

*What will it take for  
Bangladesh to reach the  
Growth needed to achieve  
the MDGs?*

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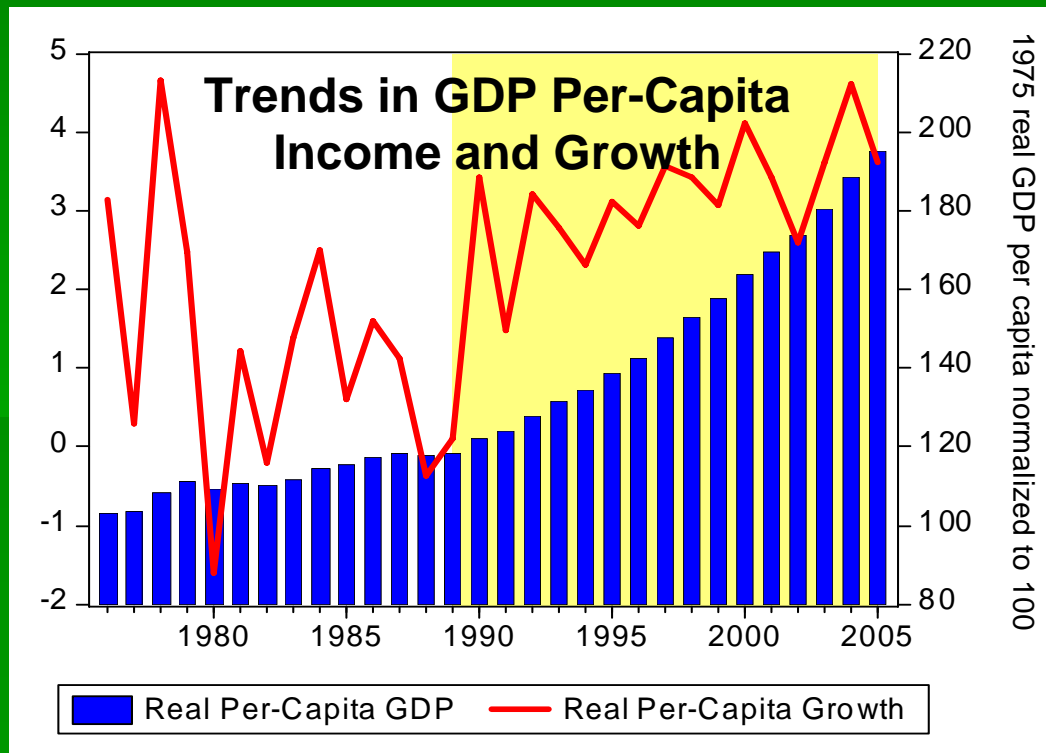
# Growth Matters

- Growth has proven to be the main instrument for poverty reduction and human development.
- Bangladesh's own experience verifies this. Periods of slow growth saw little progress on poverty reduction, while more substantial progress was made during the high-growth periods

# Overview of Bangladesh's Growth Performance

## Two main phases of GDP growth in Bangladesh

- Mediocre per capita growth of 1.2% during 1976-89.
- Much more robust per capita GDP growth of 3.2% over 1990-2005.



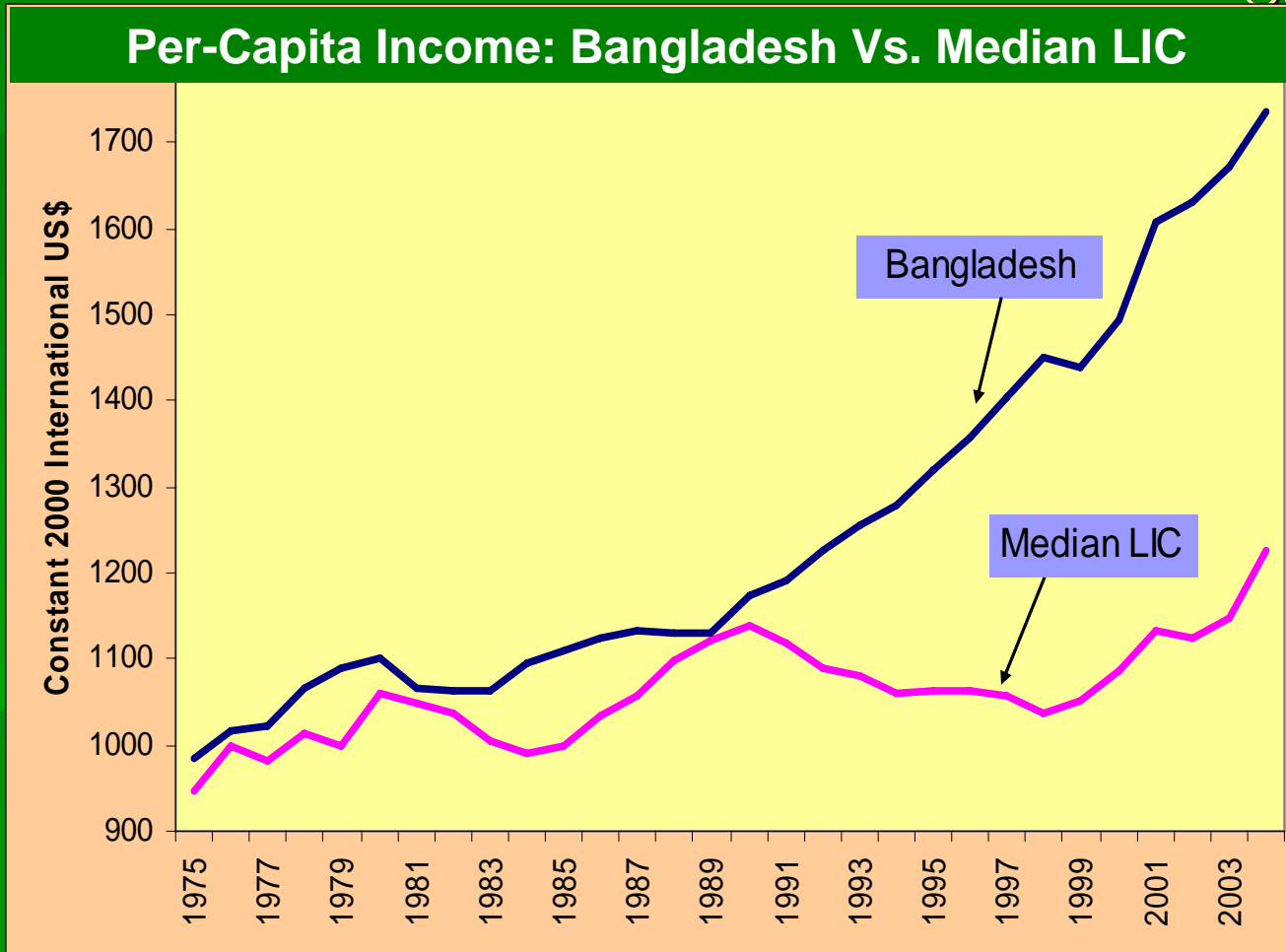
# Overview of Bangladesh's Growth Performance

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- Per capita GDP has almost doubled since 1975
  - About 20% increase over the 1976-89 moderate growth period
  - Further 65% increase over the 1990-05 high growth period
- Allowing Bangladesh to pull well ahead of its low-income contemporaries
  - In 1975, Bangladesh's per-capita income (in constant PPP US\$) was just 4% higher than the median LIC
  - Bangladesh's position vis-à-vis the median LIC did not change by much by 1989
  - Bangladesh has comfortably outpaced the median LIC since 1990
- Some other LICs have done much better though
  - China's per capita income increased eight-fold since 1975, Indonesia's three-fold and India's two and a half times

# Overview of Bangladesh's Growth Performance

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Note: Included LICs are the 21 countries whose per capita GNI in 1975 was at or below US\$265, the cut-off for LICs eligibility used by IDA in 1975. Source: World Development Indicators, BBS, and staff calculations.

# Overview of Bangladesh's Growth Performance

Contd.....

- Growth acceleration since 1990 has been accompanied by faster progress in poverty reduction and on some human development measures
  - income poverty rate fell from 59% in 1992 to 50% in 2000, after stagnating in the 1980s
  - secondary enrollment rate remained stuck at about 20% between 1975-90, but has since improved to 46%
  - child malnutrition rate (by weight) also stagnated during the 1980s but has fallen considerably since 1990, although a lot more distance needs to be covered on this measure

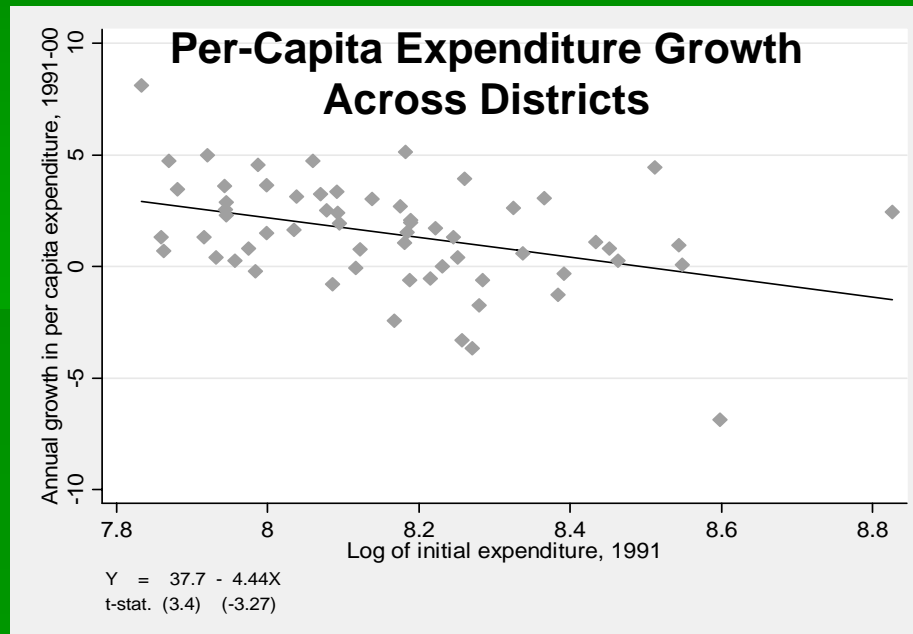
# Main Characteristics of Growth

1. GDP growth has been remarkably stable
  - Volatility of GDP growth in Bangladesh has been among the lowest in the world over the last two decades
  - Low volatility has likely contributed to higher levels of growth
2. Growth has been fairly broad-based. Agriculture has been losing share, as is common for fast-growing economies
  - Manufacturing sector, especially garments, has led the way with 7% average growth since 1990
  - Construction has been booming since the mid-1990s, fueled by the strong manufacturing sector growth, and, perhaps equally, by the large amounts of remittance inflows

# Main Characteristics of Growth

Contd....

3. No systematic divergence in expenditure growth seen across districts
  - Districts that were less well-off in early 1990s, on average, experienced faster per-capita expenditure growth



# Main Characteristics of Growth

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## 4. Growth accompanied by a mixed record on employment creation

- The economy created 5.3 (9.5) million new jobs during 2000-2003 (1996-2003), which accommodated most of the 5.6 (10.2) million entrants into the labor force
- Female labor force participation rate has been rising
- Real wages increased across all major sectors in recent years
- Yet, underemployment increased in all major economic sectors except mining and for all job statuses, with the sharpest increases occurring in agriculture and for the self-employed and unpaid family workers
- Skill shortages remain acute

# Factors Underlying Growth

- Growth acceleration in the early 1990s was underpinned by major policy improvements, including
  - Macro stabilization measures (enhanced monetary and fiscal discipline, and correction of exchange rate misalignment and external imbalances)
  - Easing of trade and exchange restrictions
  - Relaxation of restrictions on private investment in various Industrial Policy Orders
  - Financial sector reforms, deregulating interest rates and abolishing credit quotas

# Factors Underlying Growth

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- Sustained macro stabilization has played a part in nurturing good growth since
  - Inflation has remained in single digits
  - Relatively low fiscal deficits have kept public borrowing in check
  - Fiscal and monetary prudence together with periodic real exchange rate adjustments have helped keep external sector more-or-less in balance
- From the demand side, important impetus has been provided by sharp increases in workers remittances and the availability until recently of preferential markets for garment exports
- The emphasis on human development has also been crucial.

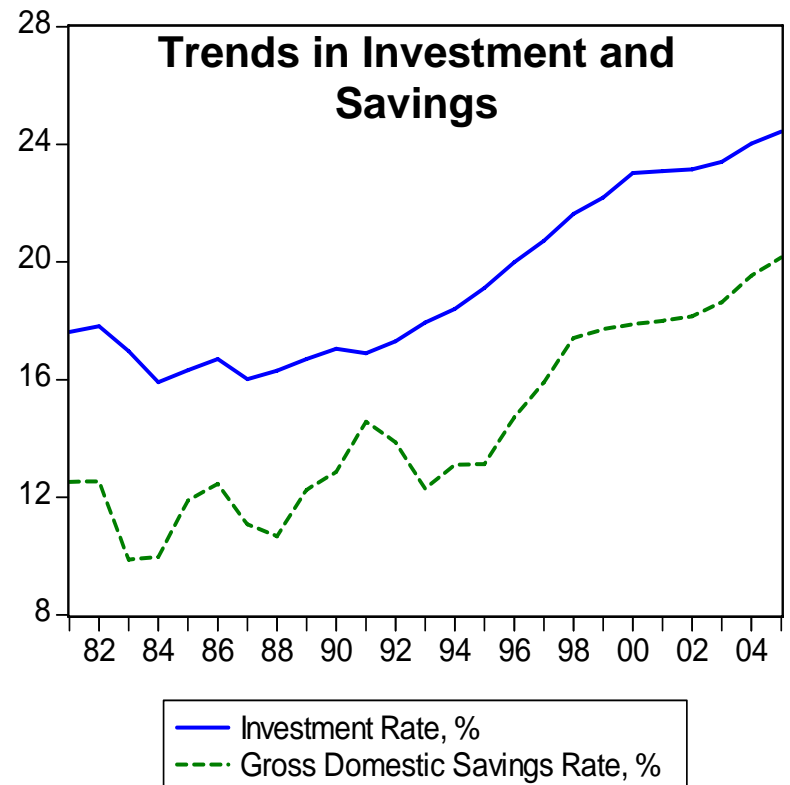
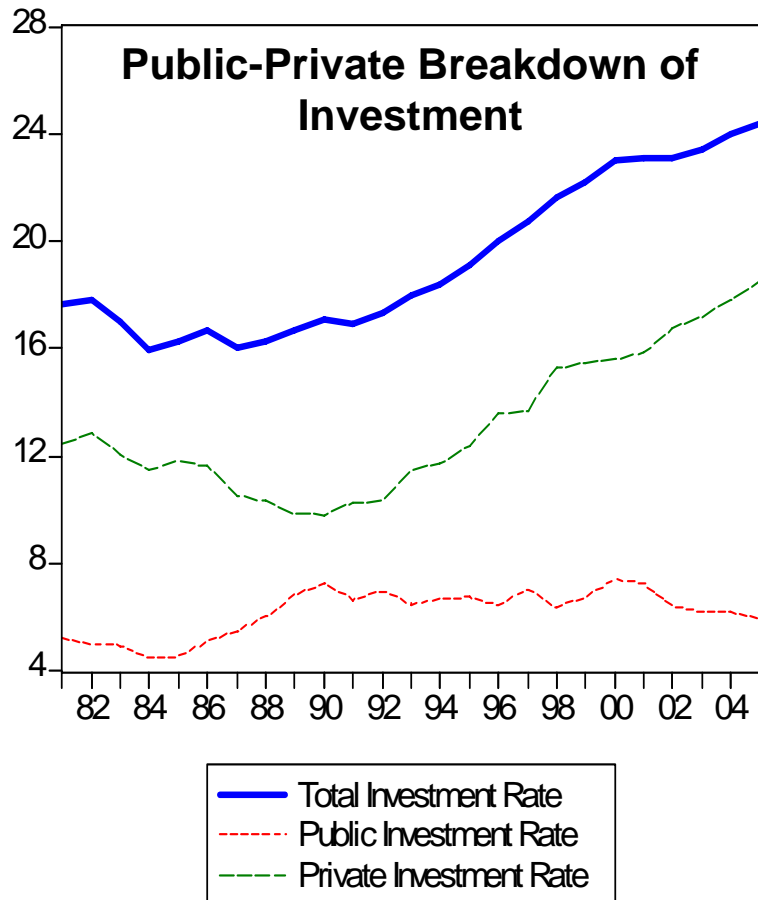
# Factors Underlying Growth

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- Growth acceleration since 1990 has been underpinned mostly by factor accumulation
  - Private investment, in particular, responded robustly to the post 1989 reforms, financed mostly by gross domestic savings
  - Human capital growth also picked up, benefiting from demographic transition, higher female labor force participation, and continued progress on education.
  - Total Factor Productivity (TFP) response has been more muted

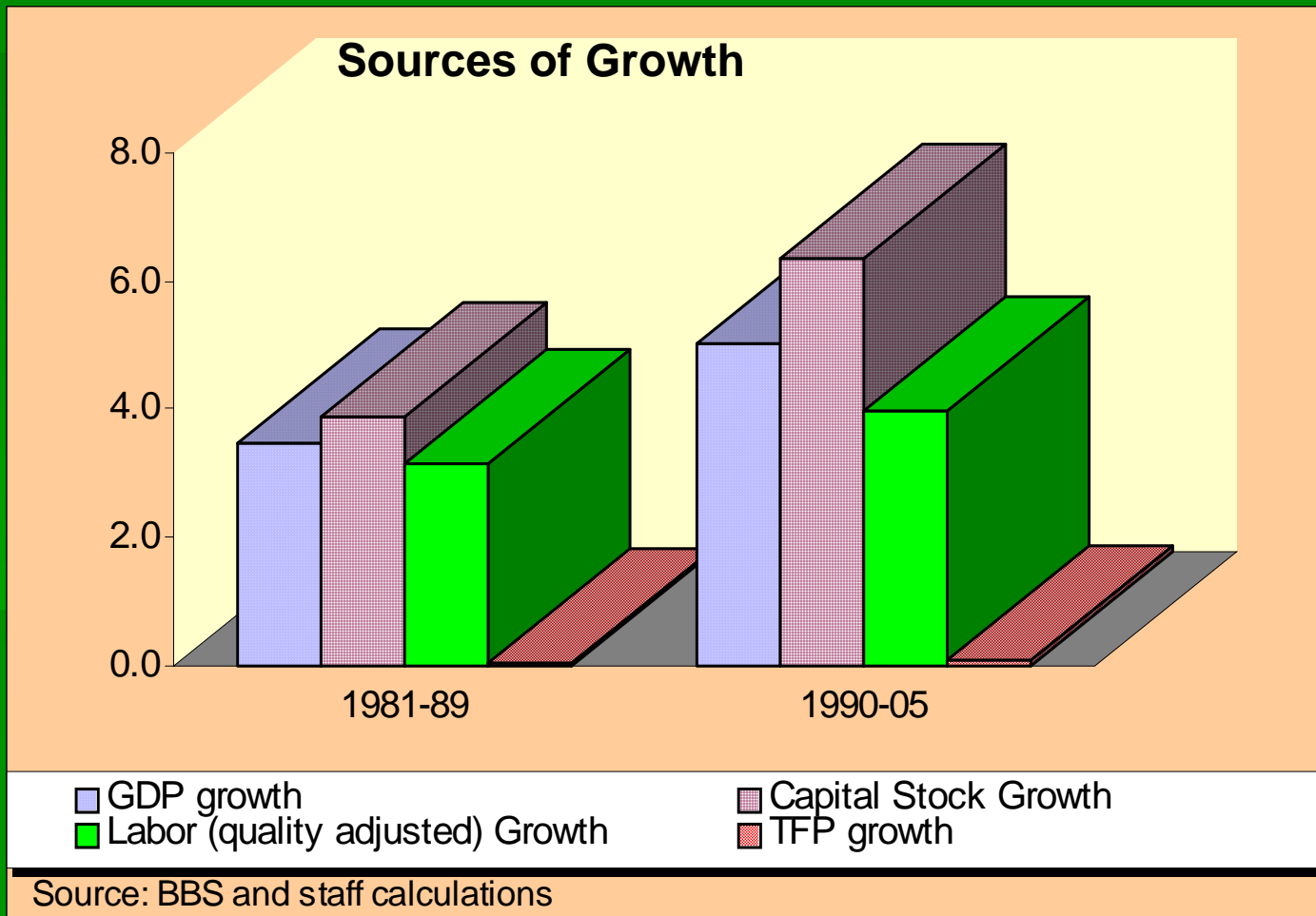
# Factors Underlying Growth

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# Factors Underlying Growth

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# Bangladesh Growth Challenge: Transition to Middle-Income Status

- At US\$440 in 2004, Bangladesh's GNI per capita was a little over half the US\$825 cut-off for MIC classification used by IDA
- With 3.5% per capita growth (average for last 10 yrs), Bangladesh would become an MIC by 2022
- With 1% growth (average during 1980s), it would take 5 more decades to become an MIC
- Or, Bangladesh could become an MIC in 10 years, by 2016, if per capita growth improves to 6%
  - The main requirement for this would be much stronger TFP performance, although continued increases in private investment (by as much as 5% over the next 10 years) and improvements in labor force skills would also be needed

# Transition to MIC Status: Issues and Challenges

Four key transitions would be key for achieving the faster route to MIC status. A middle income Bangladesh will

- have reached a more advanced stage of her ***transition into the industrial and services sectors***. In particular, the country would have a much deeper manufacturing base driven by globally competitive private firms
- be significantly ***more open to investment and trade***, where Bangladeshi firms will be plugged into global supply chains and the country will figure prominently on global investment maps
- be able to provide ***more ample and productive job opportunities to her citizens***
- be ***far more urbanized*** than she is today

# Transition 1: Facilitating Sectoral Shifts

- Bangladesh's growth has been accompanied by a shift in output composition away from agriculture and in favor of manufacturing and services
- A key factor in Bangladesh's expected sectoral transformation would be robust factor productivity performance

# Transition 1: Facilitating Sectoral Shifts

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- Firm-level analysis suggests that the following areas need particular attention in order to improve productivity in manufacturing
  - The rapidly building power supply constraints
  - Limited access to FDI
  - Relatively high anti-export bias
  - Deficiencies in managerial skills
  - Low knowledge economy base
  - Persisting law and order weaknesses

# Transition 1: Facilitating Sectoral Shifts

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- Productivity performance in agriculture has worsened in recent years, resulting in slowdown in diversification and weak sectoral growth
- Moving forward, improving the productivity in crops and fishing sub-sectors would be particularly important, especially by
  - strengthening the research and extension system
  - expanding the use of the HYV variety of rice to *aman* crop, where use is limited to half the area
  - addressing the quality concerns in the shrimp industry
  - improving marketing infrastructure
  - attracting more private investment, especially in warehouses and cold storage facilities

# Transition 2: Deepening Global Integration

- A clear departure from the highly protectionist environment of earlier decades seen since 1991
- Trade liberalization, however, has been pursued in fits and spurts.
  - Substantial progress in the first half of 1990s
  - Much more gradual reduction in average protection since 1996
  - Key factor has been increased use of para tariffs, that offset reductions in customs duties
  - More tangible progress made in virtually eliminating trade related QRs, removing exchange restrictions, and floating the taka against the dollar
- Trade liberalization and resulting increase in export orientation has coincided with higher growth in Bangladesh

# Transition 2: Export Competitiveness Key

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- To further strengthen export competitiveness, the following need to be addressed:
  - High nominal protection (average protection remains among the highest in the world)
  - High levels of anti-export bias
  - Trade facilitation needs significant improvements, with inefficient functioning of the Chittagong port and various bottlenecks at customs and related to shipping and transportation

# Transition 3: Provide Fuller and More Productive Employment

- With over 1 million entrants each year, the economy is under tremendous pressure to create more and more productive jobs
- As noted, a mixed record on employment creation, with especially worrisome underemployment trends
- Need for caution in interpreting LFS data though, given concerns about data quality and comparability across LFSs
- Labor laws and regulations do not appear to be serious hindrances to the functioning of the labor market (especially compared with India)
- Of more serious concern are issues related to labor skills and mobility (from urban to rural and across economic sectors)

# Transition 4: Managing Rapid Urbanization

- Growth has been led by urban areas, especially the largest cities
  - About 25% of population lives in urban areas, compared with only 8% at independence
  - Share of urban economic activities has doubled to almost half
  - more than half the urban population is concentrated in the four largest cities
  - Dhaka alone has seen a 8-fold increase in its population.
- The process of rapid urbanization and its growing concentration is expected to continue
  - The share of urban population is projected to increase to one-third by 2030
  - Dhaka is projected to become the 2<sup>nd</sup> largest metropolis in the world by 2015

# Transition 4: Managing Rapid Urbanization

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- The costs of perhaps excessive urbanization in Dhaka are also becoming increasingly apparent
  - Rising congestion
  - Provision of infrastructure and urban services is lagging demand by a significant margin
  - Real estate costs in Dhaka has become among the most expensive in the world
- Clearly, economic returns from agglomeration and other benefits of being in Dhaka must also be quite high to justify the growing concentration despite the costs

# Transition 4: Managing Rapid Urbanization

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- The challenge for the policy makers is to prolong the agglomerations and other benefits from being in Dhaka while avoiding over-concentration and associated costs. Key measures would target:
  - Strengthening urban management of other cities to improve their potential as viable alternative locations to Dhaka
  - Ensuring a less Dhaka-centric pattern of investment in transport networks
  - Improving Dhaka's own urban management, especially by improving inter-agency coordination
  - Reducing public ownership of land, improving land record maintenance, reducing cost of registration procedures, and making property rights clearer
  - Enhancing local fiscal capacity, while simultaneously linking improvements to service delivery

# The Enabling Environment for Making the Key Transitions

The management of these major long-term transitions will be shaped by some key cross-cutting reform areas. In particular:

- Strengthening governance and regulatory environment
- Continuing sound macroeconomic mgmt, especially by tackling stresses from underpricing of energy products
- Addressing infrastructure constraints, with a special focus on power
- Creating a more efficient financial system, by persisting with the ongoing banking sector reforms that seek to de-emphasize the role of the public sector, strengthen competitive pressures, and tighten prudential regulations.

# Strengthening Governance and the Regulatory Environment

- increasingly compelling evidence that good governance matters to growth
  - Governance, corruption and related matters have been major and growing areas of concern in Bangladesh
  - The “Bangladesh Paradox” of good growth despite weak governance is then frequently posed as a serious puzzle
  - A possible resolution to this conundrum is that governance in Bangladesh may not be uniformly weak across the board. “Unbundling” of Governance produces mixed results
  - Still, there is little doubt that improvements in key dimensions of governance (core and sectoral) will be necessary to carry through the second generation reforms needed for achieving sustained high growth