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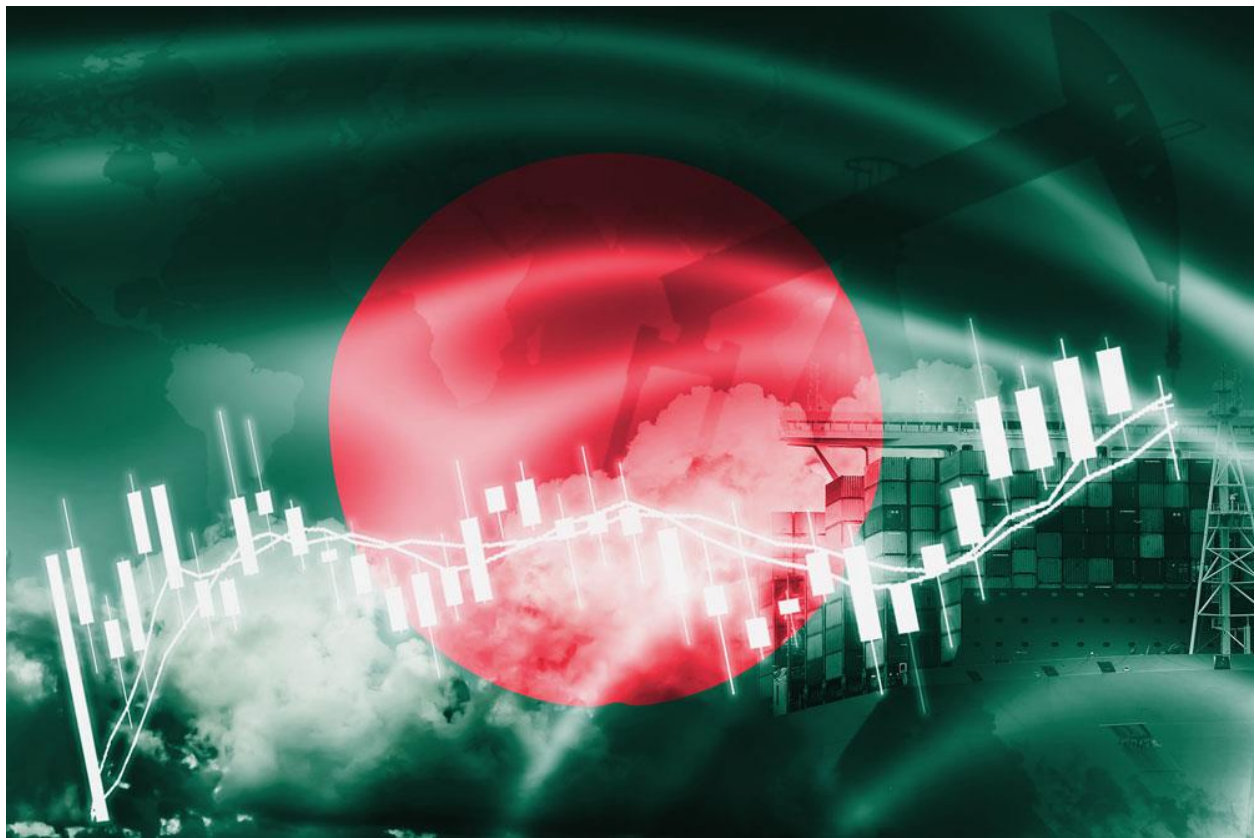
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Taking the Bangladesh story forward

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Has the Bangladesh story been a success? BIGSTOCK

Economic prosperity can only be achieved through tough institutional reforms

The Bangladesh story -- which many economic pundits occasionally narrate to the wider audience -- is one where we have seen how early prophesies emerging in the 1970s of perpetual economic stagnation and economic destitution have been falsified.

And Bangladesh as a nation has turned around, both socially and economically.

Yet, this story has not reached its finale. The desire to emerge from economic mediocrity and find itself a seat with the First World Order is a legitimate expectation of the present generation. And to chart out that path, we need a constructive discourse on the current state of economic management, which will help in improving the existing macroeconomic, sectoral, and institutional policies, and allow us to achieve long-run growth.

Consequently, in this article, I will highlight three important issues: (i) What Bangladesh has attained economically between 2009 and 2020, and why; (ii) What our aspiration for 2041 is; and (iii) what the major economic challenges that we face are if we want to achieve our economic aspiration, as envisioned in Vision 2041.

Our key achievements over the last decade

One of the most visible achievements of Bangladesh over the last decade was that it was able to raise its per capita income from less than \$900 in 2009 to more than \$2,000 in 2020. This praiseworthy achievement was only possible as the country entered a high growth regime of above 7.5% over the last five years.

This regime of high growth meant that Bangladesh experienced a steep decline in both moderate and extreme poverty between 2010 and 2016. Statistically speaking, between 2010 and 2016, more than 8 million Bangladeshis were lifted out of poverty. And if this trend in the alleviation of poverty is prudently extrapolated till 2021, we can expect that at least 13 million people were lifted out of poverty between 2010 and 2020.

This steady decline in poverty was also accompanied with sustained reductions in child mortality and fertility, improvements in life expectancy and nutritional status of the population, enhanced access to electricity, sanitation, clean water, and broad-based expansions in education.

In other words, Bangladesh experienced what could be called “development with a human face.” So, what allowed this pro-poor economic transformation?

Quite a number of factors played a dominant role in facilitating the economic transformation which we witnessed between 2009 and 2020. First, we saw a notable increase in exports and remittances that stimulated aggregate demand in the economy. Exports, which were approximately \$16 billion in 2009 reached \$40bn in 2019.

Moreover, remittances, which were less than \$10bn in 2009 is likely to cross the \$20bn threshold in 2020. Both these improvements substantially empowered an economic constituency, who were standing on the lowest step of the economic ladder.

Furthermore, these improvements happened in response to some critical policy measures that the government adopted between 2009 and 2020. An area of notable success has been the concentrated focus on mega infrastructure -- including an expansion of our capacity to generate electric power from 5,200MW in 2009 to more than 18,000MW in 2020.

Such an exponential improvement has meant that our private sector was able to overcome the critical bottlenecks to becoming efficient. The government also expanded its social safety net programs and invested dominantly in rural infrastructure, which in spite of some leakages has reached the rural communities and allowed its people to cope with shocks in income.

Collectively, this has brought an essential change in the structure of the overall economy and reduced our historic dependence on farm income and agriculture.

What do we aspire to achieve by 2041?

The government has recently approved the “Perspective Plan of Bangladesh 2021-2041” -- categorized as Vision 2041. There is a wide array of targets that the government has committed to in this vision document, but the most relevant one that is worth focusing on is that Bangladesh seeks to reach upper middle-income country (UMIC) status by 2031 and high-income country (HIC) status by 2041.

Furthermore, it aims to reduce extreme poverty to less than 1% and moderate poverty to less than 3% by 2041; and push life expectancy to nearly 80 years by 2041. This is a challenging, but bold aspiration -- as it necessitates that Bangladesh maintains an average growth rate of 9% from 2020 to 2041.

In the post-WWII world, such transformation was witnessed by Japan, South Korea, Singapore, Taiwan, and also in more recent times by China after it introduced market-oriented reforms in 1978.

Hence, for Bangladesh to attain this accelerated economic transformation, the policy-makers must seriously navigate some fundamental structural and institutional challenges that could help the country somewhat replicate the economic transformation that was experienced by the East Asian Tigers such as South Korea and Taiwan after the Second World War or the economic transformation that China has been experiencing since 1978.

These challenges are as follows:

Maintaining competitiveness in the international market will be critical

While the exports of Bangladesh have grown in absolute sense over the last four decades, there has been a noticeable decline in the average five-year growth rate of our exports between 1990

and 2020 -- and thus policy-makers need to identify the combination of factors that have influenced this outcome.

One particular area of challenge is our excessive dependence on one item -- the RMG -- which has increased its concentration in our export basket (as it currently accounts for 86% of total exports) and made our export sector vulnerable to any shocks specific to the RMG factor.

Additionally, both RMG and remittances rely on cheap labour as a source of our comparative advantage, which will be increasingly threatened as the advents of the Fourth Industrial Revolution mature and integrate into our production processes.

Consequently, there is an urgent need for the policy-makers to adopt policies that will help both product and geographic diversification of our exports -- and help identify new sources of comparative advantage for our exports.

Maintaining macroeconomic stability

Bangladesh has traditionally been a prudent and effective manager of macroeconomic stability -- and we have demonstrated effective management skills in maintaining inflation, import coverage of foreign reserves, and our international debt obligations.

Moreover, maintaining a sound macroeconomic stability is critical as it helps countries avoid what is popularly known as the “middle income trap” previously experienced by Argentina and other Latin American countries. Against that context, the policy-makers need to address the current challenges linked to governance in the banking sector, which have become an Achilles heel for the economy and thus demand a serious response.

A vulnerable financial sector is not only a source of widespread economic downturn, as we have witnessed during the global financial crisis of 2008, but it can also bring substantial hardship to the people with limited skills and income, whose prospects of employment during an economic slowdown are often strongly challenged.

Addressing human capital deficiencies

In a comparative sense, Bangladesh has systematically under-invested in health and education as a share of GDP, which has created strong constraints for long-term development. To anecdotally highlight our weakness, the country fails to have a single university in the Top 500 rankings of global universities, while China has two in the top 25.

There is also a noticeable deficit in skills and it is a paradox that despite having more than 100 private universities we have failed to create a skilled work force for the private sector. As a result,

there is a serious need to rethink how we approach the deficiencies in human capital within our economic space.

There is also a case for both allocating more resources as a share of GDP to health and education, and to redesign the institutions in these sectors effectively, so that we meet the requirements for human capital in the 21st century.

Institutional capacity needs focus for long-term development

Numerous evaluations of the state of institutional performance have shown that Bangladesh's institutional status has been much below par and institutional improvements -- especially in state capacity -- will be fundamental for the country to attain long-run growth.

Highlighting some of the ineffectiveness in the institutional space selectively might not be enough to underscore how we stand in the overall sense, but some examples are indicative of our weaknesses. For instance, the total backlog of cases between 2010 and 2019 has almost doubled, and it is approximately 3.7 million.

This is suggestive of limited change in the rate of disposing cases, which was a priority area for improvement in both the 6th Five Year Plan and the 7th Five Year Plan. Likewise, the trend in the tax-to-GDP ratio has also been dismal as we experience one of the weakest capacities across the world in mobilizing revenue.

These weaknesses limit the amount of resources that can be available for investing in key public goods such as health and education, and also limit our scope to provide adequate social safety nets for the poor and marginalized.

Hence, institutional reforms that enhance the effectiveness of the state organs require serious policy attention, especially if we want to become a developed nation by 2041.

Conclusion

There is rarely any debate that Bangladesh has attained noteworthy pro-poor economic transformation over the last decade and has falsified the pessimists who ruled us out with their analytical calculus.

But marching forward and attaining the bold aspirations as envisaged in Vision 2041 will not be easy, as the policy-makers must prioritize effective structural and institutional reforms so that we can navigate the multi-dimensional challenges that can hinder our long-run economic prospects. Nonetheless, if the necessary policy alterations and institutional reforms are backed by strong political commitment, then there is every prospect for Bangladesh to replicate the economic

success of the East Asian Tigers that allowed those erstwhile developing countries to become developed nations in one single lifetime.

Thus, whether we can collectively take forward the Bangladesh story from here on fundamentally depends on whether our policy-makers can harness the commitments necessary for tough policy alterations and institutional reforms with a strong sense of urgency.

Economic history dictates that nations that have changed their economic fortune in one single lifetime are the ones who were able to execute tough institutional reforms, which require strong political determination. And that is exactly why only a handful of countries have attained the First World status.

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