BANGLADESH: THE PATH TO MIDDLE-INCOME STATUS FROM AN URBAN PERSPECTIVE

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Summary: To become a middle-income country by 2021, the 50th anniversary of its independence, Bangladesh needs to build a competitive urban space that is livable, connected and innovative. The results of a survey of 1,000 garment firms—conducted to provide a lens through which to investigate urban competitiveness—reveal that Dhaka City is the most productive location for garment firms in Bangladesh. However, it is falling behind in accessibility and livability because of high congestion and severe constraints in land and housing markets. Peri-urban areas of Dhaka are emerging as competitive manufacturing centers, but they suffer from Dhaka City’s congestion and have less access to infrastructure. Chittagong City has failed to capitalize on its comparative advantage as the country’s largest seaport city. Strategically located export processing zones are higher-productivity, higher-cost locations that are partially shielded from the inefficiencies of urban areas. Medium-size and small cities are uncompetitive “distant places,” which need to foster local entrepreneurship to find their comparative advantages.

Key Words: Urbanization, competitiveness, garment, agglomeration economies, Bangladesh
Acknowledgments

The study was prepared for the World Bank Bangladesh Growth Report (Country Economic Memorandum) under the overall guidance of Ming Zhang (sector manager, South Asia Urban & Water Unit) and Ellen Goldstein (country director for Bangladesh and Nepal). Pedro Amaral, Richard Clifford, Mario Di Filippo, Wietze Lindeboom, Viviana Mora, and Mark Roberts contributed to the study. The garment survey for the study was conducted by NIELSEN (Dhaka), with support from Wietze Lindeboom and Nadeem Rizwan. The study benefited from the advice and guidance of Lalita Moorty and Sanjay Kathuria. Valuable comments and inputs were received from Shihab Ansari Azhar, Songsu Choi, Thomas Farole, Steve Karam, Zhaed Khan, Bill Kingdom, Bala Menon, Martin Norman, Tony Venables, and the participants of the consultative workshops for the Bangladesh Growth Report (held in Dhaka November 30, 2011), in particular Dr. Hossain Zillur Rahman (executive chairman, Power and Participation Research Center, Dhaka); Prof. Nazrul Islam (chair, Centre for Urban Studies, Dhaka); and Prof. Wahiduddin Mahmud (chair, Economic Research Group, Dhaka). The Bangladesh Bureau of Statistics (BBS), the Bangladesh Garments Manufacturers and Exporters Associations (BGMEA), the Bangladesh Knitwear Manufactures & Exporters Association (BKMEA), and the Bangladesh Export Processing Zones Authority (BEPZA) provided guidance and support to the survey team. The study was jointly funded by the World Bank, the Australian Agency for International Development (AusAID), and Cities Alliance. Full results of the study and the garment survey are available upon request.
I. INTRODUCTION

Bangladesh needs to accelerate its economic growth if it is to become a middle-income country by 2021, the 50th anniversary of its independence (Government of the People’s Republic of Bangladesh, 2010). This study posits that Bangladesh needs a significant increase in the competitiveness of its urban areas to become a middle-income country by 2021. Urbanization and economic growth have been strongly correlated in Bangladesh since the 1980s. Urban areas now produce about 60 percent of the country’s GDP (UNICEF, 2010). Despite the strong contribution of urban areas to growth, however, Bangladesh’s economic output is relatively low from an international perspective, affecting its prospects for long-term growth.

The study defines a competitive urban space as a space that is livable, connected, and capable of innovation. Urban competitiveness captures a city’s comparative advantage in attracting mobile production factors and its ability to leverage these advantages to sustain growth. International empirical evidence suggests that cities with a livable and high-quality environment, internal and global connection and high innovation levels are economically successful because they are attractive locations for firms and workers.

A livable city is a competitive city, especially in a rapidly changing global economy characterized by increasingly mobile human resources. Although market forces drive economic dynamism, public policy has to deal with the urban externalities that affect livability, such as congestion, slum formation, and environmental degradation. Successful cities have better accessibility: they are connected internally through an efficient road network and public transport system as well as externally, to the global economy. Firms located in well-connected cities find it easier to access networks of resources, including labor and components of the supply chain. Innovation emerges through market forces. The knowledge spillovers that foster innovation are easier to capture within an urban space—as witnessed by the fact that more than 81 percent of patents granted in OECD countries are filed by applicants in urban areas. (OECD, 2006; World Bank, 2010b)

This study assesses the competitiveness of Bangladesh’s urban areas from a private sector perspective. It presents empirical evidence on urban competitiveness based on the results of a survey of 1,000 garment firms carried out in 2011. The study is not about the garment sector per se. The sector is the lens through which the competitiveness of urban areas in Bangladesh is viewed. Concentrated largely in urban areas, Bangladesh’s garment sector provides a large enough sample to allow comparison of competitiveness across urban locations.1 The lessons learned and policy directions emerging from the analysis shed light on how to create a better urban environment benefiting not only the garment sector but other urban-based sectors as well.

The study is structured in six main sections. Section II analyzes the main features of Bangladesh’s urban space today in light of international experience in order to examine what is “typical” about its process of urbanization and to identify the implications for the growth agenda. Section III simulates Bangladesh’s path to middle-income status from an economic geography perspective. Section IV discusses the economic geography of the garment sector and explores the competitiveness factors driving garment firms’ location choices. Section V compares the drivers of and obstacles to urban competitiveness across locations through the lens of the garment sector.

1 The analysis is not a full competitiveness assessment of the garment sector, as industry-specific factors affecting competitiveness are outside the scope of the study.
Section VI makes a series of specific policy recommendations on how cities in Bangladesh can address their competitiveness constraints and leverage their comparative advantages to accelerate growth.

II. BANGLADESH’S URBAN SPACE TODAY

Bangladesh’s urban space today is characterized by eight main features:

- rapid urbanization accompanied by strong economic growth;
- exceptionally high population density;
- the primacy of Dhaka’s metropolitan area\(^2\);
- highly concentrated economic production and relatively low economic density;
- specialization of the urban economy in low value-added, labor-intensive garment production;
- the emergence of a Dhaka metropolitan region as garment production peri-urbanizes;
- an urban environment characterized by poor infrastructure, low level of services, and lack of amenities;
- persistent, albeit declining, regional disparities in welfare.

Table 1 describes and benchmarks each of these features against international experience, identifying what is unique about Bangladesh’s urban space and the implications for the growth agenda.

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Bangladesh has the highest population density in the world\(^3\), and its exceptionally high population density has implications for the growth agenda (Figure 1). High population density demands equally high economic density (GDP or value added per square kilometer) for economic growth. This in turn requires enhancing the competitiveness of Bangladesh’s urban areas: only competitive urban areas can sustain the high economic density that Bangladesh needs to reach middle-income status.

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\(^2\) A primate city is at least twice as large as the country’s second-largest city.

\(^3\) Excluding small islands and city states.
Specialization in low value-added garments has served Bangladesh well, but it is a constraint for Bangladesh’s transition to middle-income status. As international experience shows, countries do not reach middle-income status until they diversify and increase the sophistication of their exports (figure 4). To support the transition to middle-income status, Bangladesh needs to gain a competitive edge in higher value-added products and services. Key to gaining this edge is the Dhaka metropolitan area, the country’s capital and growth engine (figure 8 and 9).

Bangladesh’s cities are characterized by poor infrastructure and low level of services from an international perspective: the pace of urban growth has stretched infrastructure to its limit. Poor infrastructure is a constraint for competitiveness, negatively affecting livability and connectivity. Dhaka City ranks among the 10 worst large cities in the world in provision of services, according to the Economic Intelligence Unit’s annual ranking of 140 cities worldwide (figure 3 and 4). Other cities in Bangladesh fare even worse: only 11 percent of solid waste management is collected in Chittagong City, compared with about 56 percent in the Dhaka metropolitan area (NIPORT, MEASURE Evaluation, ICDDR,B and ACPR, 2008).

For qualitative indicators, a rating is awarded based on the judgment of in-house analysts and in-city contributors. For quantitative indicators, a rating is calculated based on the relative performance of a number of external data points. The scores are then compiled and weighted to provide a score of 1–100, where 1 is intolerable and 100 ideal.
### Table 1: Bangladesh’s urban space—Distinct features from an international perspective

<table>
<thead>
<tr>
<th>Features</th>
<th>Evidence</th>
<th>International benchmarking</th>
</tr>
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<tbody>
<tr>
<td><strong>Rapid urbanization</strong></td>
<td>Bangladesh experienced one of the most rapid increase in urbanization in South Asia, and urbanization has accompanied growth since the 1980s (see figure 5).</td>
<td>Typical: Bangladesh’s pace of urbanization is in line with its level of economic development (see figure 6).</td>
</tr>
<tr>
<td><strong>High population density</strong></td>
<td>Bangladesh has exceptionally high population density (900 people per square kilometer); urban population density is 1,800 people per square kilometer (BBS, 2011a).</td>
<td>Outlier: Bangladesh has the highest population density in the world excluding city-states and small islands (see figure 1).</td>
</tr>
<tr>
<td><strong>Primacy of Dhaka</strong></td>
<td>The Dhaka metropolitan area (13 million) is one the 20 largest megacities in the world. Dhaka City (7 million) is a primate city, with almost three times the population of Chittagong City (2.6 million) (BBS, 2011c).</td>
<td>Typical: as countries urbanize, they experience greater demographic concentration (see figure 7). Policy question is how to manage a city of Dhaka’s size and primacy.</td>
</tr>
<tr>
<td><strong>Economic concentration in Dhaka and Chittagong</strong></td>
<td>Dhaka and Chittagong’s outputs dominate Bangladesh’s economic landscape. Dhaka metropolitan area accounts for 9 percent of Bangladesh’s population and 36 percent of GDP. Chittagong, home to 3 percent of the population, contributes another 11 percent of GDP (see figure 8).</td>
<td>Typical: while Bangladesh’s economic concentration is high for low-income countries, its economic density is low from an international perspective (figure 10), and economic activities agglomerate as a country develops (see figure 8).</td>
</tr>
<tr>
<td><strong>Economic specialization of Dhaka and Chittagong</strong></td>
<td>Dhaka and Chittagong have specialized industrial and export bases in low value-added garment production. Garments account for half of total formal employment in Dhaka City, 65 percent of formal nonfarm jobs in peri-urban areas, and 67 percent of formal employment in Chittagong City (BBS, 2009; see figures 13, 14 and 17).</td>
<td>Typical but a constraint: countries do not reach middle-income status until they diversify and increase export product sophistication (see figure 4).</td>
</tr>
<tr>
<td><strong>Peri-urbanization of garment production</strong></td>
<td>A greater Dhaka metro region is emerging as garment employment peri-urbanizes (see figures 15 and 16). There is, however, no institutional coordination mechanism at the metropolitan level (Ahmed, Ahmad and Mahmud, 2007).</td>
<td>Typical: as manufacturing activities mature, they sprawl to peri-urban areas, in line with experience from countries such as Brazil, Indonesia and South Korea (Henderson, Kunkuro and Nasution, 1996, De Mata et al, 2005 and World Bank 2011a). Policy question is how to manage peri-urbanization.</td>
</tr>
<tr>
<td><strong>Poor infrastructure, services and amenities</strong></td>
<td>Bangladesh’s main cities are characterized by low level of infrastructure, services and lack of amenities (NIPORT, MEASURE Evaluation, ICDDR,B and ACPR, 2008).</td>
<td>Outlier: Dhaka ranks among the worst 10 cities in the world in provision of services and amenities. Urban congestion in Dhaka rated intolerable (see figures 5 and 6).</td>
</tr>
<tr>
<td><strong>Regional disparities in welfare</strong></td>
<td>Although declining, the welfare divide between eastern and western Bangladesh persists. Bangladesh’s intricate river system is a barrier to regional integration, and the benefits of agglomeration economies have not spread equally across the country (World Bank, 2008 and BBS, 2011b).</td>
<td>Typical: regional disparities in welfare rise with income before they start to narrow (World Bank, 2009). Policy question is how to improve welfare in lagging regions without distorting market forces (Deichman et al, 2010; World Bank, 2010b).</td>
</tr>
</tbody>
</table>

*Source: Authors.*
**Figure 5 Urbanization and development in South Asia, 1960–2009**

Note: The decline in Sri Lanka’s urbanization is associated with a change in that country’s definition of urban.

**Figure 6 Urbanization and per capita gross national income, by world region, 2000**

Source: Authors, based on data from SEDAC 2011; World Bank 2011c.

**Figure 7 Urban concentration and per capita GDP in selected countries**

Source: Authors based on World Bank 2009.

**Figure 8 Economic density of Bangladesh, 2009**

Source: Authors, based on data from BBS 2009.

**Figure 9 Economic concentration by country income level, late 1990s to 2000s**


**Figure 10 Asia at night: Economic density proxied by light emission (2005)**

III. ENVISIONING THE FUTURE: A COMPETITIVE URBAN SPACE FOR GROWTH

The scenario analysis presented in this section simulates Bangladesh’s path to middle-income status from an economic geography perspective. Economic geography is the study of the location, distribution, and spatial organization of economic activities. A country’s economic geography results from the balance between the forces of concentration and dispersion (Fujita, Krugman and Venables, 1999). When concentration forces prevail, firms have an economic advantage to cluster to benefit from proximity to markets, firms, and businesses in the same industry (localization economies) or firms and businesses in different industries (urbanization economies) (see, for example, Porter, 1990; Glaeser et al., 1992).

Economic “hills” and “mountains” are the geographical representation of urban agglomerations. Agglomeration economies drive spatial economic outcomes; if well managed, they give cities a comparative advantage. The scenario analysis defines urbanization from an economic standpoint: the focus is on economic density (defined as GDP or value addition per square kilometer) rather than population density (people per square kilometer). The scenario analysis is based on data from the Socioeconomic Data and Applications Center (SEDAC, 2011).

The economic geography of a middle-income Bangladesh will have “taller mountains” and “more hills”. There are two complementary and interrelated spatial economic trajectories to middle-income status for Bangladesh. The first trajectory is a shift toward higher value-added products and services (an increase in the economic density of existing urban areas, or “taller mountains”). This scenario emphasizes higher value-added production in Dhaka and Chittagong. The second trajectory is greater diversification into nonfarm employment (“more hills”). This trajectory emphasizes nonfarm diversification outside the two main cities. Figures 11 and 12 illustrate these paths for Bangladesh.

5 The two concepts of economic and population density are conceptually distinct. A large concentration of people is not enough to create economic density, and increasing economic density does not always imply creating larger concentration of people: Bangladesh has the highest population density in the world, but its economic density is relatively modest compared with other Asian cities.

6 Higher value-added production would imply a shift of the vertical axis; greater diversification into nonfarm economic activities would imply a shift of the horizontal axis.
Figure 11 The path to middle-income status from an economic geography perspective

Source: Authors’ scenario analysis based on SEDAC, 2011; World Bank, 2011b. Note: LI = Low income; LMI = Lower-middle-income; BGD = Bangladesh.

Figure 12 Two paths to middle income status by 2021

a. Bangladesh in 2009  
b. Bangladesh as a middle income country

Note: Scenario A emphasizes higher value-added production in Dhaka and Chittagong. Scenario B emphasizes nonfarm diversification outside the two main cities.
The journey to middle-income status implies a major structural shift for all countries. International experience indicates that economic density and urbanization are positively correlated with a country’s GDP (figure 11 shows the cross-country correlation between urbanization, urban economic density and GDP based on a sample of 158 countries). To ensure comparability across countries, urbanization is proxied by a globally comparable geography-based measure, defined as the percentage of the population living in urban areas, as identified from satellite images of night-time lights (SEDAC, 2011). Given its exceptionally high population density, Bangladesh needs to shift toward higher value-added production and nonfarm diversification even more forcefully than historic trends suggest based on international experience. To become a lower-middle-income country, it needs the economic density of an upper-middle-income country. Even if Bangladesh reaches a level of urbanization in line with other lower-middle-income countries (50 percent), it would still require urban economic density four times as high as the average lower-middle-income country. Sensitivity analysis indicates that doubling rural productivity would reduce the minimum urban economic density associated with average lower-middle-income country level urbanization by only 15 percent.

Bangladesh cannot reach middle-income country status without increasing Dhaka’s competitiveness. Bangladesh should simultaneously pursue both economic transformations (“taller mountains and “more hills”). But the simulation indicates that Bangladesh cannot reach middle-income status without making Dhaka’s mountains taller. Creating a taller Dhaka requires a fundamental shift in the economy of the metropolitan area toward a more diversified economic base and a higher value-added industrial and service mix.

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7 Estimates are based on data from SEDAC’s Global Rural Urban Mapping Project (GRUMP) at the Center for International Earth Science Information Network (CIESIN), Columbia University. The GRUMP human settlements database is a global database of cities and towns of 1,000 people or more. GRUMP provides a common geo-referenced framework of urban and rural areas by combining census data with satellite data based on night-time lights data from the National Oceanic Atmospheric Administration (NOAA).
IV. THE ECONOMIC GEOGRAPHY OF THE GARMENT SECTOR

The garment sector is a thriving, export-oriented, urban-based industry (Uddin and Jahed, 2007). It is Bangladesh’s largest export industry, accounting for 40 percent of formal industrial employment. The sector has been highly successful in increasing economic density since the first garment firm was established, in Chittagong in 1977. Garment production is predominantly in urban areas (including peri-urban areas). The production centers are Dhaka City, peri-urban areas of Dhaka, and Chittagong City. In Dhaka City, 49 percent of formal jobs are in the garment sector. In the peri-urban areas of Dhaka, garment manufacturing accounts for 65 percent of total formal jobs (figures 13 and 14).

Although still concentrated in Dhaka City, garment production is sprawling to less densely populated peri-urban areas. By 2009, only 30 percent of garment jobs were located in Dhaka City, down from more than half in 2001. A garment cluster is emerging about 15 kilometers from Dhaka’s center. This cluster experienced an extraordinary increase in employment per square kilometer (figure 15). Garment employment has also started sprawling outside the boundaries of the Dhaka metropolitan area (figure 16).
Garments are also the largest and most important sector in Chittagong (figure 17). In contrast to Dhaka, where peri-urban areas play an increasingly important role, garment employment in Chittagong is still concentrated in the city; it is virtually absent in peri-urban areas, which specialize in textiles (figure 18).

The garment sector is absent in medium-size and small cities (figure 19) and nonmetropolitan pourashava (municipalities) (figure 20). Secondary cities are largely service oriented; garments account for a relatively small share of formal jobs in nonmetropolitan pourashava.
The garment sector shows regional specialization, clustering, and segmentation based on product lines and export markets. It is characterized by firm-level specialization in four product lines: t-shirts, pants, shirts, and sweaters. On average, a firm’s main piece of clothing accounts for 74 percent of its sales. Specialization in Dhaka City is most pronounced in the production of suits. Undergarment producers are highly concentrated in Chittagong City, followed by trousers, shorts, skirts, jackets, sweaters, and pajamas (figure 21, panel a and b). There is also strong evidence of clustering of firms by export market. Products from Dhaka are more likely to be exported to Europe, and products from Chittagong are more likely to be exported to the United States (figure 21, panel c).

**Figure 21 Clustering of garment firms in Bangladesh**

<table>
<thead>
<tr>
<th>a. Production of knitted garments</th>
<th>b. Production of woven garments</th>
<th>c. Destination of garment exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dhaka SMA</td>
<td>Gazipur P.</td>
<td>Savar P.</td>
</tr>
<tr>
<td>KNITWEAR</td>
<td>T-shirts</td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td>Undergarment</td>
<td>Savar P.</td>
</tr>
<tr>
<td></td>
<td>Sweaters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Urban</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dhaka CC</td>
<td></td>
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<tr>
<td></td>
<td>Chittagong CC</td>
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<tr>
<td></td>
<td>Naganyanj P.</td>
<td></td>
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<tr>
<td></td>
<td>Kadamrasul P.</td>
<td></td>
</tr>
<tr>
<td>Dhaka SMA</td>
<td>Gazipur P.</td>
<td>Savar P.</td>
</tr>
<tr>
<td>WOVEN</td>
<td>Pants</td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td>Jackets</td>
<td>Savar P.</td>
</tr>
<tr>
<td></td>
<td>Suits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trouser, Shorts</td>
<td></td>
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<tr>
<td></td>
<td>Other</td>
<td></td>
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<td></td>
<td>Urban</td>
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<td></td>
<td>Dhaka CC</td>
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<td>Chittagong CC</td>
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<td>Naganyanj P.</td>
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<tr>
<td></td>
<td>Kadamrasul P.</td>
<td></td>
</tr>
<tr>
<td>Dhaka SMA</td>
<td>Gazipur P.</td>
<td>Savar P.</td>
</tr>
<tr>
<td>MAIN PLACE OF SALES</td>
<td>US</td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td>Europe</td>
<td>Savar P.</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
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<tr>
<td></td>
<td>Other</td>
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<td></td>
<td>Urban</td>
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<td></td>
<td>Kadamrasul P.</td>
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</tbody>
</table>

**Source:** garment firm survey 2011. **Note:** SMA = Statistical Metropolitan Area, CC = City Corporation (center
Firms choose their location after weighing the opposing forces promoting agglomeration and dispersion. Agglomeration (centripetal) forces include localized positive externalities, such as pooled labor markets, knowledge spillovers, and the provision of infrastructure. Dispersion (centrifugal) forces include the diseconomies associated with rising factor costs and negative externalities, such as road congestion and pollution (see, for example, Lall, Zmarak and Deichmann, 2001). The survey of garment firms carried out for the study sheds light on the forces driving garment firms’ location decisions.

Forces promoting agglomeration prevail in the garment sector. The survey results indicate that when choosing their location, the factors garment firms value most are access to skilled labor and access to power, followed by access to highway and port, proximity to support businesses, telecom and access to airport (figure 22). All these factors draw firms to cities. The survey results are consistent with international findings that the price of the final garment product and the lead time (the time it takes to deliver the order to the client), which depend on access to labor and connectivity, are the most important drivers of the international competitiveness of the garment sector (World Bank, 2011b).

Traffic congestion and the high cost of land and housing are emerging forces promoting dispersion of garment production. Garment firms rank urban mobility as the third most important location competitiveness factor, after access to skilled labor and power. Garment firms also highly value the availability and cost of land and the price of buildings. These location factors work against agglomeration forces to promote dispersion of economic activities to lower-cost locations. They are particularly important for urban policy formulation, because cities can control their costs, through effective city management.

*Figure 22 Competitiveness factors determining garment firms’ choice of location*
V. URBAN COMPETITIVENESS: DRIVERS AND OBSTACLES FROM THE PERSPECTIVE OF THE GARMENT SECTOR

The survey of garment firms highlights differences in firm performance across locations and the impact of the local environment on competitiveness. The survey is representative of six locations: Dhaka City, urban peri-urban areas of Dhaka, rural peri-urban areas of Dhaka, the Dhaka export processing zone (EPZ), Chittagong City, and the Chittagong EPZ. The sampling frame was drawn to ensure adequate coverage of small, medium-size, and large firms as well as producers of both knitwear and woven garments. Garment managers and accountants were interviewed at the sampled firms. Two hundred workers were also surveyed, in a subsample of randomly selected garment firms. The stratification led to a required total sample of 1,000 firms.

The survey results reveal significant variation in competitiveness across the surveyed locations. Access to markets and labor, and electrical power are Dhaka City’s main comparative advantages. However, Dhaka City is falling behind in accessibility and livability, because of heavy traffic congestion and severe constraints in land and housing markets. Peri-urban areas of Dhaka benefit from access to markets, given the proximity to Dhaka, but they suffer from Dhaka City’s congestion and have less access to infrastructure. Chittagong City has advantages in accessibility, land, and housing relative to Dhaka but is at a disadvantage in access to markets (table 2 and figure 24 below).

Table 2 Garment firms’ ratings of Dhaka and Chittagong

Source: garment firm survey 2011.
The rest of the section discusses the drivers of and obstacles to competitiveness for the six surveyed locations, and highlights garment firms’ views of medium-size and small cities’ competitiveness.

**Dhaka City**

Dhaka City is the most productive location for garment firms in Bangladesh. For some firms, however, the city’s costs have started to outweigh it benefits. Dhaka City has a total factor productivity premium in garment production over both Chittagong City and peri-urban areas of Dhaka (figures 23).\(^8\) Dhaka is the best-performing city location for access to skilled labor and power supply—the two factors garment firms value most when choosing a location—as well as proximity to suppliers, subcontractors, machine repair technicians, and support businesses. It is falling behind in accessibility, rated by garment firms the worst-performing location in Bangladesh for urban mobility and access to the highway (MCCI and CMILT, 2010). Compared with firms in Chittagong City, firms in Dhaka City also have a disadvantage in accessing the port and the airport. Firms and workers alike in Dhaka also suffer from the limited availability and high prices of land and housing.

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\(^8\) Total factor productivity is the portion of output not explained by the volume of inputs used in production.
Source: garment firm survey 2011. Note: results show that Dhaka City retains its productivity premium over Chittagong City across the entire distribution of firms, from the least to the most productive. The productivity premium of Dhaka City over peri-urban areas is evident for the average firm but does not hold at the bottom or top of the distribution.

The high productivity of garment firms in Dhaka City has not led to better living conditions for production workers. Almost half of the city’s population lives in slums (World Bank, 2007). Relative to garment workers in Chittagong City, garment workers in Dhaka City live in a deteriorating urban environment, characterized by crime and violence, overcrowding, and significantly lower access to housing and services. About 36 percent of garment workers reported having regular access to electricity in Dhaka City, compared with 76 percent in Chittagong City. Dhaka City is the location with the highest share of urban-related inefficient worker turnover (defined as separations caused by a dysfunctional urban environment rather than by more competitive job offers). Twenty-eight percent of garment workers in Dhaka cite urban-related factors as the main reason for separation, compared with 17 percent in Chittagong City. Housing availability is cited as the main reason for “urban-related” separations in Dhaka City, followed by the high cost of living.

*Peri-urban Area of Dhaka*

The birth of new firms rather than the relocation of existing firms is driving peri-urbanization in the garment sector. On average, firms located in Dhaka City have been in operation for 10 years, compared with 7.6 years in (urban) peri-urban areas and 7.0 years in (rural) peri-urban areas of Dhaka. Nevertheless, understanding the causes of relocation can shed light on the main drivers of peri-urbanization.

Inadequate transport infrastructure and access to land in Dhaka City are the leading causes of firm relocation to peri-urban areas. Fifty percent of the firms that relocated to peri-urban areas cited a desire to gain better access to transport infrastructure and avoid Dhaka’s congestion as the primary reason for relocation. Another 25 percent relocated because of high costs and limited availability of land, buildings, and housing in Dhaka City.

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9 The higher level of net firm birth in peri-urban areas relative to Dhaka City is driving the peri-urbanization of garment production.
Peri-urbanization is associated with the growth of a more competitive vertically integrated business model in the garment sector. Peri-urban garment firms are more likely to be vertically integrated (that is, to derive all of their raw material from internal production) than garment firms in Dhaka City. In Dhaka City, 37 percent of garment firms are vertically integrated, compared with 46 percent of firms in peri-urban areas, and the difference is statistically significant. Peri-urban firms are also more likely to be land intensive than firms in Dhaka City.10

These findings suggest that younger firms are opting for a consolidated, vertically integrated business model, which has significantly advantages for international competitiveness. Vertically integrated firms have statistically significantly lower lead time than the average garment firm (with a time savings of four days) and are therefore better equipped to compete internationally.

Peri-urban areas benefit from Dhaka’s access to markets, and they have a comparative advantage in accessibility, land, and housing. Peripheral municipalities perform as well as Dhaka City in access to skilled labor, suggesting that they benefit from proximity to Dhaka City. Peripheral rural areas are less competitive in access to markets, in particular buyers, suppliers, subcontractors, competitors, and support businesses. Peri-urban areas have a significant advantage over Dhaka City in land and housing, urban mobility, and access to highway.

Peri-urban areas suffer from Dhaka City’s congestion, and they have less access to infrastructure. Sixty percent of managers in peri-urban areas travel regularly to Dhaka (an average 13 times a month), and they spend on average 2.0 hours a day traveling to business meetings, only slightly below the average for Dhaka City (2.5 hours a day) but significantly below the average for Chittagong City (0.9 hours a day).

Access to power is a constraint in peri-urban areas. Power outages range are 4.5–4.8 hours a day, compared with 4.2 hours a day in Dhaka City. Access to public water and sewerage is reported to be inadequate, and the difference in performance with Dhaka City is statistically significant.

Chittagong City

Chittagong City has an advantage in accessibility, land, and housing relative to Dhaka; it is at a disadvantage in access to markets. Chittagong is a lower-productivity, lower-cost garment production center than Dhaka City. It is less competitive than Dhaka in access to markets, in particular access to skilled labor, the factor garment firms value most, and proximity to suppliers and support businesses. Chittagong City’s lower productivity is partly compensated for by its cost advantage in land and housing. Garment firms rank it as the best-performing location for availability and cost of land, buildings, and housing for workers. Chittagong City also has a marked comparative advantage in accessibility. It is the top location for access to the port, airports, and highways and for urban mobility.

Port cities play an important role in fast urbanizing economies (Lall, Wang and Deichmann, 2010). The Chittagong port handles 80–85 percent of Bangladesh’s foreign trade, including the bulk of its main export, garments. Dhaka firms have access to the Chittagong port through the Dhaka-Chittagong corridor, the main transport network within Bangladesh.11 But Chittagong has

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10 Land intensity is defined as factory square footage per production worker. Production in factories located in peripheral municipalities is 29 percent more land intensive and production in rural areas is 21 percent more land intensive that production in Dhaka City.

11 The corridor is served by three modes of transportation (road, rail and inland waterways ) which together carry about 20 million tons of freight annually (Asian Development Bank, 2004).
not been able to capitalize on its comparative advantage as the largest seaport city in Bangladesh, because its port is one of the most inefficient ports in Asia. Slow turnaround times undermine it exports, in particular garments (World Bank, 2005). Garment firms identify the Chittagong port as the main factor negatively affecting lead time in the industry: at 88 days, lead time in Chittagong is considerably slower than in China (40–60 days) or India (50–70 days) (Haider, 2007). Half the firms surveyed cited the time it takes to unload at port as the main bottleneck they face. Another 30 percent cite the time required to obtain port clearance.

**Export processing zones**

EPZs are higher-productivity, higher-cost locations that are partially shielded from the inefficiencies of urban areas. Even after controlling for firm characteristics, garment firms in EPZs have higher total factor productivity than garment firms outside EPZs. From a productivity viewpoint, therefore, EPZs are attractive locations. However, wages and building rent are higher in EPZs. The cost differential suggests that the attractiveness of EPZs is interacting with constraints on the supply side to bid up wages and rents. The Chittagong EPZ is the best-performing location among all the surveyed locations and the only one with satisfactory performance across all location factors, including access to power.

**Medium-size and small cities**

Medium-size and small cities are viewed as uncompetitive “distant places.” Rather than attempt to attract firms from elsewhere through relocation incentives, these cities need to foster local entrepreneurship to find their comparative advantages.

Garment firms cite lack of access to markets, in particular skilled labor, as the main disadvantage in medium-size and small cities. Unlike the very successful EPZs in Dhaka and Chittagong, the EPZs located in “distant locations” have not succeeded in attracting garment firms. The failure of EPZs outside Dhaka and Chittagong is consistent with evidence of “path dependency” in garment firms’ location choices (the fact that few firms relocate at all): only 10 percent of the sampled firms in Dhaka and Chittagong relocated. Of those that did, no firm moved to another city.\(^\text{12}\)

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\(^\text{12}\) Path dependency in firms’ location choices is consistent with evidence of spatial clustering and market segmentation based on product lines and export markets in the garment sector. Path dependency also reflects a tendency for relocating firms to move only short distances. This practice has been observed in other countries, such as Brazil (Hamer, 2005).
**Figure 24 Location performance relative to Dhaka City, by location factor**

### a. Access to markets and labor

<table>
<thead>
<tr>
<th>Location Factor</th>
<th>City</th>
<th>Peri-urb</th>
<th>Peri-rur</th>
<th>EPZ</th>
<th>EPZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proximity to buyers</td>
<td>3.3</td>
<td>3.3</td>
<td>3.0</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Proximity to suppliers</td>
<td>3.2</td>
<td>3.3</td>
<td>3.1</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Access to unskilled labor</td>
<td>3.7</td>
<td>3.4</td>
<td>3.1</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Access to skilled labor</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
<td>3.3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

### b. Access to skilled labor

<table>
<thead>
<tr>
<th>Location Factor</th>
<th>City</th>
<th>Peri-urb</th>
<th>Peri-rur</th>
<th>EPZ</th>
<th>EPZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proximity to competitors</td>
<td>3.4</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Proximity to machine repair</td>
<td>3.2</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Access to support business</td>
<td>3.4</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
<td>3.6</td>
</tr>
</tbody>
</table>

*Note: The values represent the performance of each location relative to Dhaka City, with negative values indicating better performance compared to Dhaka.*
b. **Infrastructure**

- **Access to public water and sewerage**
  - Dhaka: 2.9, Chittagong: 3.1, EPZ: 3.8
  - Peri-urb: 2.7, Peri-rur: 2.8, City: 0.2***

- **Access to telecom services**
  - Dhaka: 3.0, Chittagong: 3.1, EPZ: 0.3***
  - Peri-urb: 2.9, Peri-rur: 3.1, City: 0.1

- **Access to public electricity**
  - Dhaka: 1.9, Chittagong: 1.9, EPZ: 2.5
  - Peri-urb: 1.8, Peri-rur: 1.9, City: 0.6***

- **Access to social services**
  - Dhaka: 2.9, Chittagong: 3.1, EPZ: 3.3
  - Peri-urb: 2.7, Peri-rur: 2.8, City: 0.3***


c. **Accessibility**

- **Access to highway**
  - Dhaka: 2.8, Chittagong: 3.1, EPZ: 3.4
  - Peri-urb: 2.9, Peri-rur: 3.1, City: 0.15**

- **Access to airport**
  - Dhaka: 3.0, Chittagong: 3.2, EPZ: 3.5
  - Peri-urb: 2.9, Peri-rur: 3.1, City: 0.36***

- **Low traffic congestion**
  - Dhaka: 2.0, Chittagong: 2.4, EPZ: 2.9
  - Peri-urb: 2.4, Peri-rur: 2.4, City: 0.42***

- **Access to port**
  - Dhaka: 2.3, Chittagong: 2.2, EPZ: 1.9
  - Peri-urb: 2.3, Peri-rur: 2.2, City: 1.27***
d. Land and housing

Access to land

Price of buildings

Housing

Safety

e. Regulation and governance

Obtaining permits

Government proximity

Informal networking

Ability to work at night

Source: garment firm survey 2011. Note: performance ranking: 1 = very poor, 2 = poor, 3 = adequate and 4 = excellent. Asterisks indication that the location underperformed (pink) or outperformed (blue) Dhaka City in a statistically significant manner. *** significant at 1% level; ** significant at 5% level; * significant at 10% level. Peri-urb = peri-urban areas (urban); peri-rur = peri-urban areas (rural).
VI. BUILDING A COMPETITIVE URBAN SPACE IN A GLOBAL ECONOMY: STRATEGIC DIRECTIONS

A competitive urban space in a global economy is livable, connected and innovative (OECD, 2006; World Bank, 2010b). Bangladesh’s urban space is falling behind in all three drivers of urban competitiveness. To support the transition to middle-income status, Bangladesh needs to take the following steps:

- **Increase livability and attractiveness for firms and workers alike.** The development of an economically dynamic urban space in the Dhaka metropolitan area has occurred at the expenses of livability. According to the Economic Intelligence Unit global livability index, Dhaka is one of the 10 worst places in the world to live (EIU, 2010). The city’s inadequate living conditions have already started eroding its comparative advantage in low value-added, labor-intensive manufacturing, by increasing firms’ operational costs as a result of high worker turnover. Improving Dhaka’s livability and amenities is a priority to support Bangladesh’s transformation to middle-income status. The livability of the urban space will become an even more binding constraint to economic growth as Bangladesh transitions to a new business model based on higher value-added industries and services, requiring a highly skilled and internationally mobile workforce.

- **Improve connectivity, both internally and with the global economy.** The most successful cities have the infrastructure to move goods, services, and people quickly and efficiently. Dhaka’s traffic congestion imposes high economic costs; Chittagong City’s port is a major bottleneck to competitiveness. The main competitiveness constraint on medium-size and small cities is their “distance” to markets. The Dhaka metropolitan area needs to be better connected internally and with its peri-urban areas, and both Dhaka and Chittagong have to strengthen their connectivity to the global economy. Improved connectivity within the Dhaka-Chittagong corridor is also important for productivity and export competitiveness.

- **Enhance the capacity to innovate within a productive and diversified urban economy.** The Dhaka metropolitan area needs to move away from the production of low-value manufacturing products to an economy based on a high-value industrial and service mix. The formation of new firms around high-value products or technologies is a positive-sum game, not just for the metropolitan area but for the country as a whole. Moving to high-value products and services requires highly skilled human resources and an innovation capacity fueled by the cross-fertilization of ideas that is characteristic of large metropolitan areas.
This study identifies four strategic directions to improve livability, connectivity and innovation across Bangladesh’s cities:

A. transforming Dhaka into a globally competitive metropolitan region;
B. leveraging Chittagong’s natural comparative advantage as a port city;
C. promoting strategically located EPZs to strengthen competitiveness and spearhead urban reforms;
D. developing the enabling environment for local economic development in medium-size and small cities.

Implementing these strategic directions requires a shift from reactive and remedial measures to proactive urban policies based on infrastructure, institutions, and incentives. Empirical evidence reinforces the policy imperative for improving urban and connective infrastructure in Bangladesh’s cities. It also points to the need to pay greater attention to building institutions and providing incentives for improved competitiveness. Most important, it suggests that all three policy tools need to be pursued in a coordinated fashion. The rest of this section identifies specific policies and actions related to each of the four broad strategic directions.

A. Transforming Dhaka into a globally competitive metropolitan region

A.1 Develop appropriate institutional mechanisms for core-periphery coordination in the emerging Dhaka metropolitan region. Despite their important economic function as industrial centers, peri-urban areas are growing under the radar. Because their infrastructure requirements have gone largely unmet, they have not been able to develop to their full potential. Managing an expanding urban agglomeration the size of Dhaka requires institutional mechanisms to support coordination between the core and the periphery. Such mechanisms are particularly important today, because of the emergence of peri-urban areas as prime manufacturing centers. The priority is to define the boundaries of the Dhaka metropolitan region based on economic criteria, such as self-contained labor markets, and develop coordination mechanisms to integrate peri-urban areas into spatial planning and economic development at the appropriate administrative level. International experience suggests that there is no one size fits all model for metropolitan coordination and management; solutions need to be tailored to the local context (OECD, 2006; Slack, 2007).

A.2 Improve infrastructure to leverage Dhaka City’s productivity advantage. Garment firms identify power and telecom as among the most important competitiveness factors. Although Dhaka City has an advantage in the reliability of power supply over peri-urban areas and Chittagong City, its power supply is inadequate to support the growth of globally competitive and high value-added industries and services. Strengthening the competitiveness of the telecom industry is an important step in transforming Dhaka into a globally competitive metropolitan region that will support the growth of the emerging information and communications technology (ICT) sector (figure 13). A priority is to prepare a plan for integrated infrastructure investment and capital development for the entire metropolitan level, with strong stakeholder coordination and private sector buy-in to identify investment priorities and financing options.
A.3 Enhance urban mobility in order to manage the growing diseconomies of agglomeration in Dhaka City. Lack of mobility is the main obstacle to competitiveness in Dhaka City. The costs of traffic congestion are quickly spreading to the entire metropolitan area. Large-scale, coordinated, and sustainable road and public transportation investments, including a mass rapid transport system, are needed. Particular attention should be paid to linking Dhaka City with peripheral rural areas, which are playing an important economic function but have a connectivity disadvantage relative to peripheral municipalities, and to improving Dhaka’s connectivity with the global economy.

A.4 Upgrade peripheral infrastructure in order to transform peri-urban areas of Dhaka into globally competitive manufacturing centers. A globally competitive garment sector needs competitive peri-urban areas. Peri-urban areas benefit from proximity to Dhaka and have a comparative advantage in accessibility and a cost advantage in land and housing, but their infrastructure is not on a par with Dhaka City’s or adequate to support a globally competitive industry. Policy interventions should focus on improving productive infrastructure, in particular power and telecom, and basic services, such as water and sewerage, to support the newer garment clusters at the periphery of Dhaka City. Such a focus requires understanding the business model of peri-urban garment clusters—which differ from the old, consolidated garment clusters in Dhaka City—and the challenges they face to remain competitive in a global economy and developing an action plan to strengthen their competitiveness.

A.5 Strengthen institutions for more efficient and integrated land and housing markets in the Dhaka metropolitan region. Land and housing shortages in Dhaka are a manifestation of inefficient management of the city’s agglomeration economies. If not addressed, they will stifle the city’s long-standing tradition of local entrepreneurship and private sector dynamism. The main urban-related factor affecting turnover of garment workers is lack of housing, followed by the high cost of living. Functioning land and real estate markets in the Dhaka metropolitan area are particularly important in the short run because they would provide efficient price signals for firms locating in Dhaka’s peri-urban areas; in the longer-term, such markets would facilitate the reuse of land and real estate in Dhaka’s central business district. A priority is to assess the land and housing sector at the metropolitan level in order to identify the institutional and policy changes required to address supply and demand bottlenecks in the market.

A.6 Strengthen the coordinating role of local authorities to foster a business environment that rewards entrepreneurship and innovation. To reach middle-income status, Bangladesh needs a vibrant and economically diverse Dhaka metropolitan area. Dhaka currently lacks the economic diversity that is expected in a metropolitan area its size. As garment firms move to peri-urban areas, there is limited evidence of high value-added replacement industries emerging in Dhaka City to ensure continued urban vitality. Dhaka City still has to find its competitive edge; growth in the emerging ICT sector has been driven largely by industry growth rather than local competitiveness.13 Dhaka’s main comparative advantages—its large pool of skilled labor and its tradition of local entrepreneurship—are the main assets it can harness to reinvent itself.

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13 The shift-share analysis, based on data from the Bangladesh Bureau of Statistics (2001, 2009), indicates that industrial growth, rather than local competitiveness, is the main driver of employment growth in the telecom and information technology sectors in Dhaka City.
entire value chain in the garment cluster—from production of raw material to marketing and innovation—needs to be upgraded to enable the transition toward higher value-added production.

Local governments, in close partnership with the private sector, have an important role to play as coordinators, conveners, and facilitators of a business environment that rewards entrepreneurship and innovation (World Bank, 2010b). In partnership with industry associations and universities, for example, government officials in Dhaka City and peripheral local authorities could coordinate skill upgrading and training initiatives at the metropolitan level to meet local skill shortages. They could facilitate the implementation of a cluster strategy for upgrading the garment sector’s value chain, with a focus on capacity building and innovation initiatives (such as the establishment of design banks, for example). They could support research and development (R&D) and innovation through business incubators and the creation of knowledge networks linking firms with universities and research centers (see Glaeser, 2011 and OECD, 2006 for examples of local policies and actions to foster entrepreneurship and innovation).

A.7 Improve livability and the quality of urban amenities in Dhaka, and make growth there more environmentally and socially sustainable. Dhaka’s urban environment is less attractive than that of comparable cities at the same level of economic development. The city’s highly productive workforce lives in an unsafe urban environment, characterized by limited access to services, crime and violence and overcrowding. The Economic Intelligence Unit rates congestion in Dhaka as intolerable (EIU, 2010). The garment sector thrived on Dhaka’s abundant and cheap workforce. To attract the highly skilled internationally mobile workforce and capital required to make the leap to middle-income status, however, Dhaka needs to improve living conditions.

Transport infrastructure bottlenecks and the lack of a fully functioning housing market are the factors contributing most to Dhaka’s low livability ranking. Both challenges need to be addressed. Measures are also needed to make the urban transition more environmentally and socially sustainable—by upgrading environmental infrastructure; improving the quality of urban amenities (by creating open spaces and offering cultural events, for example); and extending basic services to underserved settlements.

B. Leveraging Chittagong’s natural comparative advantage as a port city

B.1 Improve the competitiveness of Chittagong City’s port as part of a modern logistic chain within the Dhaka-Chittagong corridor. Although agglomeration forces in Chittagong are not as strong as in Dhaka, the Chittagong metropolitan area has the potential to expand as a second industrial hub, given its comparative advantage in accessibility. As Bangladesh’s largest port, Chittagong has a resource-based comparative advantage for expanding export-oriented manufacturing. This advantage is not being exploited: the inefficiency of the port is eroding Bangladesh’s cost advantage in the garment sector. Leveraging the city’s natural comparative advantage requires expanding port capacity, improving port infrastructure, and streamlining regulations to enhance trade competitiveness and improve access to markets—the city’s main location disadvantage from the perspective of garment firms. To enhance connectivity in Bangladesh, planners should combine port development with investments in improved logistic services and intermodal connectivity to integrate the three modes of transportation (road, rail, and inland waterways systems) within the Dhaka-Chittagong corridor.
B.2 Invest in institutions and infrastructure to leverage Chittagong’s cost advantage and improve livability as the city expands. Chittagong has a growing and diversifying manufacturing base, and its peri-urban areas have strong potential to develop as industrial centers. Chittagong City should tap its comparative advantage as a lower-cost location (relative to Dhaka) and take steps to sustain its advantages as the city expands by investing in productive infrastructure (power and telecom) and developing institutions to address land and housing bottlenecks before they become binding constraints for private sector development. As in Dhaka, planners need to ensure that economic dynamism does not come at the expense of livability by investing in environmental infrastructure and improving the quality of and access to basic services.

C. Promoting strategically located export processing zones to strengthen competitiveness and spearhead urban reforms

C.1 Develop EPZs near markets and in line with locations’ comparative advantages to enhance the international competitiveness of Bangladesh’s industries. International evidence indicates that, when strategically located near markets, EPZs are highly attractive locations for businesses (see, for example, Farole, 2010). Investing in developing zones in “distant” locations is not an effective way to develop lagging regions; to be successful, EPZs need to be aligned with the comparative advantages of the country and locations in which they are established. Developing a coherent EPZ policy based on a transparent set of criteria for determining locations and a focus on supporting, rather than fighting, agglomeration forces should be an integral part of Bangladesh’s growth strategy.

C.2 Build support for urban change through EPZ demonstration effects. EPZs are not a substitute for critical reforms to reduce the costs of doing business in urban areas. Bangladesh should use EPZs to create the conditions and build support for urban change by testing the impact of reforms as and reducing opposition through demonstration effects.

D. Developing the enabling environment for local economic development in medium-size and small cities

D.1 Connect medium-size and small cities to markets. Medium-size and small cities—not only cities in the lagging western region of Bangladesh but also cities closer to Dhaka and Chittagong (for example, Comilla)—are unattractive “distant” locations from the perspective of garment firms. Policies aiming to move jobs to people based on firms’ relocation incentives, such as the EPZ program, have not succeeded in overcoming the powerful agglomeration forces that move people to jobs. Connecting medium-size and small cities to markets requires spatially connective infrastructure and investments in portable assets, such as education and health.

D.2 Create a level playing field for private sector development by improving service delivery and promoting devolution. Medium-size and small cities need to find their comparative advantages. Urban vibrancy and growth in these cities will be driven by local entrepreneurship, not the relocation of existing industries. Traditional sectors such as ceramics, for example, can be turned into a lever for opening up new paths of innovation. Policy interventions should focus on providing the enabling environment for building economic density by creating a level playing field for private sector development. The priority is to provide adequate access to basic services to redress the current service delivery bias in favor of the largest cities. In a highly centralized country like Bangladesh (World Bank, 2010a), devolution of responsibilities and fiscal powers to
local governments could help create a level playing field across cities by strengthening municipal management and capacity for service delivery and local economic development.
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