend in recent years. There is a need to get rid of the syndrome of 'policy paralysis' in this case. Improving the tax base, reinforcing tax administration and compliance along with identifying the loopholes and closing them to prevent tax leakages requires elites' credible commitment to reform.

The second area of 'policy paralysis' is in the case of the financial sector. Since 2011, the banking sector has been

experiencing a rising ratio of non-performing loans (NPL) to total loans. The rising NPL is not the cause but the outcome of serious institutional failure and political patronage in the banking sector. While the NPL ratio was as low as 6.1% in 2011, the ratio started to rise, and by 2018 it stood at 10.4% (Figure 2). In contrast, countries like Sri Lanka, Thailand, Indonesia and Malaysia have NPL ratios less than three percent reflecting much better governance in their financial sector. The quality of governance in the banking sector in Bangladesh has been highly compromised by weakening regulations, introducing unsound provisions backed by political patronage, and lack of independence



of the Central Bank. While there is a genuine need for a comprehensive banking sector reform and the Central Bank needs to be given full autonomy and independence concerning its regulatory responsibilities, very little effort has been observed in this direction from the government. Therefore, elites' lack of credible commitment to reform is a constraining factor behind establishing a better governance in the banking sector. The third area of 'policy paralysis' is the staggeringly low shares of public spending on education and health in GDP, which remained unchanged around 2% and 0.4% respectively or declined over time for almost past two decades (Figure 3). Bangladesh is among the bottom list of countries in the world with the lowest ratios of public expenditure on both education and health to the GDP, which were less than 2% and 0.39% respectively in 2018. In contrast, in recent years, the average public education expenditure ratios are 3.3% for the LDCs, 3.1% for South Asian countries, 4.3% for the lower-middle-income countries, 4.1% for the



upper-middle-income countries and 5.2% for high-income countries. Furthermore, the average public health expenditure ratios are 1.2% for the LDCs, 1% for South Asian countries, 1.3% for the lower-middle-income countries, 3.3% for the upper-middle-income countries and 7.8% for high-income countries. With the aforementioned poor public spending on education and health in Bangladesh, it is impossible to register substantial progress towards attaining SDGs by 2030.

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Trade facilitation beyond LDC graduation

Sunera Saba Khan

International trade has been a major driver for growth and poverty reduction in Bangladesh. The country has impressive export performance and is recognized as the world's second largest apparel exporter. As a least developing country Bangladesh has largely exploited the existing sources of growth. In order to attain the next phase of growth and poverty reduction trade has a crucial role to play. The country has a long way to go in terms of improving logistics and trade facilitation. The Logistics Performance Index is an interactive benchmarking tool that assists countries in identifying the challenges and opportunities in terms of trade logistics performance and ways to improve their performance. Bangladesh falls way behind its South Asian neighbors in terms of LPI ranking. The figure shows that Bangladesh had an LPI score of 2.47 in 2007 which increased to 2.58 in 2018. In terms of the logistics indicators improvements in infrastructure, customs, international shipments, logistics competence and tracking and tracing is observed from the figure.

However, the improvements are not adequate and Bangladesh has not performed well in terms of export and import lead times. This shows Bangladesh has a lot to do in terms of regional and global integration. Since the mid-90s the country has

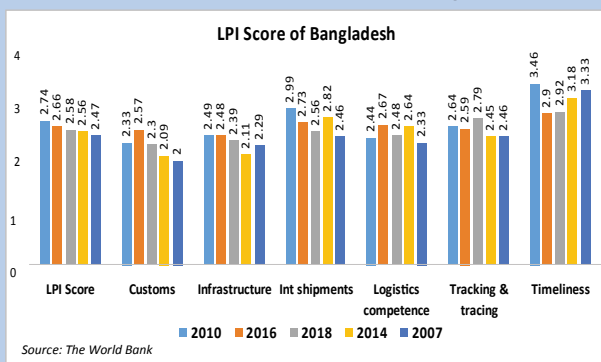
taken a number of reform initiatives to avail the opportunities of globalization which have not been adequate as reflected by World Bank's Doing Business ranking, Bangladesh ranks 177 among 190 countries. This ranking also explains the bleak FDI scenario of the country. Although FDI inflows the country has risen it is yet to be satisfactory.

In this context trade facilitation can assist Bangladesh beyond LDC graduation. Trade facilitation is defined as the "The simplification and harmonization of international trade procedures.", where trade procedures are the "activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade." (WTO documents). The WTO trade facilitation agreement (TFA) aims to reduce the cost and time required to export and import goods. There are 38 broad measures of the agreement which are divided into three categories – A, B and C. Bangladesh ratified the agreement on 27 September 2016 and has implemented 34.5% in category A, 38.2% in category B and 27.3% in category C. Bangladesh is required to implement all measures notified in category B by 20th February 2020 and 1.2.1.c by 20th February 2022. There is no implementation date for all measures notified in category C.

Bangladesh has requested for technical assistance and capacity building for 11 measures. The World Bank is providing support to the government in order to set up a national single window for trade

facilitation (NSW). The National Board of Revenue (NBR) is working on the implementation process and upon implementation Bangladesh will be able to automate international trade procedures and engage in paperless trade.

Paperless Trade involves trade activities using electronic Customs declaration, electronic certificate of origin and not paper documents. Paperless Trade which is known as Digital or e – trade facilitation has a number of benefits for both the government and traders. The government will benefit in terms of effective & efficient deployment of resources, correct revenue yield, improved trader compliance, enhanced security and increased integrity and transparency. Traders will benefit from a decline in costs through reductions in delays, faster clearance and release, effective & efficient deployment of resources and improvements in transparency. Bangladesh has signed the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific. The agreement aims to facilitate cross-border paperless trade (data exchange) among willing ESCAP member states through provision of a dedicated intergovernmental framework in order to



develop legal and technical solutions. The treaty is complementary to the WTO Trade Facilitation Agreement and (sub)regional efforts. However, the country is a waiting ratification. Bangladesh will not have to incur

any changes in law and regulations; no direct financial cost implications; and no mandatory reporting requirements by adopting this treaty. Bangladesh is expected to gain from implementation of cross-border paperless trade. Partial implementation of cross-border paperless trade will help raise exports by 13 percent. Implementation of WTO TFA along with cross-border paperless trade measures will reduce trade cost by 33 percent. In addition, Bangladesh will benefit from trade transaction cost of above \$0.7 billion per year. (UNESCAP).

Therefore, trade facilitation can support Bangladesh beyond LDC graduation. Trade facilitation will help expedite economic growth after Bangladesh graduates from LDC category. However, the country has a long way to go in terms of overcoming infrastructural bottlenecks. Transport between Dhaka and Chattogram needs to be improved and improvements in port facilities is essential. The country needs to concentrate on ensuring speedy customs clearance so that the bills of entry at Chattogram seaport are cleared at a faster rate. Furthermore, the country needs to concentrate on reducing average processing time of import and export consignments and focus on creating a business-friendly economic environment led by trade facilitation.

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Challenges of smooth structural transformation in Bangladesh in post LDC graduation phase

Zubayer Hossen

Structural transformation generally refers to the reallocation of economic activity across the broad sectors agriculture, manufacturing and services. However, reallocation can take place within sectors and across subsectors within the same broad economic sector. In both cases, the process of reallocation is stated as structural transformation or structural change. Also, structural transformation is defined as the transition of an economy from low productivity and labour intensive economic activities to higher productivity and skill intensive activities. Though the dominant way of defining structural transformation is largely based on sectoral shares of GDP and employment, the broader set of structures related to the sources of growth, labour productivity, and international trade are also important in reaping a deeper understanding of structural transformation.

The transfer of labour and other inputs to higher productivity activity is a driver of economic development (McMillan and Rodrik, 2011). Thus, structural transformation matters in case of advancement of an economy. However, structural transformation can be growth-enhancing or growth-reducing depending on the reallocation of labour. For instance, structural transformation had been growth-enhancing in Asia because labour has transferred from low to higher productivity sectors. On the contrary, in Sub-Saharan Africa and Latin America, the converse is the case since labour has been transferred from higher to lower productivity sectors and this has reduced growth rates. That is why, the sectoral composition of economic activity is key to understanding the economic development (Herrendorf et al., 2013).

The basket of goods and services produced, consumed and invested by high-income countries is entirely different than poor countries. Those countries that managed to make the transition from developing country to developed country have gone through a deep process of structural transformation in which the productive structure of their economy was changed completely (McGregor and Verspagen, 2016). In Asia region, the examples of such countries are the so-called Asian Tigers - the Republic of Korea; Taipei, China; Singapore; Hong Kong; and China. They were the first generation of post war developing countries that managed to make the transition from developing to developed. In recent past, other Asian countries, including the People's Republic of China (PRC), have entered on this road with high growth periods and rapid structural change.

In last three decades, Bangladesh has experienced a moderate but steady structural transformation. The economy has moved from traditional agro-based activities to relatively modern manufacturing and service sector related production. In 1991, the contribution of agriculture to total employment was approximately 69.5 percent of GDP which has got down to 40.2 percent of GDP in 2018. Therefore, the shares of industry and service sectors to total employment have gone up to 20.5 percent and 39.4 percent from 13.6 percent and 16.9 percent during the period 1991-2018.

Bangladesh is expected to graduate from the LDC category in 2024. In post LDC graduation period, structural transformation will be crucial for economic

development of Bangladesh since sectoral diversification, human capital and labour mobility and productivity growth are closely linked to structural changes. However, the graduation will bring opportunities and quite a few challenges for Bangladesh. After graduating from LDC group, one of the challenges that Bangladesh is going to face will be the challenge of smooth structural transformation. In post-graduation stage, the low productivity of labour; concentrated basket of produced goods and services; low rate of female labour force participation; bad institutions; very high informal employment; increasing inequality; etc. are the major challenges that Bangladesh will encounter for smooth structural transformation.

There are evidences suggesting that structural transformation can take place without much change in labour productivity. The pattern of structural change observed in many African countries is a case in point. Labour productivity growth in Bangladesh was 6.0 percent in 2018 and less than 4.0 percent in 2013. The rate varied between 5.0 to 6.0 percent during the years 2016-2018. Bangladesh will require to achieve a higher labour productivity in order to sustain the current development. Besides, within the industry, the ready-made garments (RMG) is the main contributor. This sector has been providing the single source of growth in Bangladesh's rapidly developing economy. In the fiscal year 2016-2017, the RMG industry generated USD 28.1 billion, which was 80.7 percent of the total export earnings in exports and 12.4 percent of the GDP. In future, it is predicted that the RMG sector will face strong competition from many Asian and African countries because of the increase in production cost. Thus, the diversification of export basket within RMG sector and across the sectors is going to be vital.

The structural transformation in Bangladesh has not been fully reflected in labour market. The female labours are not the equal beneficiaries of this transformation. It is not only from a broad based sectoral perspective, but also from more detailed occupational choice. For example, the LFS 2016-17 data show that only 11.0 percent of managerial positions are held by females. Moreover, the female labour force participation has expanded from around 8.0 percent in the mid-1980s to 36.3 percent in the year 2016-17, the participation rate of females is still much lower than that of males and the rate of growth of participation rate has slowed down over the past decade as a result of both demand-side and supply-side issues. It is going to be a challenge for Bangladesh to assure the participation of females in the labour market as per their potential. The other thing that can obstruct the smooth transformation is the presence of "bad institutions". In an economy, there are economic institutions and political institutions. The economic institutions shape economic incentives, the incentives to become educated, to save and invest, to innovate and adopt new technologies, and so on. Political institutions determine the ability of citizens to control politicians (Acemoglu and Robinson, 2012). However, the "bad institutions" tend to promote the practice of corruption and create massive inefficiencies and contribute to the failure of an economy to grow. Therefore, to make the transformation smooth, Bangladesh will need to emphasise on the presence of strong implementation, evaluation and monitoring system in order to turn the "bad institutions" into "good institutions".

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Accelerating human capital for sustained growth in the post LDC graduation phase

Rafiqqa Ferdousi

As Bangladesh braces for the take off from the LDC status, the need for increasing attention on quality education and health have become even more central than ever before. Not only these two areas are essential drivers of continued progress, they are also critical components of human development. One of the major indicators of LDC graduation criteria is the aggregated score of countries in the Human Assets Index (HAI). HAI is a composite index of education and health which is used as an identification criterion of the LDCs by the Committee for Development Policy of the UN. FERDI, an independent and not-for-profit think tank in collaboration with UNDESA has built a retrospective series of this index allowing to follow the improvements in this domain. In 2011, the HAI was available in an annual database covering the period 1970-2008 for 147 developing countries and the first update has been done in 2014 by C l o s s e t ,

Feindouno and Goujon. At present, the index is now available in an annual database covering the period 1990-2016 for 145 developing countries.

This new index focuses on two dimensions: health and education. The two health dimension indicators are the undernourishment prevalence index and the under-five mortality rate index. Likewise, the two education dimension indicators are the adult literacy index and the secondary enrollment index. The primary data for each variable of HAI are rescaled and converted into index values using a max-min procedure and the aggregate index is then calculated as a simple average of the four components indices. Each component carries an equal weight of 25% in the HAI and the normalized scores vary between 0 and 100. In order to graduate from the LDC category, a country must have a score of 66 or above in the Human Asset index. Although, Bangladesh has already fulfilled this eligibility criterion for graduation in 2018, there are still some room for further improvements in order to successfully address the post LDC graduation challenges.

According to new data set of the HAI, Bangladesh has made significant progress in the under-five mortality rate index over the years. Likewise, the score of Bangladesh has also steadily improved in the adult literacy index. There has been an overall improvement in the aggregated score of the HAI index of Bangladesh as well. While, the score of Bangladesh in the secondary enrollment index continued to improve from the year 1990 and onwards, the score began to decline again starting from 2004. The position of Bangladesh in this index improved for the second time around the year

2012 to 2014. However, the score of Bangladesh in the undernourishment prevalence index began to significantly worsen in the early 1990s and while there has been some improvement in the later years, the score remains stagnant for over a decade now.

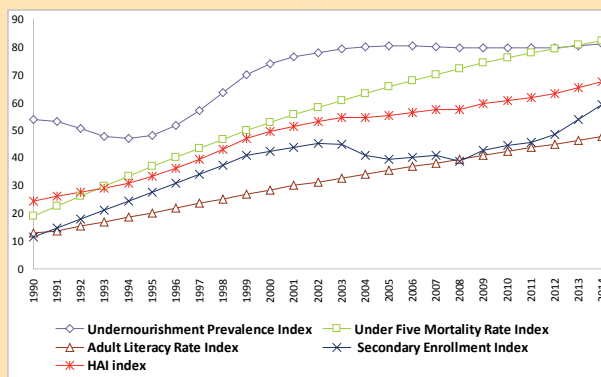
This appears as a catch 22 scenario. Because, during the same period the GDP growth of Bangladesh has continued to rise significantly and yet there seems to be an inadequate reflection of the upward trend of GDP growth on the undernourishment index of the HAI. Similarly, Bangladesh still has a long way to go to further advance the state of adult literacy and secondary enrollment. In the traditional literature, it is often argued that there is a bi-directional causality between economic growth and human development. Nevertheless, contrary to the popular belief it can be seen that despite economic growth, there could also be systematic impediments within the individual components of human development. Ultimately, overcoming these systematic obstacles will require a lot more than just a generic focus on economic growth and

p o v e r t y reduction.

In Bangladesh, stunting is still quite a common problem and unfortunately the damage that it causes to the development in children is permanent. This alone robs people of many vital opportunities of

life. Malnutrition can severely hamper the development of physiological and cognitive abilities in children which in turn can deprive them from fulfilling their full potential. Stunted children have weaker immune systems and consequently, are more vulnerable to diseases. According to UNICEF, the deficits in brain-cell size and connectivity in stunted children translate to a loss of between two to three years of learning. Furthermore, when stunted children enter the workforce, their diminished physical and intellectual ability can reduce their earning capacity by as much as 22 percent. Hence, it is evident that the cumulative effect of malnutrition has considerable impact on the broader socio-economic development of a country. Numerous studies have already established that investments in both nutrition and education have a very high benefit to cost ratios. In the post LDC graduation phase, thus, the government must focus on ensuring gender equity and increasing investment in the health and education sector of the country. Because, without increased investment in human capital development Bangladesh will miss out on the prospects and struggle to meet the challenges of the post LDC graduation phase. Therefore, all relevant stakeholders must flag this issue right away and adopt a well thought out and thorough strategy early on.

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Dr. Selim Raihan attended the 12th South Asia Economic Summit in Sri Lanka



The two-day long 12th South Asia Economic Summit on the theme "Shaping South Asia's Future in the Fourth Industrial Revolution (4IR)" was held at Hilton Colombo, Sri Lanka on September 26-27 2019. On 26 September, Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics at the University of Dhaka moderated a session titled "Providing Macroeconomic Stability for Growth during 4IR". Dr. Abid Q. Suleri, Executive Director, SDPI, Pakistan, Prof. N. R. Bhanumurthy, Professor, National Institute of Public Finance and Policy, India, Mr. Shiran Fernando, Chief Economist, Ceylon Chamber of Commerce, Sri Lanka, Dr. Dilli Raj Khanal, Economist and Former MP, Nepal, and



Dr. Omar Joya, Head of Research, Biruni Institute, Afghanistan were also present in the session. On the second day of the summit, Dr. Raihan was the discussant for the session titled "Supporting Innovative Research- 20 Years of the South Asia Economic Journal". The session was moderated by Dr. Prabir De, Professor, RIS, India. During the session there were three presentations by Dr. Arpita Mukherjee, Professor, Indian Council for Research on International Economic Relations, India, Mr. Syed Yusuf Saadat, Research Associate, CPD, Bangladesh, and Dr. Kaushiki Sanyal, CEO and Co-Founder, Sunay Policy Advisory, India respectively.

Dr. Selim Raihan attended the National Youth Conference 2019



Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics at the University of Dhaka attended the National Youth Conference 2019 at Bangla Academy on October 23 2019 as a Panelist. The Plenary Discussion Session was titled "Increasing investment on Young People". In this session, experts from relevant sectors shared the panel to discuss on the thematic areas of 'youth representation in decision making processes' and 'increasing youth employment opportunities'. Simu Naser, Prothom Alo, Kohinoor Yesmin, Tarango, Kajal Abdullah, Jahaji App, and Nuzhat Jabin, ActionAid Bangladesh attended the conference. The session was moderated by Nazmul Ahsan, Manager, Action for Impact at ActionAid Bangladesh. The conference was organized by ActionAid Bangladesh which marked an important milestone in the roadmap towards establishing youth-focused work at ActionAid Bangladesh (AAB) in progressing towards Agenda 2030. This event aimed to facilitate a platform for experience sharing and information of over 30 youth-led initiatives organizations who have partnered with AAB over the past 4 years.

Research Economist of SANEM attended two workshops organized by UNESCAP



Mr. Zubayer Hossen, Research Economist, SANEM attended two workshops at Bangkok, Thailand organized by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). The first workshop was on "SDGs and Sustainable LDC Graduation of Bangladesh" held on September 23-24 and 26, 2019. The workshop was organized by the Macroeconomic Policy and Financing for Development Division of the UNESCAP. The workshop aimed to share the highlights of SDGs progress in Bangladesh and provide interactive sessions to explain and discuss on LDC graduation process, challenges and opportunities, and way forward to ensure a smooth graduation. The second workshop titled "Assessing the Potential Impact of the Belt and Road Initiative on



Sustainable Development Goals in Asian Economies" was held on September 25-26, 2019. This regional workshop was jointly organized by United Nations Department of Economic and Social Affairs (UN DESA) and UNESCAP. The objective of the workshop was to provide a platform for exchanging views and findings resulting from the respective experience and research activities undertaken by UNDESA and UNESCAP on assessing the potential impacts of BRI on infrastructure of Asian economies; examine the interactions between various sectors and spillover effects; deepen the cross-agency discussion on this important topic; and help to identify areas of comparative advantage and potential synergies and complementarities in order to enhance joint impact.

The book titled "Trade and Regional Integration in South Asia: A Tribute to Saman Kelegama" edited by Selim Raihan and Prabir De is forthcoming

Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics at the University of Dhaka announced the release of the forthcoming book titled "Trade and Regional Integration in South Asia: A Tribute to Saman Kelegama" on September 26 2019 at the 12th South Asia Economic Summit which was held in Colombo, Sri Lanka. The book was edited by Dr. Selim Raihan and Dr. Prabir De, Professor at the Research and Information System for Developing Countries (RIS). This book is a compilation of contributions from leading academics and international trade experts from South Asia, and is dedicated to Late Dr. Saman Kelegama, whose untimely death in June 2017 left a huge void in the field of regional economic cooperation. Keeping in mind his enduring legacy regarding regional cooperation in South Asia, the chapters in this book cover issues related to the challenges of deeper regional integration in South Asia, and propose strategies to address these challenges.

SANEM Research Economist delivered a lecture at Bangladesh University of Professionals



Mr. Zubayer Hossen, Research Economist, SANEM delivered a lecture on "Nationwide Household Survey: Design and Implementation Techniques" on October 6, 2019 at the Bangladesh University of Professionals (BUP). The lecture was organized by the Department of Economics of the university.

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