

# **Structural Transformation, Inequality Dynamics, and Inclusive Growth in Bangladesh**

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# 1. Introduction

- Bangladesh economy has been growing over six percent on average over the past one decade.
- Over the past four decades, Bangladesh has been able to add one percentage point to the decadal average GDP growth rate.
- Unlike many developing countries, has been less volatile.
- There have been important structural changes in the economy.
- Readymade garments (RMG) and remittance are the two major growth drivers.

# **2. Economic History before 1971 War of Independence**

- Bangladesh became an independent state and got separated from Pakistan in 1971 through a nine-month war of independence.
- In 1947, Pakistan had a dearth of natural resources, apart from agricultural land. There was also an absence of an industrial sector.
- Rice and jute were the main agricultural produce. West Pakistan specialized in wheat and cotton and East Pakistan was involved in rice production.
- East Pakistan exported jute but most of the earnings from jute went to West Pakistan.

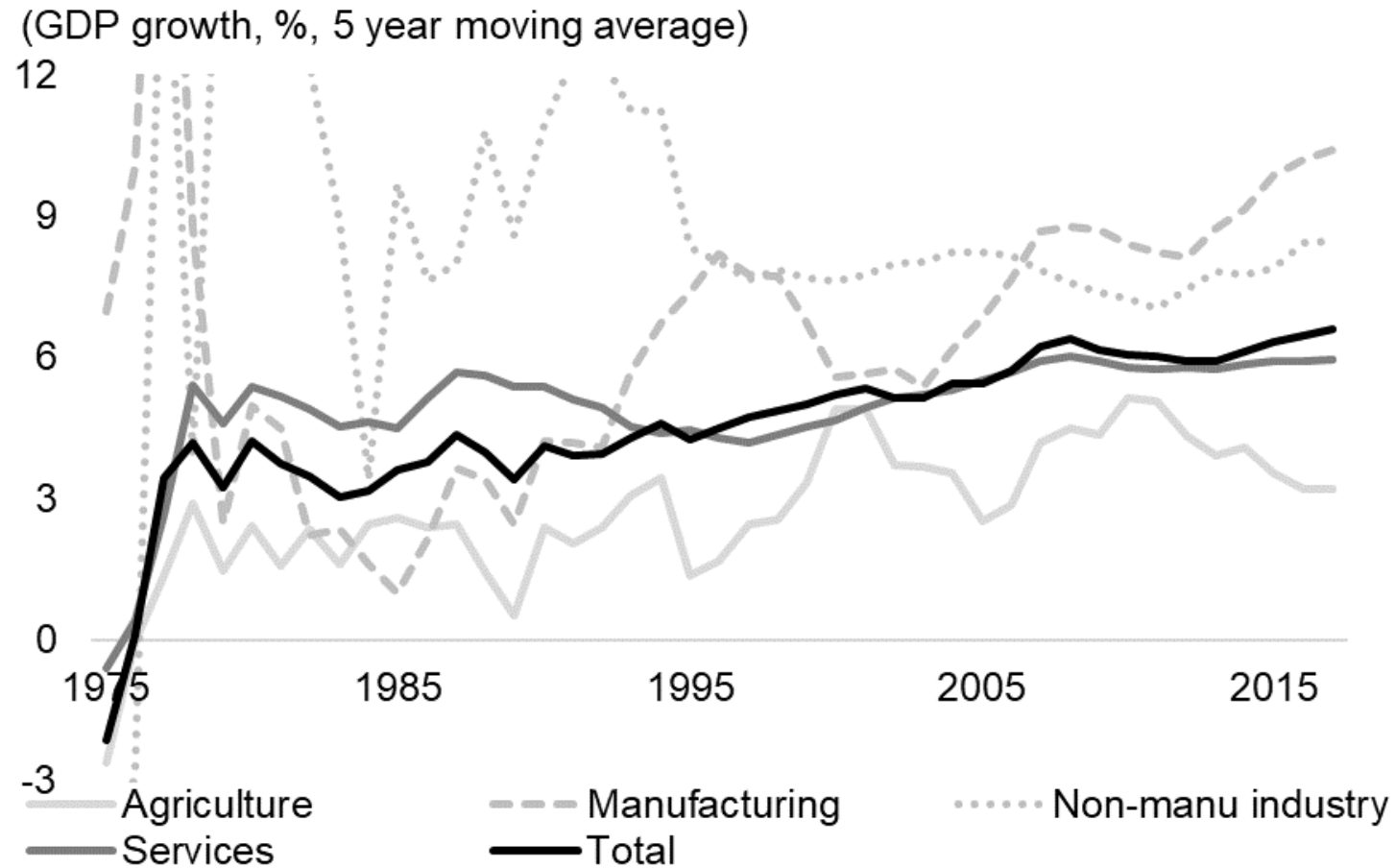
## Per Capita income in East and West Pakistan (in rupees)

	1949-50	1959-60	1969-70
Pakistan	311	318	424
West Pakistan	338	366	537
East Pakistan	287	278	331
East-West gap	51	88	206

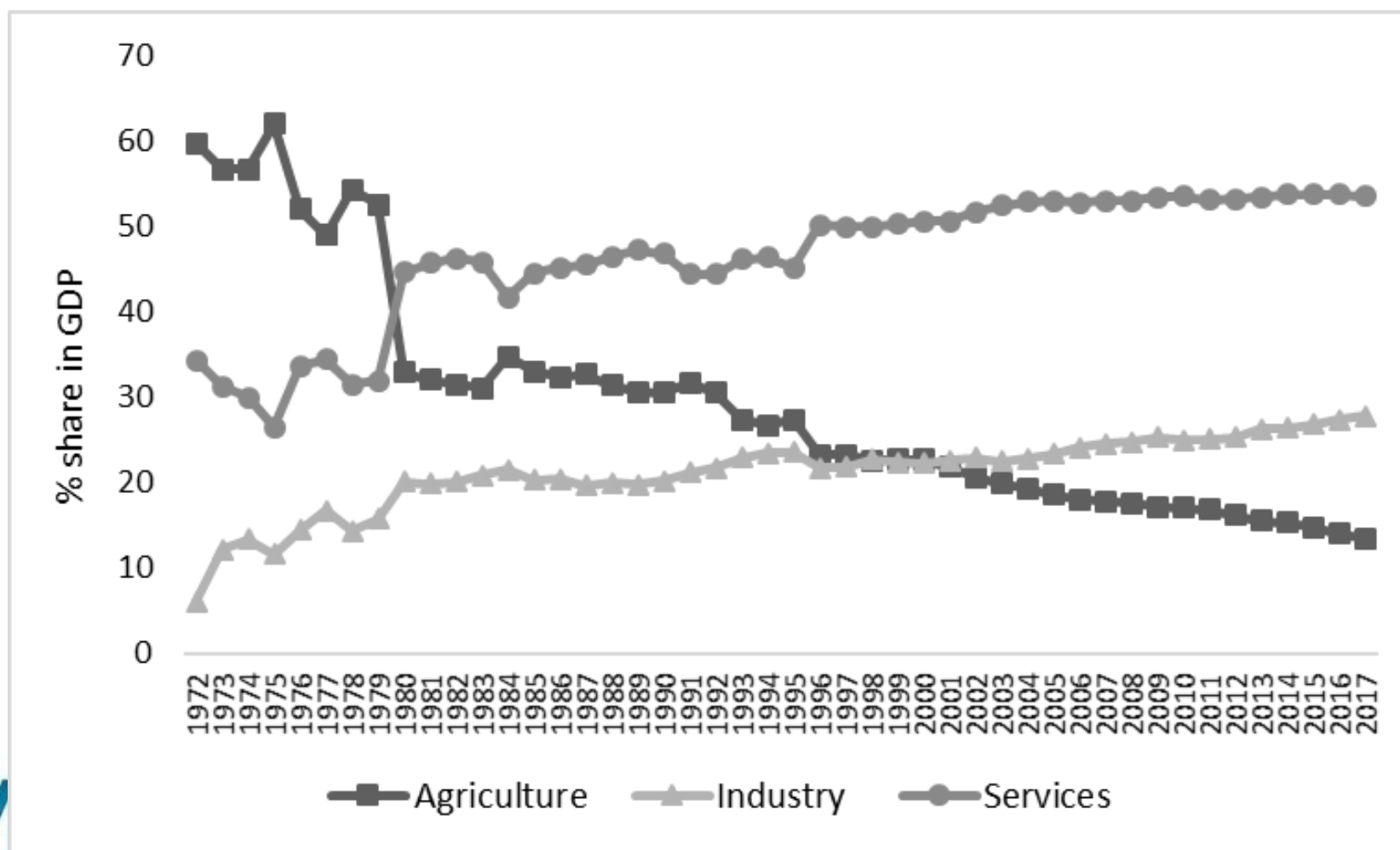
# 3. Trends in Structural Transformation in Bangladesh



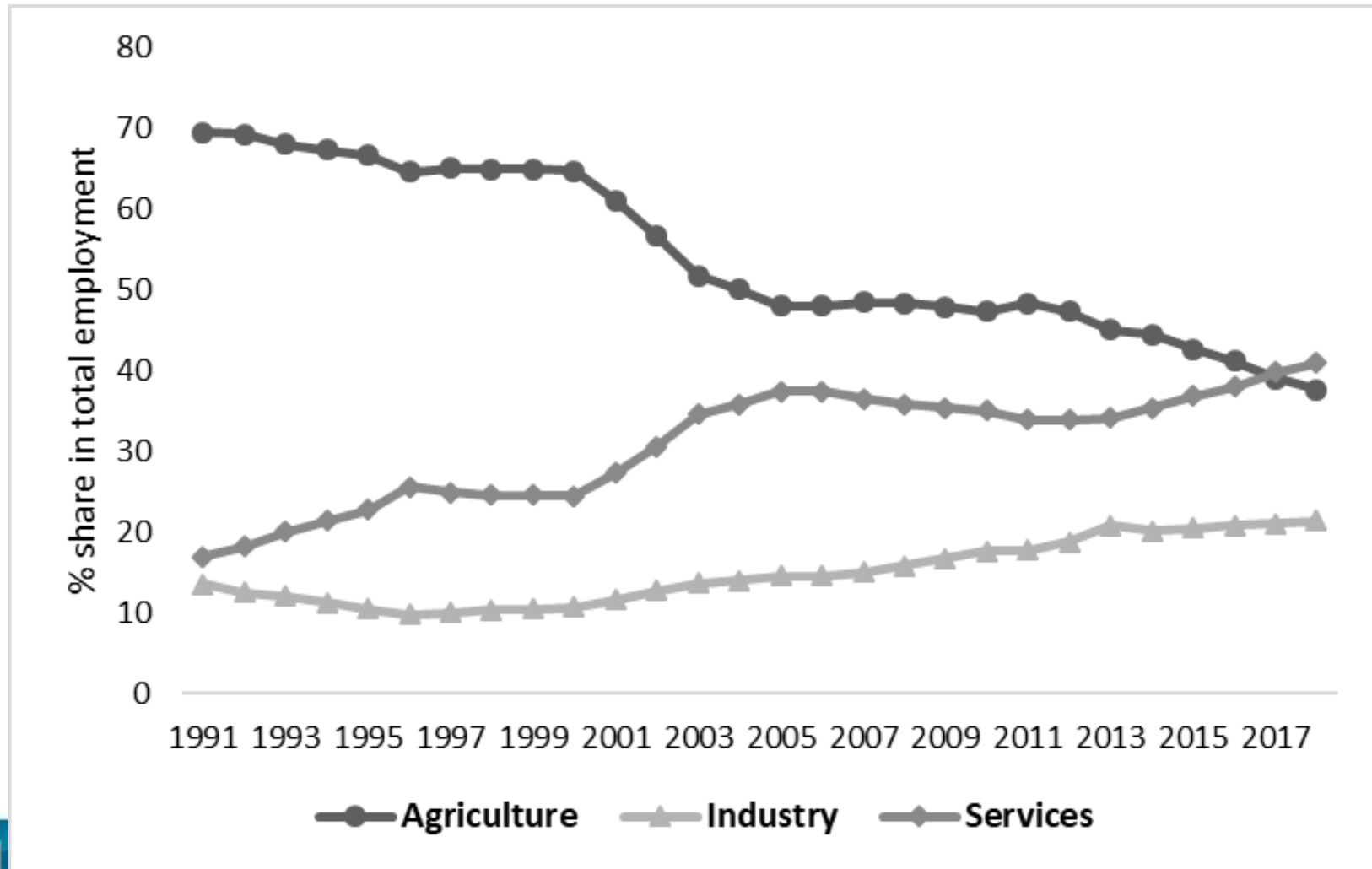
# Sector Growth (5 year moving average)



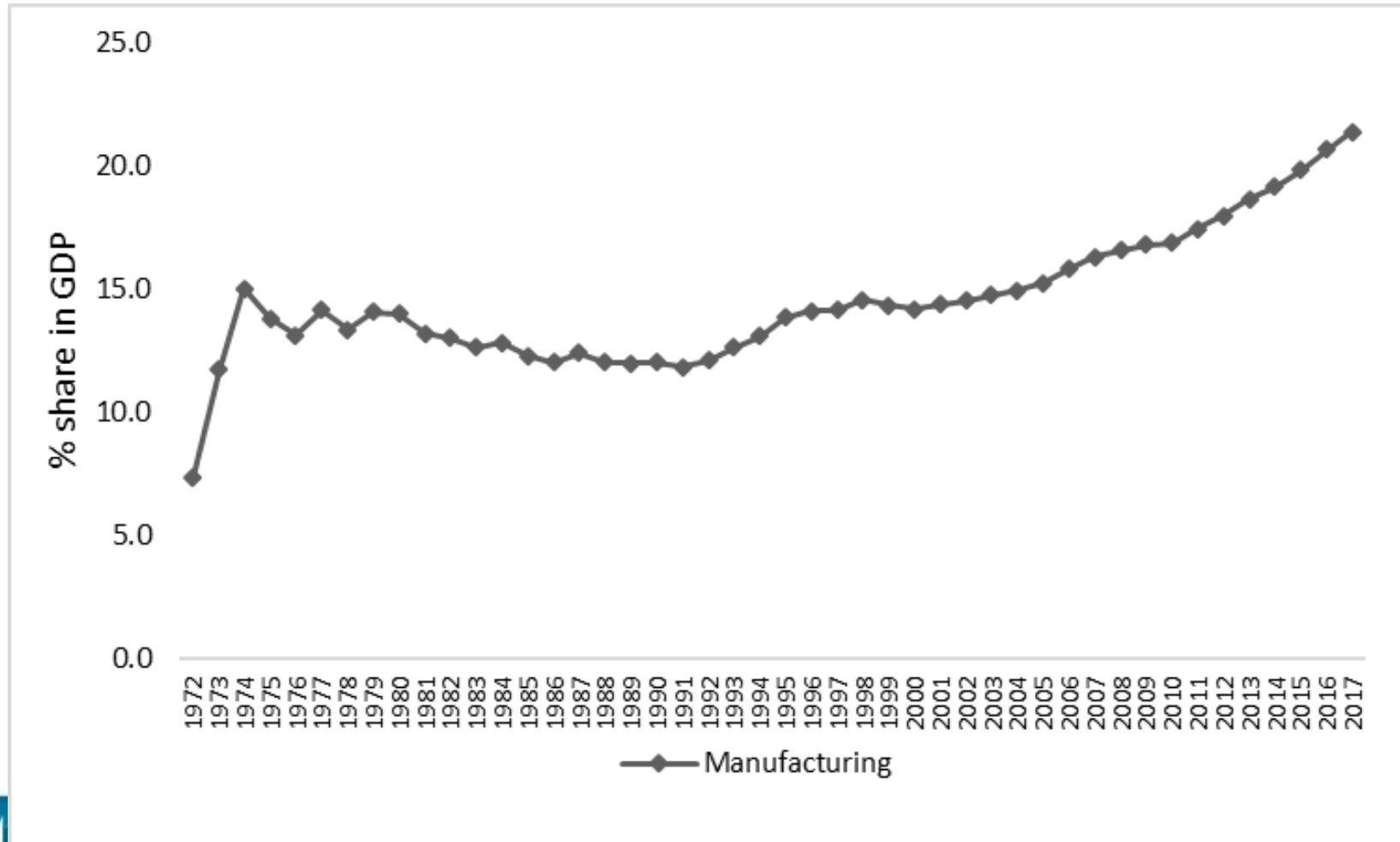
# Sectoral GDP share (%)



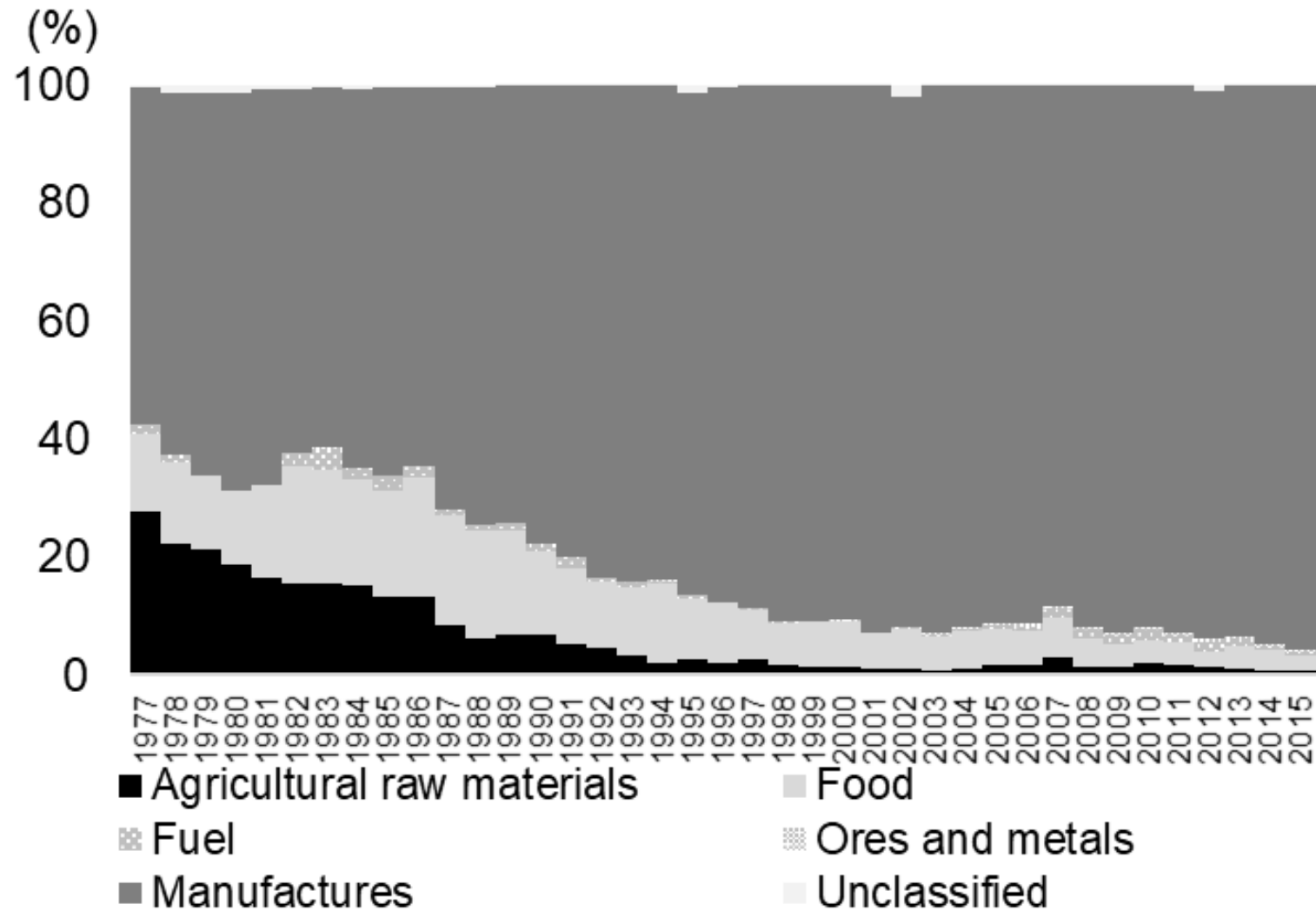
# Sectoral employment share (%)



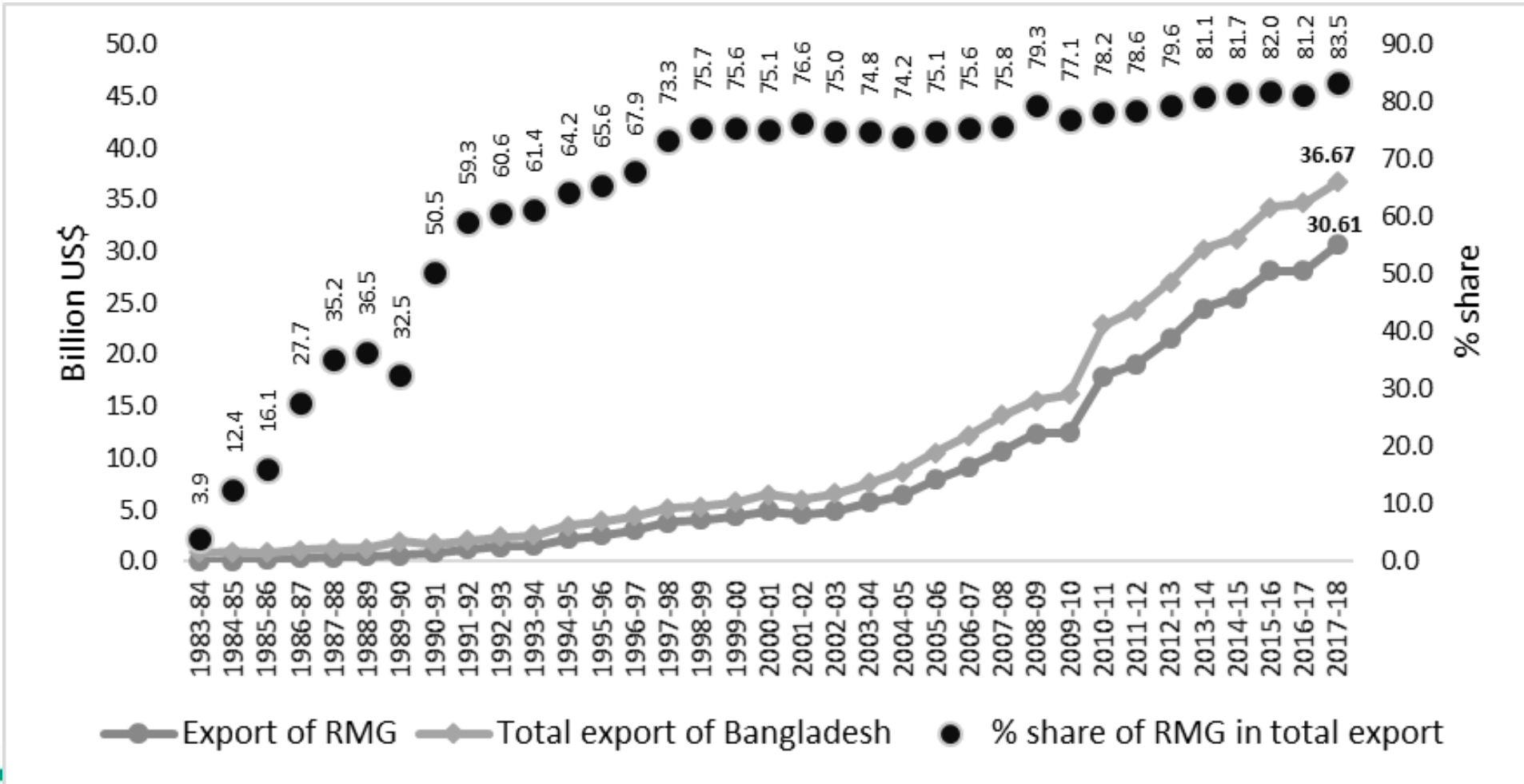
# Manufacturing share in GDP (%)



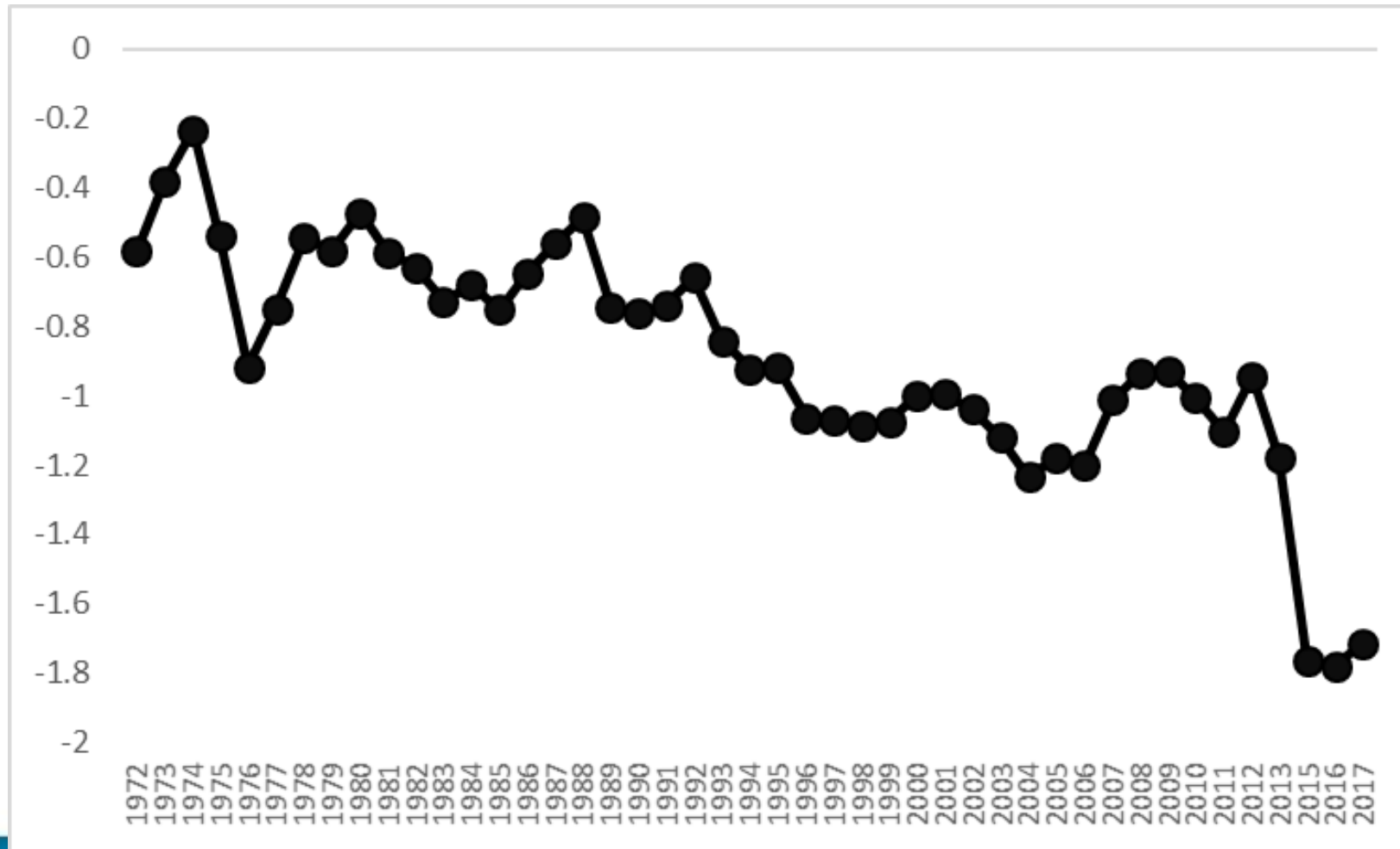
# Composition of exports



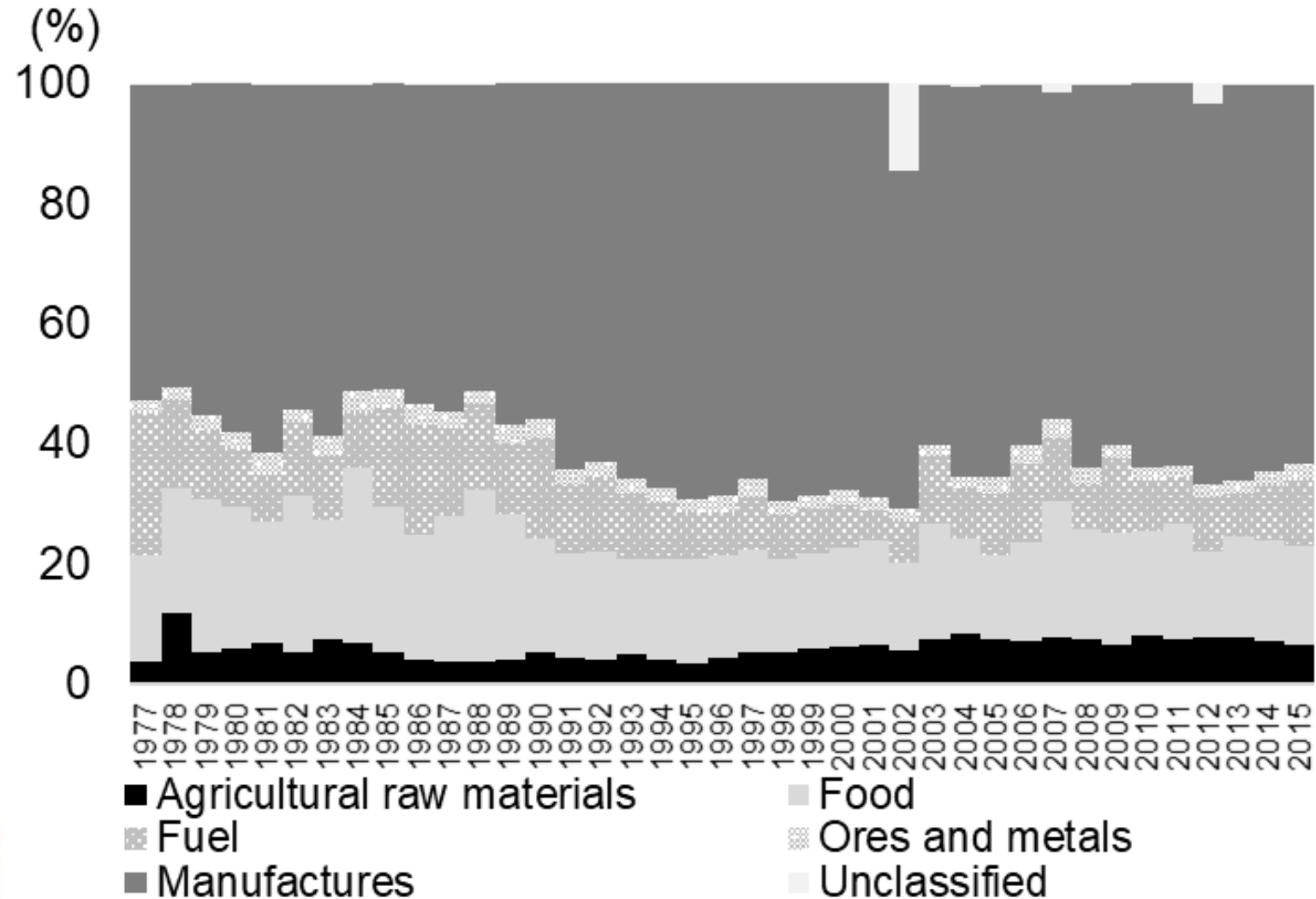
# Exports and share of RMG in total exports



# Trend in economic complexity index



# Composition of imports

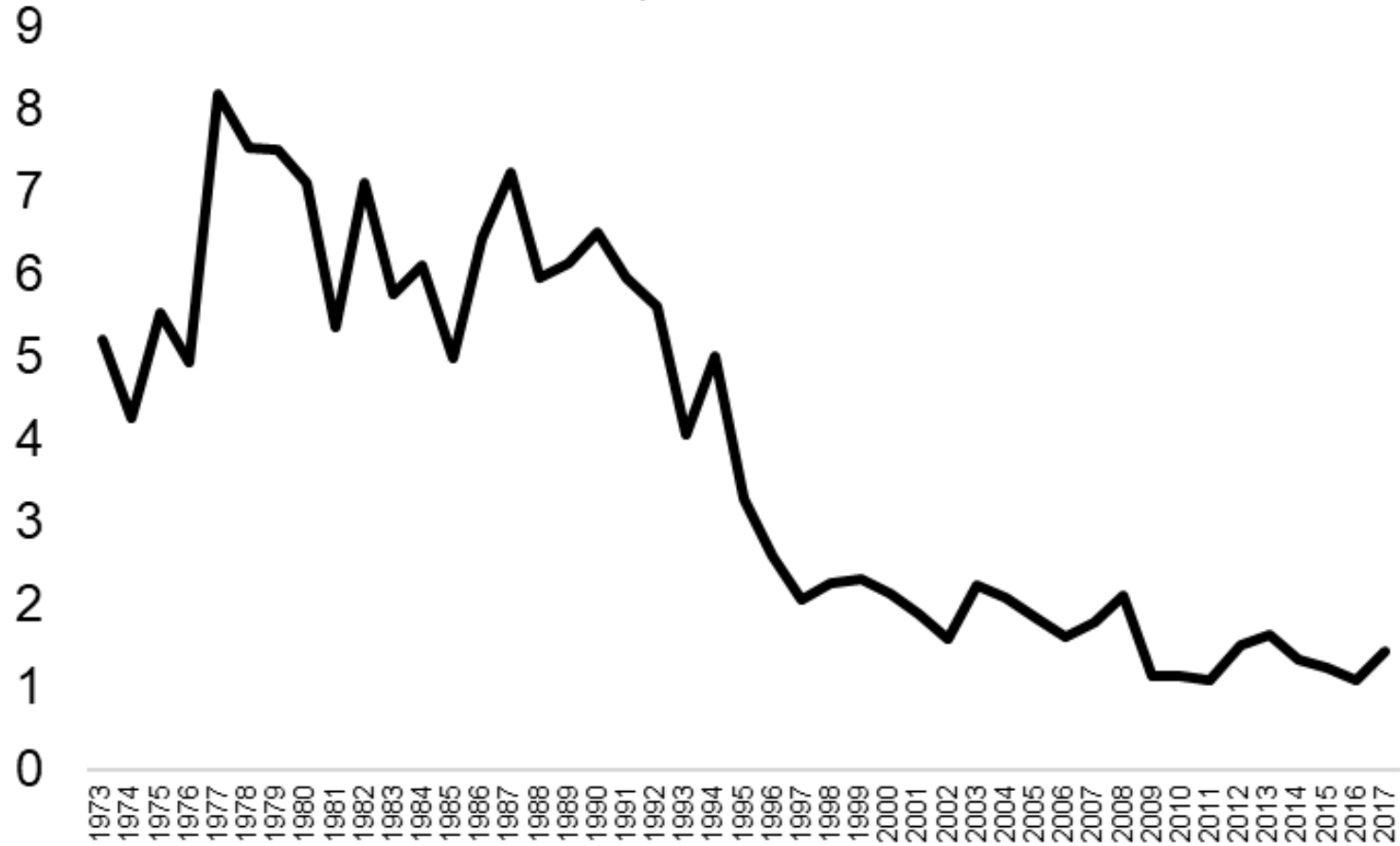


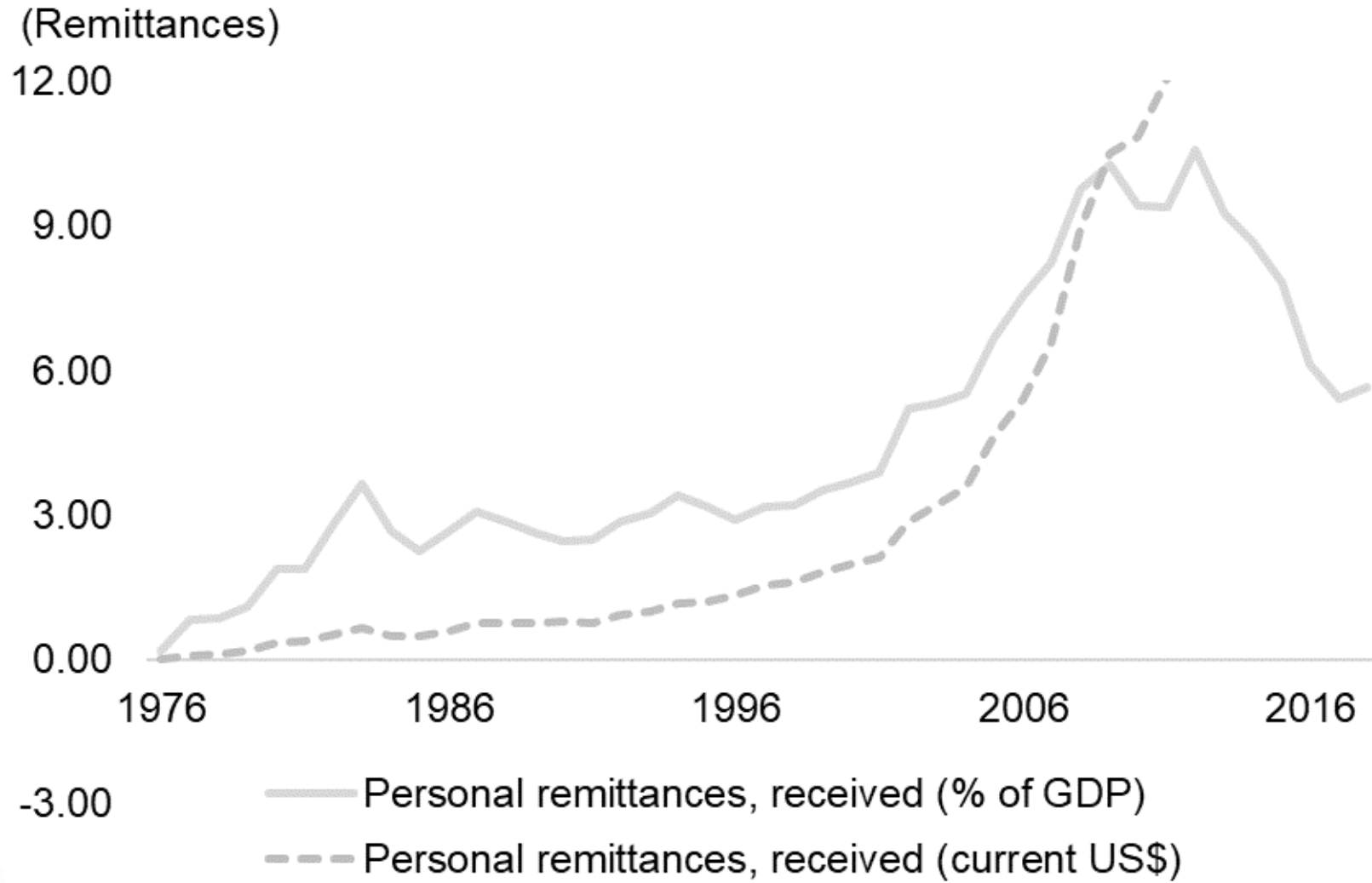


# Share of exports and imports in GDP



(Net ODA received, % of GNI)







# 4. Trends in Income Inequality, Employment and Inclusive Growth in Bangladesh

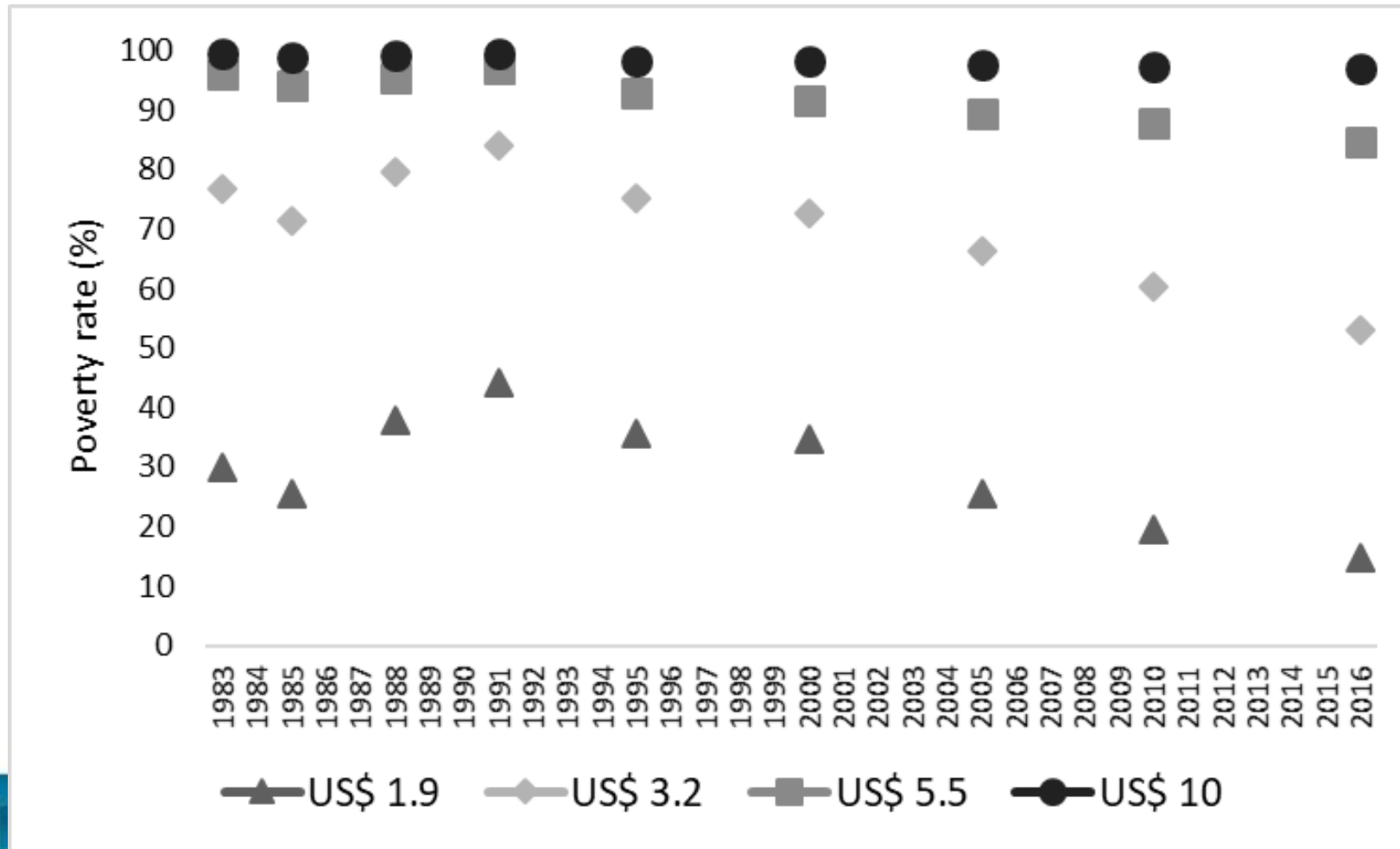
# National headcount poverty rate (CBN Method)

Year	Upper poverty line			Lower poverty line		
	National	Rural	Urban	National	Rural	Urban
1992	56.7	58.8	42.8	41.1	43.8	24
1996	50.1	54.5	27.8	35.2	39.5	13.7
2000	48.9	52.3	35.2	34.3	37.9	20
2005	40	43.8	28.4	25.1	28.6	14.6
2010	31.5	35.2	21.3	17.6	21.1	7.7
2016	24.3	26.4	18.9	12.9	14.9	7.6

# Average annual reduction in national poverty rates

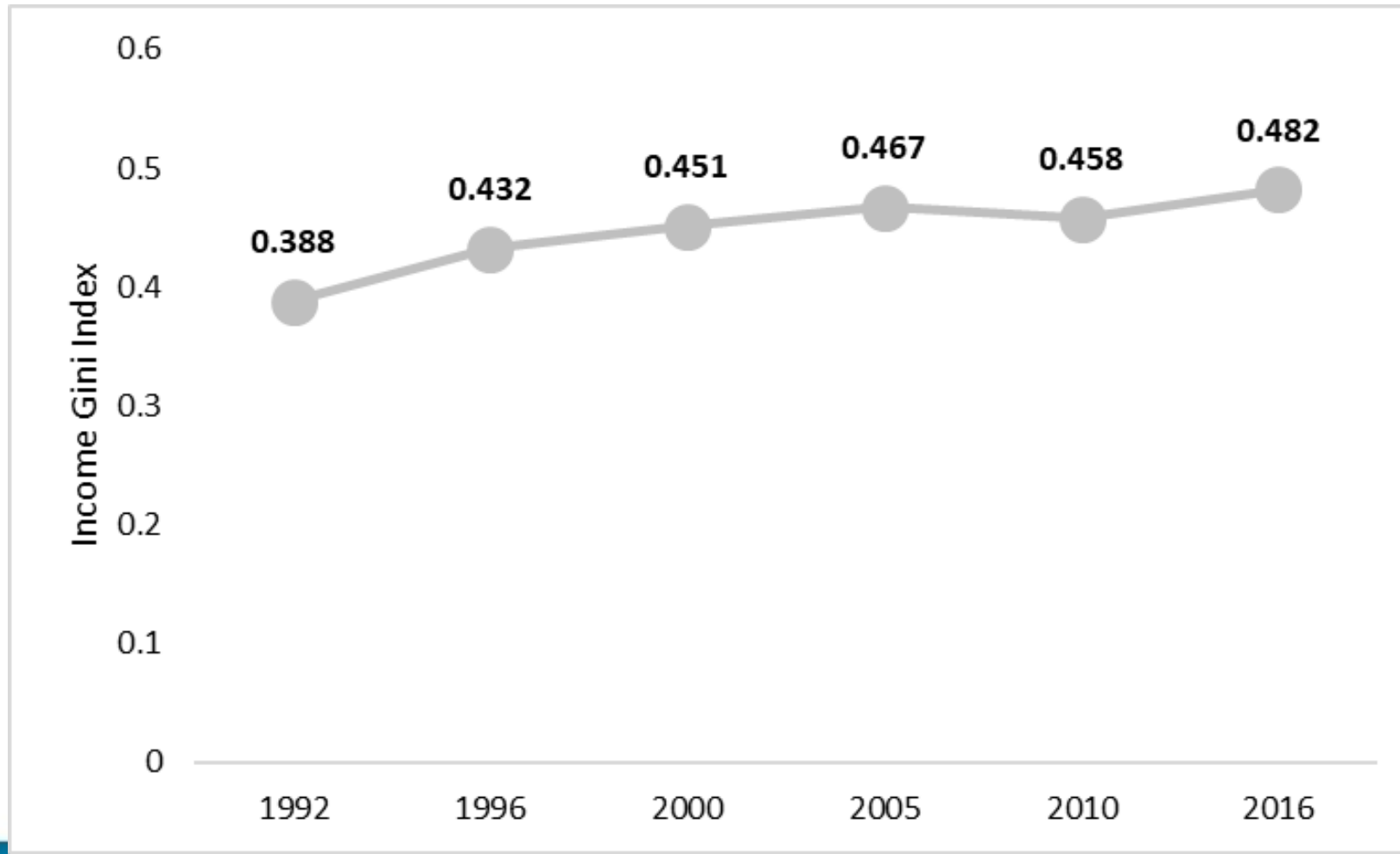
	1992-1996	1996-2000	2000-2005	2005-2010	2010-2016
Overall poverty rate	-1.65	-0.24	-1.8	-1.7	-1.2
Extreme poverty rate	-1.48	-0.32	-1.8	-1.5	-0.8

# Poverty rates at different international poverty line income

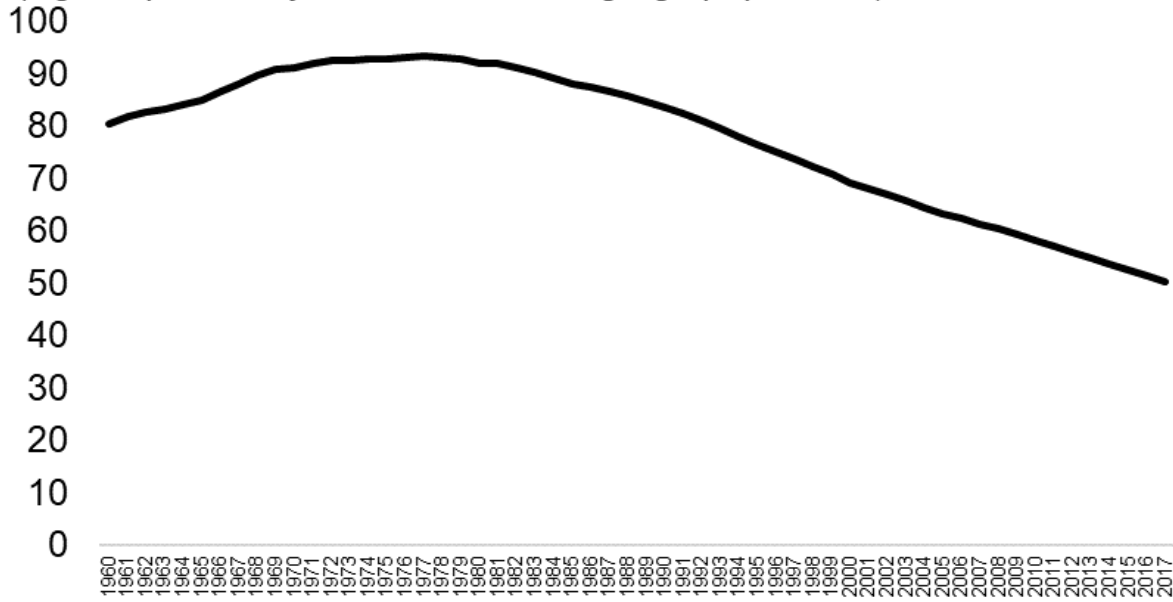




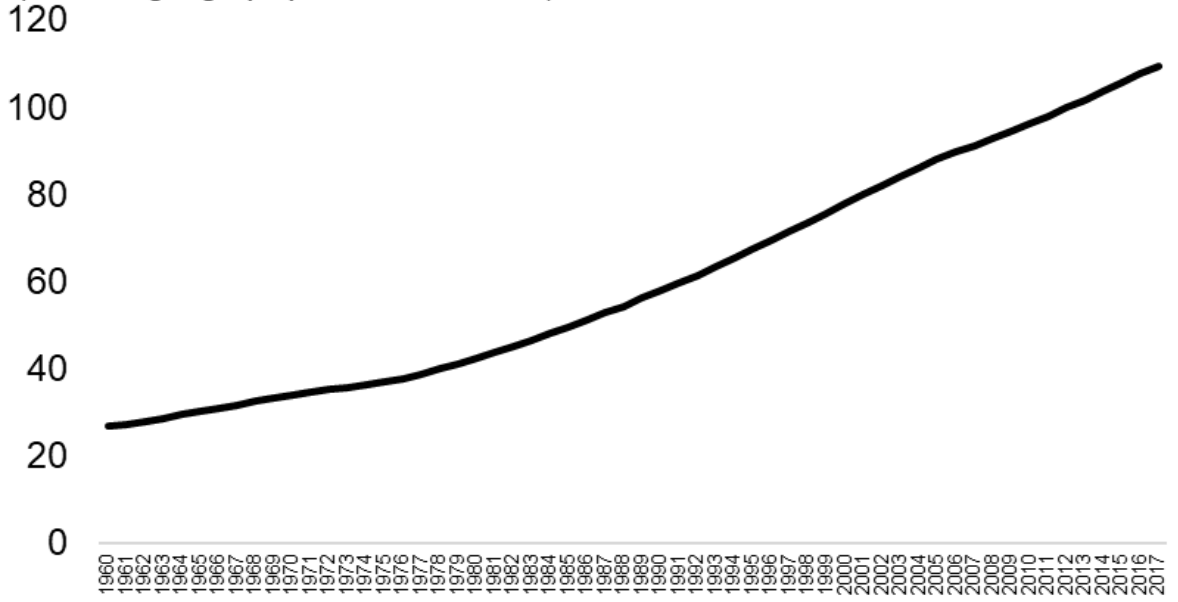
# Income Gini Index in Bangladesh



(Age dependency ratio, % of working-age population)



(Working-age population, million)



(Urban population, %)

40

35

30

25

20

15

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# Labour market

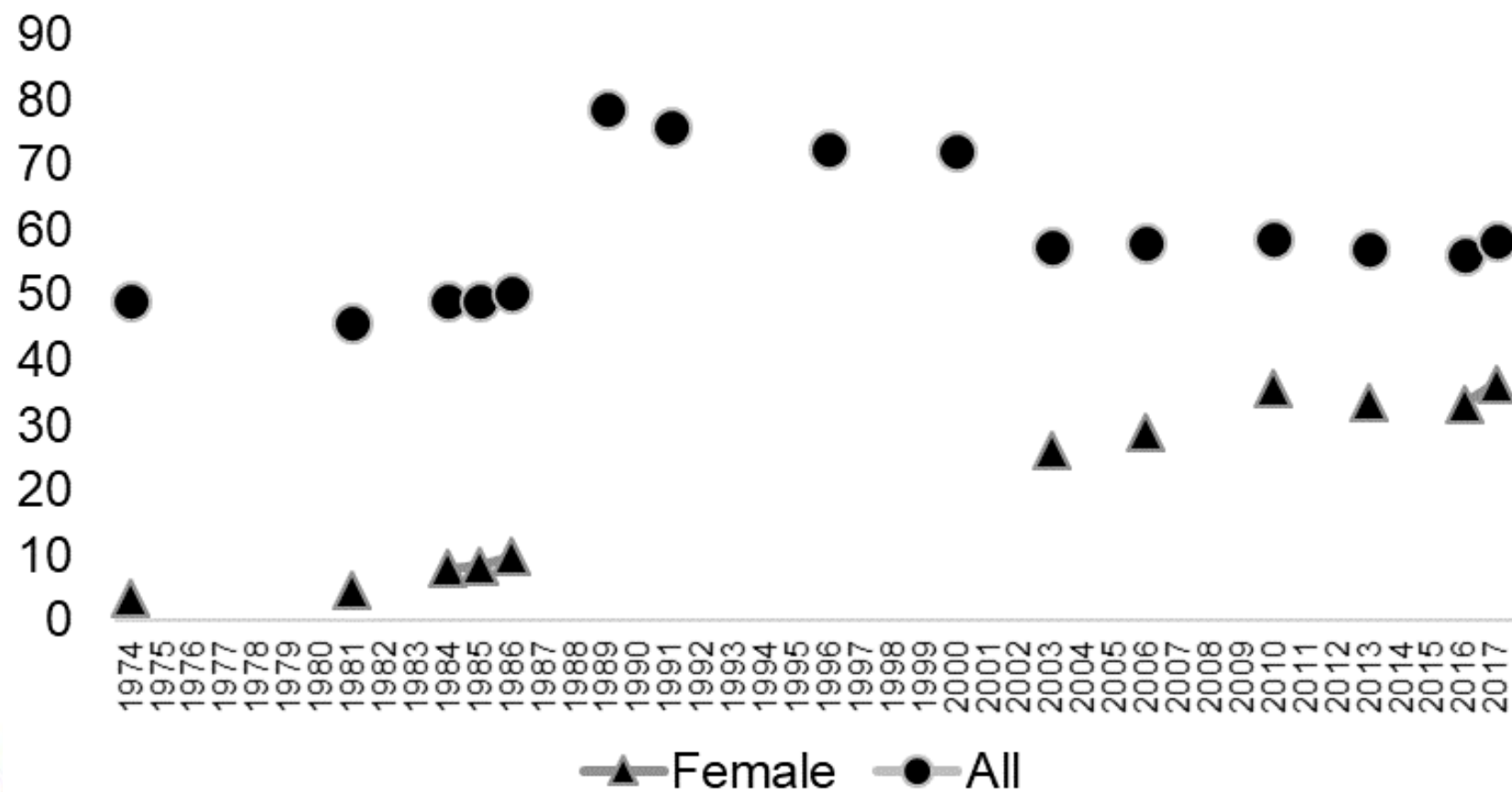
- Between 2013 and 2016-17, while the average annual GDP growth was 6.6%, the average annual growth of jobs was only 0.9 percent.
- The number of manufacturing jobs declined by 0.77 million, and more importantly, female manufacturing jobs declined by 0.92 million.
- The slow growth in job creation is also reflected in the declining employment elasticity over the last decade. The overall employment elasticity with respect to GDP growth declined from 0.54 during 1995-2000 to 0.25 in 2010-2018.

# Informality in employment (% of total employment)

	2010	2013	2015-16	2016-17
All	87.5	87.4	86.2	85.1
Male	85.5	86.3	82.3	82.1
Female	92.3	90.3	95.4	91.8

Source: LFS of BBS, various years

# Labour participation rate (%)

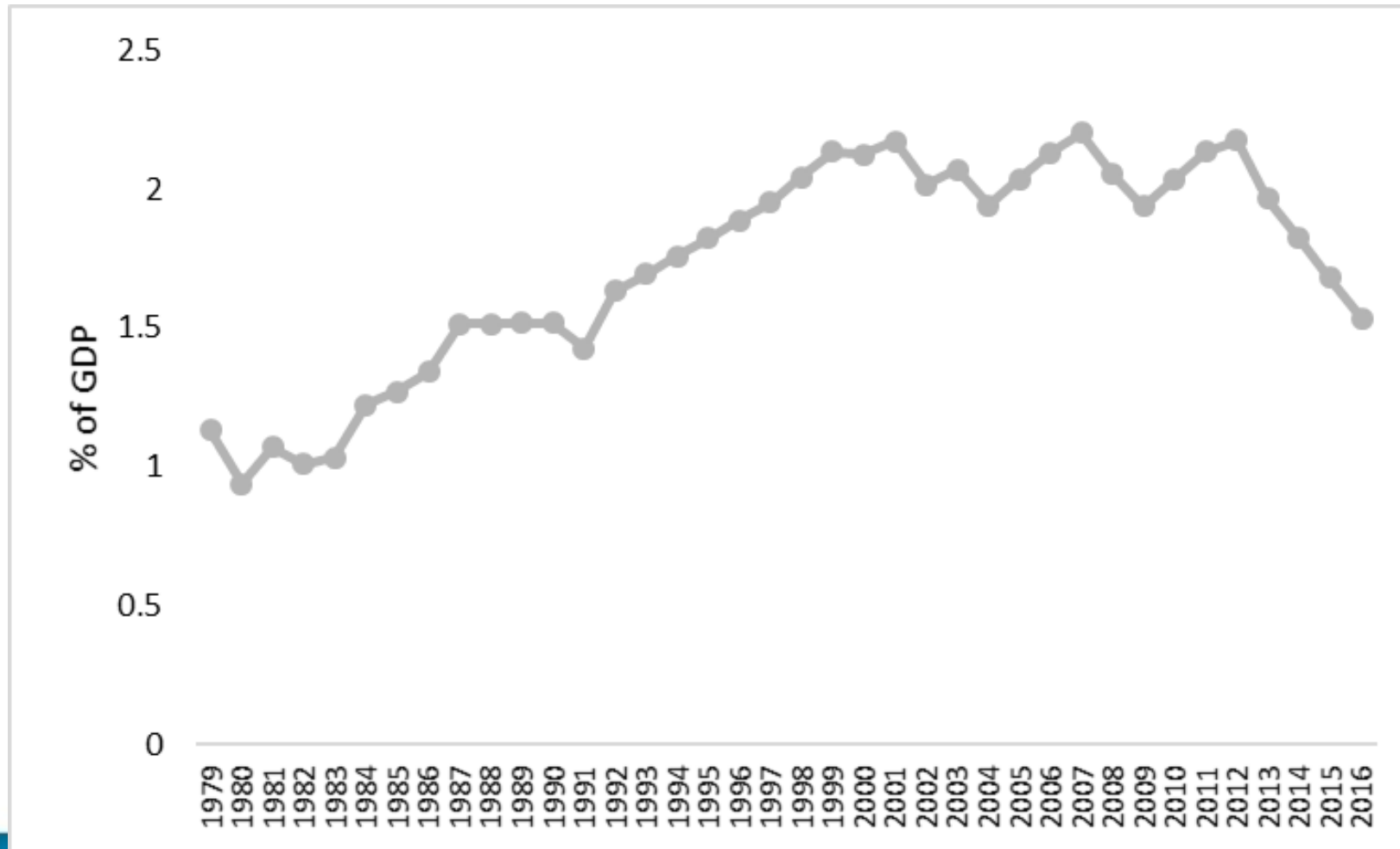


# 5. Policies used to Shape ST, Inequality and Inclusive Growth in Bangladesh

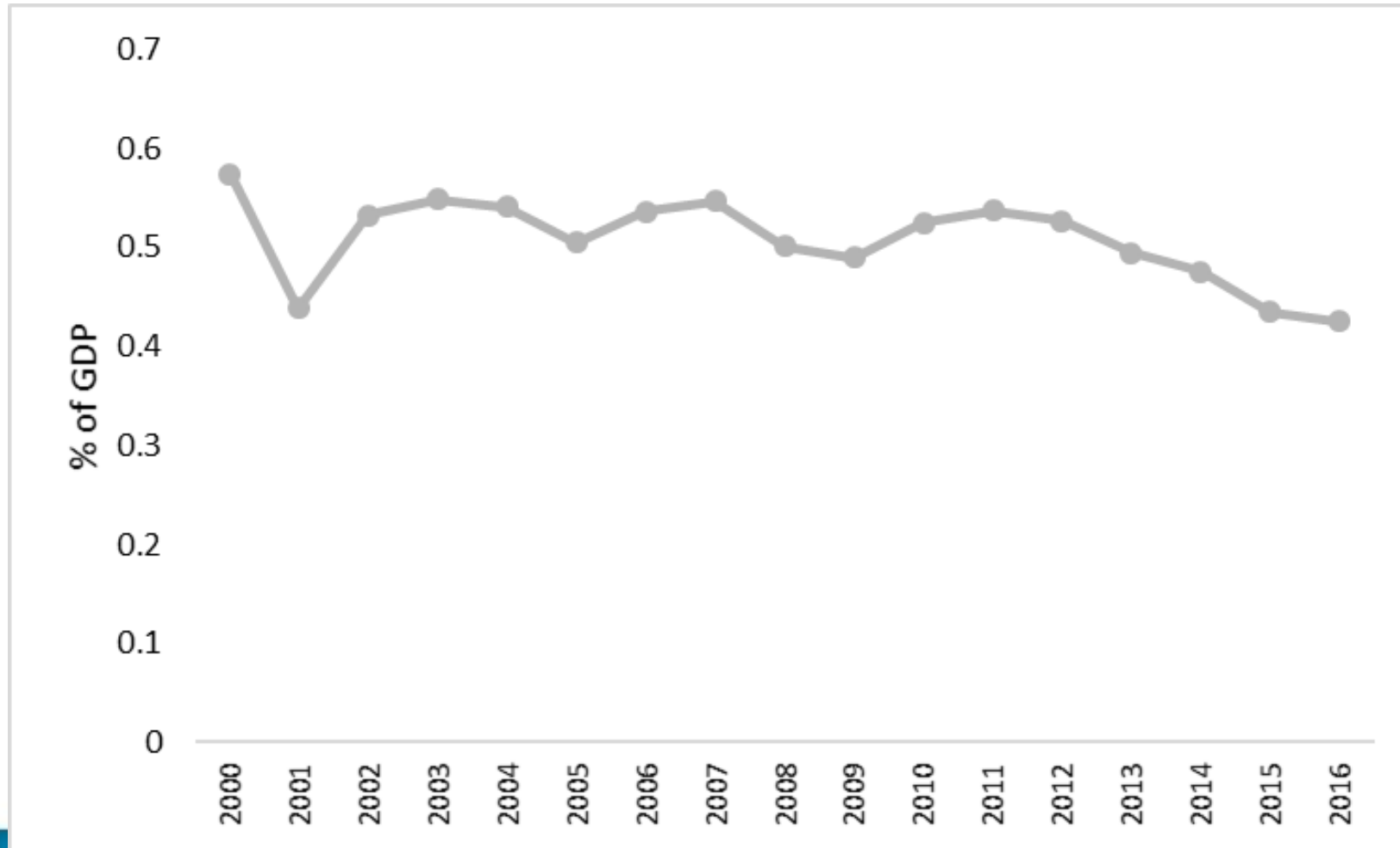
- Trade Policies
- Industrial Policy
- FDI Policy
- Private investment
- Agricultural policy
- Social protection programs
- Policies for human capital development
- Labour migration and remittances
- Microfinance and other types of non/quasi state development initiatives involving NGOs



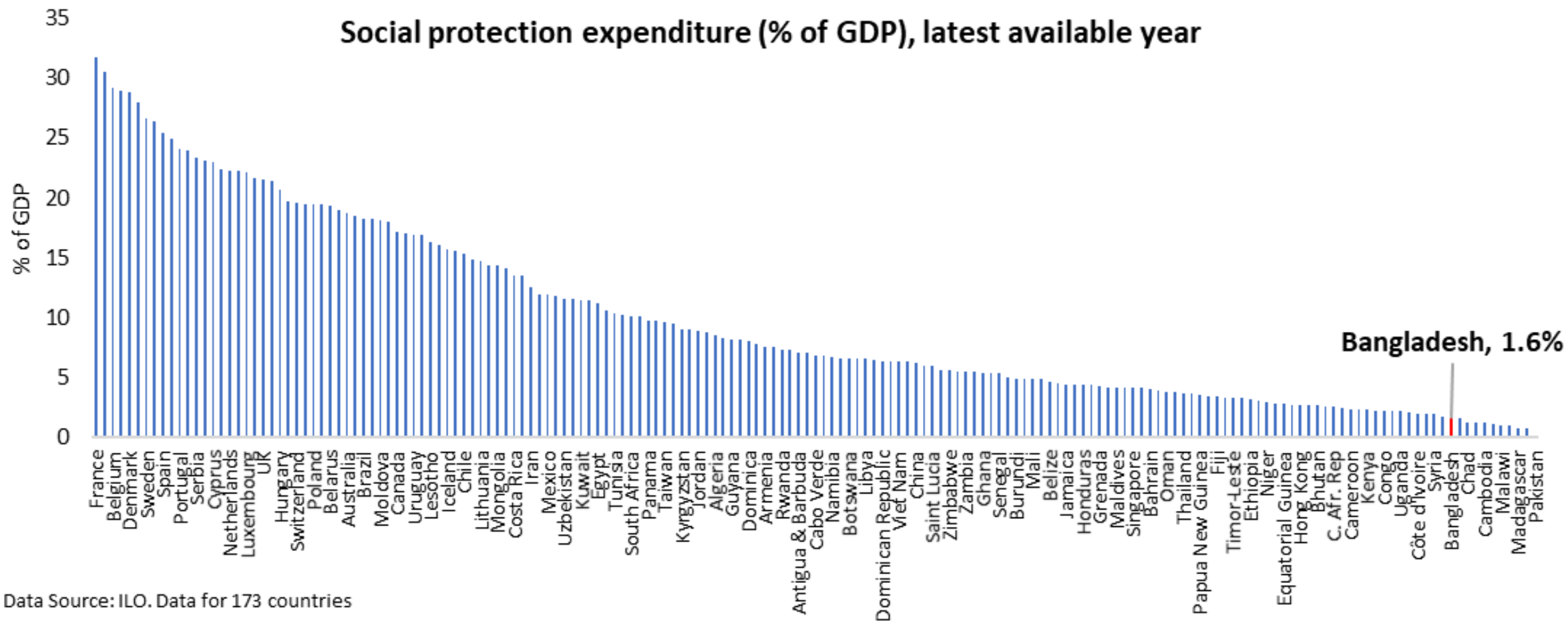
# Public expenditure on education as a share of GDP (%)



# Public expenditure on health as a share of GDP (%)



## Social protection expenditure (% of GDP), latest available year



Data Source: ILO. Data for 173 countries

# **6. An Analysis of the Political Economy of ST, Inequality and Employment in Bangladesh**

- Deals environment: Deals vs rules
- Open vs. closed deals
- Ordered vs. disordered deals
- Rent space
- Competitive democratic politics vs. dominant party

# 7. The Future Trajectory of the ST–Inequality–Inclusive Growth in Bangladesh

- Apparent contradictions while analyzing Bangladesh's past growth experience.
- Bangladesh is among the top five out of those 30 countries with a very high share of manufacturing exports in total merchandise exports.
  - In 2016, among these top five countries, Bangladesh, Cambodia, and China had such shares of more than 90 percent,
  - while India and Vietnam had shares of 73 percent and 82 percent respectively.
- Interestingly, from a 66 percent share of manufacturing exports in total merchandise exports in 1980, Bangladesh was able to increase this share to as high as 96 percent by 2016. Bangladesh's progress in manufacturing exports is only comparable to China's and Vietnam's experience.

- The apparent contradiction, however, lies in the fact that Bangladesh made such progress without any rapid structural transformation of the economy.
- Despite a very high share of manufacturing exports in total merchandise exports, the export basket of Bangladesh remained highly concentrated around low value-added and low-complex products.



- One explanation to this apparent contradiction could be that Bangladesh so far has used its ‘youth bulge’ of demographic dividend quite ‘efficiently’ and also has tapped quite ‘remarkably’ on its comparative advantage in low-skilled labor in two major fronts: the readymade garment exports and exports of low-skilled labor.
- With this high youth-bulge of the demographic dividend, Bangladesh also managed to maintain a ‘labor-regime’ for long characterized by an ‘equilibrium trap’ of low-skilled labor and low-wage, poor working conditions, and relaxed execution of labor laws defying workers’ rights.

- Despite overall weak governance and weak institutions, there have been supportive 'efficient' economic and political institutions in place in maintaining this 'labor-regime'.
- The 'returns' from such 'labor regime' in the form of 'economic and political rents' are so high that these act as a disincentive for further economic and export diversification, moving up for the production and exports of high value-added and sophisticated products, invest in workers' skill development, improvement in working conditions and better execution of labour laws to ensure workers' rights.
- Apparently, such high rents have also been able to offset much of the loss arising from the poor business environment.

# 8. Conclusions

- Bangladesh's economic growth and development performance over the past two decades have been impressive. With the poor quality of institutions such a performance has often been termed as a 'development surprise' or 'Bangladesh paradox'. If we look at the quality of institutions in Bangladesh, the performance has been very poor.
- The fundamental question is whether Bangladesh can continue its success and achieve larger development goals with the business as usual processes.
- There are concerns that the weak institutional capacity of the country may work as a binding constraint as the country eyes to meet the stiff targets of the Sustainable Development Goals (SDGs) by 2030, aspires to become an upper middle-income country by 2031, and visions to become a developed country by 2041.

- The trends in the quality of formal institutions between 1996 and 2016, as are manifested by the movements of the World Governance Indicators, suggest that, with some fluctuations, there are deteriorations in the cases of ‘Voice and Accountability’, ‘Political Stability’ and ‘Government effectiveness’, and some trivial improvements in the cases of ‘Regulatory Quality’, ‘Rule of Law’ and ‘Control of Corruption’.
- As the country is plunged with a number of challenges related to slow progress in structural transformation, lack of economic diversification, high degree of informality in the labour market, slow pace of job creation, poor status of social and physical infrastructure, slow reduction in poverty, and rising inequality, such poor improvements in formal institutions can lead to a situation where Bangladesh is trapped in the ‘lower-middle income’ country category.