Structural transformation, inequality dynamics, and inclusive growth in Bangladesh

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Abstract: The Bangladesh economy has undergone significant structural changes over the last four decades. The share of agriculture in GDP has declined, while the significance of industry and service sectors has increased. These structural changes have been associated with persistent challenges such as lack of diversification, poor working conditions, low productivity, and high degree of informality, obstructing the progress towards inclusive economic growth. Though manufacturing is now an overwhelmingly salient component of Bangladesh’s export composition, this is due primarily to the rapid expansion of the ready-made garments sector: the performance of other industries has been rather weak. In order to become a sustained, inclusive driver of economic growth and employment creation, the manufacturing sector needs to focus on expanding and diversifying its base. This study looks at the major challenges, both policy-induced and structural, for the required structural transformation in the Bangladesh economy, aiming to tackle inequality and promote inclusive growth.

Key words: Bangladesh, structural transformation, inclusive growth, inequality, ready-made garments

JEL classification: O14, O25, O40, O53
1 Introduction

The Bangladesh economy has grown on average more than 6 per cent per year over the past decade. In 2018, the GDP growth rate passed the 8 per cent mark. Over the past three decades, the trend in the economic growth rate in Bangladesh, unlike in many developing countries, has been less volatile. While in the 1980s the average GDP growth rate was around 4 per cent, it increased to 5 per cent in the 1990s and 6 per cent in the 2000s. This suggests that over the past four decades, Bangladesh has been able to add one percentage point to the decadal average GDP growth rate.

With accelerated economic growth, there have been important structural changes in the economy of Bangladesh over the past four decades. The composition of GDP has changed quite significantly, as, during this period, the share of agriculture in GDP declined from as high as over 60 per cent to less than 15 per cent, the share of the services sector increased from around 35 per cent to more than 50 per cent, and that of industry increased from as low as 7 per cent to 28 per cent. As industry includes manufacturing, mining, and construction, if we look at the share of the manufacturing sector in GDP, it appears that the share increased from as low as 5 per cent to 18 per cent during the same period and the share in recent years has been on the rise. This suggests that, contrary to many developing countries of a similar level of development, where the manufacturing shares in GDP have been either very low or on a declining trend, Bangladesh has been successful in increasing the manufacturing share in GDP.

Despite the aforementioned success, over the years the concentration in the manufacturing sector in Bangladesh increased in favour of the ready-made garments (RMG) sector while the non-RMG manufacturing sectors performed rather poorly. The expansion of the RMG sector thus contributed heavily to the structural transformation of the economy in Bangladesh.

Driven by the expansion of the RMG industry, the share of employment in the manufacturing sector rose from 9.5 per cent in 1999/2000 to 14 per cent in 2017. As is found in all low-income countries, the unemployment rate does not accurately capture deficiencies in the labour market (the rate was just 4.2 per cent in 2017). Rather, the majority of workers are found in informal employment and suffer from under-employment. Gender disparities persist despite the rise in the share of female workers.

Strong economic growth in Bangladesh led to some positive economic and social changes in the country. However, there are also important challenges in the form of lack of economic and export diversification, slow employment generation, poor working conditions, and a high prevalence of informality in the labour market. The country aspires to become an upper-middle-income country by 2031. In this context, there is a need for a significant departure from the current pattern of structural transformation in the economy. Also, as the incidence of poverty is still high in a country with a population of more than 160 million, the issue of inclusive growth is extremely important to achieving the desired pattern of structural transformation of the economy. Against this backdrop, this paper analyses the nature of structural transformation in Bangladesh with an emphasis on inequality dynamics and inclusive growth.
Economic history before the 1971 war of independence

Bangladesh became an independent state and was separated from Pakistan in 1971 through a nine-month war of independence. This section looks at the pre-independence period (before 1971) in Bangladesh. Pakistan emerged when the two hundred years of British rule came to an end in 1947 and two countries were created on the Indian subcontinent—India and Pakistan. Pakistan comprised two non-contiguous halves—East Pakistan and West Pakistan. These two wings had a number of structural differences in terms of land/population ratio and development strategy. At the time of independence in 1947, both wings of Pakistan were agrarian economies.

In 1947, Pakistan had a dearth of natural resources apart from agricultural land. There was also an absence of an industrial sector. However, Pakistan was abundant in agricultural resources. Rice and jute were the main agricultural products. West Pakistan specialized in wheat and cotton, and East Pakistan was involved in rice production and was able to meet the needs of its population. East Pakistan exported jute, but most of the earnings from jute went to West Pakistan. However, West Pakistan was able to export its surplus grains and cotton (Bose 1983).

In the post-independence period, Pakistan adopted a number of development policies. With regard to trade policy, Pakistan imposed tariff and non-tariff barriers between India and Pakistan. In 1949, it decided not to devalue its rupee in order to attain better terms of trade with India in raw jute exports. Pakistan decided against devaluation a number of times. The country opted instead for rigorous exchange controls and detailed quantitative controls on imports in order to take care of the economy’s trade and balance-of-payments problems. Pakistan decided on rapid import-substituting industrialization in the 1950s, at the cost of agricultural growth. In terms of national income till the end of 1950s, the scenario was quite bleak (Bose 1983).

During the 1950s and 1960s, Pakistan adopted an import substitution trade strategy that imposed import tariffs to protect domestic industries and taxed agricultural exports. The policy focused on quantitative controls on imports in order to prevent currency devaluation. In order to divert the use of foreign exchange for capital and intermediate goods and control the import of consumer goods, Pakistan imposed quantitative import controls with the help of a system of import licences. In 1959, the government, in order to raise export earnings, introduced an export bonus scheme and devalued the exchange rate for export-receiving vouchers and in the case of imports using these vouchers. During those times the lion’s share of export earnings was from jute. However, the value added in jute milling in the 1960s in East Pakistan was low (Anjum and Sgro 2017).

During the years of the 1950s and 1960s, the economy of West Pakistan experienced notable progress in the form of industrial and agricultural development and business expansion. During the 1959/60 period agriculture production stagnated whereas industrial production boomed. Before 1960 the per capita income was low. However, due to large-scale manufacturing (especially jute, cotton, textiles, and leather goods), the manufacturing sector grew at a faster pace than the rest of the economy. Since the economy was agrarian, the high growth of the manufacturing sector could not be translated into higher per capita income since agricultural growth was slower than population growth (Bose 1983).

However, the differential rates of growth of industry and agriculture brought about structural transformation of the economy. In the 1960s the contribution of agriculture slightly declined whereas the contribution of manufacturing slightly increased. During 1959/60 to 1964/65, agricultural production exceeded population growth and the manufacturing sector experienced higher growth along with a rise in per capita gross national product (GNP). The economy experienced further structural transformation in the 1960s. However, manufacturing employment
was unable to surpass manufacturing output. Pakistan was reliant on foreign aid during the 1950s and 1960s.

After the birth of Pakistan, disputes regarding the state language arose. While the dominant political elites and leaders from West Pakistan declared Urdu to be the language of the state, protests from the students and intellectuals of East Pakistan seeking to make Bengali one of the state languages intensified. As a result, the Bengali Language Movement started in 1948 and reached its climax on 21 February 1952, when several people were killed by open firing by the police at the mass protests. Finally, in 1956, Bengali was adopted as one of the state languages of Pakistan.

During 1947–71 the majority of the upper-class Muslim refugees, named Muhajirs, from Indian provinces of the central region migrated to West Pakistan. Pakistan’s central government was set up in the western part of the country. During that time, Punjabis and Muhajirs were the ruling elites and had control over the centre, bureaucratic apparatus, and armed forces. Political power was limited among the Baluchis, Pathans, Sind, and Bengalis. Pakistan was under civilian rule during 1955–57. From 1958 to 1968 Pakistan was ruled by the military. A new chief martial law administrator ruled from 1969 to 1971 (Choudhury 1972).

Over the period 1947–54, national planning was in the hands of the central government. A number of one-sided political decisions were made by the centre and there was no national plan document. The centre had control over provincial incomes. In early 1948, sales tax, income tax, and a large share of import and export duties were taken away from the provinces by the government of Pakistan. The government relied on this income to finance health and education. In the first general election of 1954 in East Bengal, the United Front (UF) gained victory and demanded sales tax and the lion’s share of other federal taxes. The UF was dismissed by the centre in May 1954 (Asadullah 2006).

Immediately, ‘Governor’s rule’ was imposed; this continued till June 1955, when military rule was imposed. The planning commission was formed to help devise the five-year plans. The plans focused strongly on industrial development, which resulted in inequality in regional income. This form of industrialization largely benefited the western wing. East Pakistan was highly agrarian; as a result, it did not receive priority and had low per capita income gains. Per capita income disparity between East and West Pakistan was on the rise from the early 1950s onward, as observed in Table 1, which shows differences in per capita incomes between the western and eastern wings in Pakistan for the period 1947–70.

| Table 1: 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     |

Source: reproduced with permission from Asadullah (2006).

On the downside, East Pakistan had 20 per cent of the share of central government development expenditure during 1950–51, although 60 per cent of the population belonged to East Pakistan. It attained a share of 36 per cent during 1965/66 to 1969/70. Inequality was on the rise during this time. In order to facilitate industrialization, the government maintained the policy of transferring visible and invisible resources from the East Pakistan to West Pakistan. This transfer was systematic and, firstly, there was inter-regional trade between the east and west wings under
protectionist measures. Secondly the east wing was transferred a tiny fraction of the foreign aid. Thirdly, to help facilitate industrialization in the west, agricultural surplus was transferred to industry.

A number of disputes took place because of the inequality between the two regions. Inter- and intra-provincial disparities in per capita income were overcome after the Constitution of Pakistan was enacted in March 1962. The finance commission was formed and included members from both wings. It was decided that only sales taxes would be returned to the province. However, throughout the 1960s regional inequality was prevalent.

According to East Pakistani economists, East and West Pakistan were individual regions with their own distinctive economies. As a result of the immobility of labour between the two regions and the high cost of intra-regional transportation of commodities, they stressed the need for regional autonomy for economic development in Pakistan. The West Pakistani leaders took advantage of this situation and stressed the need for the separation of the two regions for economic development in Pakistan. The issues put forward by East Pakistan resulted in an increase in the sense of mistrust between the two regions which lasted throughout the next decade. During this time economic growth in East Pakistan was sluggish, resource allocation from the central government was inefficient, and there was a lack of effective political representation (Islam 2003).

Eventually, the discrepancies between East and West Pakistanis led to the need for restructuring the rules that governed the Pakistani state. The Six Point Programme initiated the restructuring process, which stressed the need for a higher level of autonomy in the case of East Pakistan and dominated the political discourse. The Six Point Programme was aimed at reducing the disparity between the two wings of Pakistan. This programme, eventually, acted as a stepping stone for the liberation war in 1971 and the ending of the rule of West Pakistan in East Pakistan. The war in 1971 resulted in the splitting up of Pakistan and the birth of Bangladesh (Islam 2003).

3 Trends in structural transformation in Bangladesh

The Bangladesh economy has experienced an important structural shift. The dependence on agriculture in GDP has reduced significantly, while the services sector’s share increased. But in comparison with many South-East Asian countries, Bangladesh is lagging behind. Although Bangladesh shows signs of structural transformation in certain areas and has attained growth in productivity, the progress has been slow. In this context, this section provides an overview of the trends in structural transformation in Bangladesh.

3.1 Economic growth

Figure 1 depicts the annual sectoral growth and GDP growth from 1971 to 2017. In the early years after independence the growth of the different sectors was negative. GDP growth picked up after the 1980s. Every decade, average GDP growth increased by one percentage point. The average GDP growth rate was 2–3 per cent in the 1970s, which increased to 3.5 per cent during the 1980s. Then the GDP growth rate sped up to 4.5 per cent during the first half of the 1990s, and to 5 per cent in the second half of that decade. In the year 2000 it reached 6 per cent. Bangladesh is currently growing at a rate of 7–8 per cent per annum. In 2015, as per the World Bank’s classification, the country made the graduation from low-income to lower-middle-income country status. In 2018, the country met the conditions of the first review to graduate from least-developed country (LDC) status, and it is expected to graduate from this status by 2024.
Figure 1: Sectoral and GDP growth (%)

Source: authors’ construction based on UN Statistics Division (2018).

Figure 2 illustrates the five-year moving average of sectoral growth figures. Using the moving average reduces the year-to-year fluctuations and shows five years’ periodic growth. The economy of Bangladesh has experienced major structural changes over the last four decades. We observe that the share of agriculture in GDP has declined quite substantially, dropping from around 60 per cent in the early 1970s to below 15 per cent in recent years, whereas the contribution of industry (including manufacturing) and the services sector has increased significantly. During the first half of the 1990s, the manufacturing sector demonstrated strong growth. In the subsequent period, the agriculture sector performed well. During the second half of the 1990s, agriculture and the services sector had larger contributions. From 2000 onwards, the services sector had significant contributions. In this context, it is expected that initially the share of manufacturing will increase, followed by an increase in the share of services. But in Bangladesh, as in many other developing countries, the share of industry has increased but this is outstripped by the increase in the share of services. Industry includes manufacturing, construction, and mining. In Bangladesh, mining has a very small share—around 1 per cent—and the share of construction is close to 8 per cent. The increase in the share of industry has been due to a rise in manufacturing. The structural transformation of the Bangladesh economy in terms of the declining share of the agriculture sector coupled with a marginal increase of the manufacturing sector against the backdrop of the growing contribution of the services sector is clearly visible in Figure 2.
3.2 Sectoral share in GDP

Figure 3 depicts the fact that the share of agriculture has declined and manufacturing-led industry’s share and the share of services have increased over the years. The share of agriculture dropped from about half of total GDP during the 1970s to about one-third during the 1980s. There was a further decline in the share of agriculture from approximately 30 per cent in 1990 to 25 per cent in 2000, and the share fell to 22.7 per cent in 2010. It is observed from Figure 3 that the share of agriculture declined from 30.6 per cent to 15.5 per cent over the period 1989–2013. The share further declined to 13.4 per cent in 2017. On the other hand, the industrial sector’s share in growth has been increasing over the years. Immediately after independence, the contribution of the industrial sector was insignificant. In the 1980s it was 20 per cent, and it reached 24 per cent in 2006. In 2017, the contribution of the industrial sector to GDP growth was 28 per cent. In Bangladesh the dominant economic sector in terms of output is ‘services’. The services sector accounted for 55 per cent of GDP in 2018. The expansion of banking, insurance, micro-credit, transportation, and telecommunications have contributed to the growth of this sector.
Figure 4 illustrates the subsectoral share in GDP. Over the years, the agriculture subsector’s share in GDP has been declining and the share of manufacturing has been increasing. According to Figure 5, between 1991 and 2017 the highest increase in the share was experienced by the manufacturing sector (from 12.0 per cent to 21.4 per cent) and the agriculture, hunting, forestry, and fishing sector faced the largest decline (from 25 per cent to 14.3 per cent). In the case of mining and utilities, their combined share was constant in the early years and increased at a slow pace in the later years, reaching 3.1 per cent in 2017. The share of construction in GDP was 3.8 per cent in 1986 and gradually increased to 7.2 per cent in 2017. We observe that after a certain time the share of construction became static. The share of wholesale, retail trade, restaurants, and hotels has remained constant over the years with minor fluctuations. The contributions of
transport, storage, communications, and other activities have been relatively steady. However, currently there is a declining trend in other activities.

What is important to observe from Figure 4 is that though manufacturing growth in Bangladesh during the 1970s lagged behind economic growth, during the eighties manufacturing growth outstripped GDP growth. In the early 1990s, the manufacturing share in GDP showed an upward trend. Bangladesh has been experiencing a growing share of manufacturing especially over the past two decades. This high manufacturing share in GDP is heavily driven by the growth of the RMG sector. Non-RMG manufacturing performance and economic diversification are weak. In developing countries there is a concern about a declining manufacturing share which leads to premature de-industrialization, but when it comes to manufacturing value added share in GDP, in the case of Bangladesh we see a positive contribution. This makes Bangladesh the only exception in South Asia with respect to premature de-industrialization.

Connectivity within the country, between rural and urban areas and especially between economic centres all over the country, improved as rural households’ income sources diversified and physical infrastructure (i.e. roads, electricity) across the country expanded. As a result, non-farm and non-crop agricultural activities (i.e. poultry, livestock, growing fruits and vegetables) in the rural areas flourished, which contributed to structural transformation in these areas.

Figure 5: Total natural resources rents as % of gross national income (GNI)

Bangladesh is not a natural-resource-rich country, and therefore the total natural resources rents as a percentage of GNI are not high, as depicted in Figure 5. The rent from natural resources as a percentage of GNI remained below 1 per cent for most years over the past four decades.

3.3 Sectoral share in employment

One important component of structural transformation is that the contribution of agriculture to GDP will decline, and this has happened substantially in the case of Bangladesh. However, the share of agriculture in employment has been dominant. In 1991, it was as high as 70 per cent; this had come down to around 40 per cent by 2017 (Figure 6). Although in the case of value addition to GDP, agriculture holds a share of 13–14 per cent, the sector accounts for around 40 per cent of the country’s employment.
An important component of structural transformation is that people will move out of agriculture, but this has not happened in case of employment in Bangladesh. Employment in agriculture experienced a sharp fall during the years 1996–98. After 2000, we see that the share is declining but at a very slow pace. The share of industry in employment is not very high, as shown in Figure 6. About 40 per cent of the employment generated is being absorbed by the agriculture sector, the services sector is absorbing more than 40 per cent, and the rest is being absorbed by the industrial sector, especially by the manufacturing and construction sector. The services sector in the country is heavily informal-sector-based, and therefore the sector entails low-paid, low-productivity employment. In terms of the shift from low productivity to high productivity in structural transformation, Bangladesh is still lagging behind. Therefore, there remains a big question mark for Bangladesh in terms of structural transformation. How can Bangladesh transform from the current state of low value-added activities to high value-added activities?

3.4 Changes in the composition of trade

The structural transformation that has taken place till now in Bangladesh is heavily linked to the composition of imports and exports of the country. The export–GDP and import–GDP ratios have increased. Figure 7 shows that merchandise exports and imports as shares of GDP have increased over the years, though in recent years they have been on a declining trend. Over the years, Bangladesh has been successful in shifting from an aid-dependent to a trade-orientated economy. This has helped to reduce the dependence on trade and raise foreign exchange earnings.
It is evident from Figure 8 that consumer goods and the raw materials for consumer goods occupied the lion’s share in terms of imports. The importing of agriculture raw materials was high in the initial years but over time this dependency has reduced. Over the years, Bangladesh has become self-sufficient in agriculture and has made progress in terms of attaining food security. Between 1972 and 2014, the production of food grain increased by three times, from 9.8 to 34.4 million tons (World Bank 2016). Changes have taken place in the composition of imports in Bangladesh. Previously it was heavily dependent on imports of agricultural raw materials. Over the years, manufacturing raw material imports for use in export-orientated industries have increased. Fuel import remained significant over time. Unlike many other developing countries, which are dependent on food imports, a large component of imports is manufacturing raw materials, is linked to the country’s export composition.

Immediately after independence, export earnings from raw jute were high, but they experienced a downfall in the 1980s. Bangladesh also gained from export earnings from the leather sector and frozen food (shrimp), but not substantially (Taslim and Haque 2011). A significant portion of the income of the export sector was driven by RMG exports. Bangladesh has experienced changes in export composition. The country has shifted from raw jute export in the early 1970s and is now heavily dominated by RMG. Figure 9 depicts that a large chunk of Bangladesh’s exports is dominated by manufactures, which is the RMG component. The high dependence on the RMG sector is subject to a number of risks globally. With respect to structural transformation, an important question for Bangladesh is how to diversify the export basket.
Bangladesh has experienced phenomenal growth in the RMG sector over the past two decades. The RMG sector makes a large contribution in uplifting the economy of Bangladesh through employment generation, women’s empowerment, and export earnings. The sector was able to flourish as a result of duty-free market access and preferential trade benefits (Raihan and Khondker 2010). Exports of RMG and remittance earnings jointly contributed to foreign exchange earnings. Figure 10, however, shows that over the years, the export basket of Bangladesh has become more and more concentrated. Figure 11 suggests that, in terms of the Economic Complexity Index, Bangladesh has been sliding down as the country has become more and more dependent on RMG exports.
3.5 Flow of external resources

Bangladesh was an aid-dependent economy in the early days after independence. As shown in Figure 12, net official development assistance (ODA) received as a percentage of GNI was high in the initial years and this gradually declined. This decline was fuelled by high growth of exports. Net ODA received as per cent of GNI was 1.43 as of 2017. The highest percentage value of ODA received over the past 42 years was 8.16 per cent in 1977, whereas the lowest value was 1.07 per cent in 2011. However, aid continues to play an important role in Bangladesh’s development. Aid funds have also been diverted to finance the budget deficit and development projects in the country.
Figure 12: Net ODA received as % of GNI

![Net ODA received as % of GNI](image1)

Source: authors’ construction based on World Bank (2019a).

Figure 13: External debt stocks as % of GDP

![External debt stocks as % of GDP](image2)

Source: authors’ construction based on World Bank (2019a).

Figure 13 shows that external debt stock as a percentage of GDP in Bangladesh, compared with other countries, is still low. However, for further infrastructural development and structural transformation the country will need an increased flow of foreign loans. Therefore, in the near future external debt is likely to increase.

In Bangladesh, remittances have contributed significantly to GDP. From Figure 14, it is observed that remittance earnings and remittance earnings as a percentage of GDP have increased over the years as a result of increasing overseas employment. There has been a surge in the flow of workers’ remittance earnings since 1976, and the upward trend continued to be observed after that
remittances have played a dominant role in the transformation of the rural economy and helped to lift households out of poverty (Raihan et al. 2009).

Figure 14: Remittance earnings

One of the major concerns for Bangladesh is its low ratio of foreign direct investment (FDI) to GDP compared with other developing countries. Bangladesh’s FDI orientation has been very low. For structural transformation, an important component is growing industries and diversifying the economy. Therefore, for the further industrialization process in Bangladesh, FDI is an important contributor. Bangladesh needs to learn from Vietnam, which continues to attract record FDI (VIR 2019). Bangladesh has not been able to attract a substantial amount of FDI compared with its GDP size because of a lack of infrastructure and due to the high cost of doing business. As shown in Figure 15, in the early years after independence the contribution of FDI to GDP was quite insignificant. In 1976 the share of FDI in GDP was only 0.05 per cent; this decreased over the years, but again picked up in 1993 (0.04 per cent). In 1997 the share was recorded as 0.28 per cent; this gradually went up to 1.09 per cent in 2005 and, after a decline in the following years, it reached 1.45 per cent in 2008 and 1.74 per cent in 2013. In 2018, Bangladesh achieved the highest FDI in the country’s history, of US$3.61 billion.
4. Trends in income inequality, employment, and inclusive growth in Bangladesh

4.1 Trend in poverty

According to the national estimates (Table 2), in 1992 Bangladesh had a population of 112.4 million, out of which 56.7 per cent were poor (upper poverty line) and 41.1 per cent were extremely poor (lower poverty line). In 2016 these rates declined to 24.3 per cent and 12.9 per cent respectively. There are concerns that in recent years the annual rate of poverty reduction has slowed down (Table 3).

Table 2: National headcount poverty rate (cost of basic need method)

<table>
<thead>
<tr>
<th>Year</th>
<th>Upper poverty line</th>
<th>Lower poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
<td>Rural</td>
</tr>
<tr>
<td>1992</td>
<td>56.7</td>
<td>58.8</td>
</tr>
<tr>
<td>1996</td>
<td>50.1</td>
<td>54.5</td>
</tr>
<tr>
<td>2000</td>
<td>48.9</td>
<td>52.3</td>
</tr>
<tr>
<td>2005</td>
<td>40</td>
<td>43.8</td>
</tr>
<tr>
<td>2010</td>
<td>31.5</td>
<td>35.2</td>
</tr>
<tr>
<td>2016</td>
<td>24.3</td>
<td>26.4</td>
</tr>
</tbody>
</table>

Source: authors’ calculations using the Household Income and Expenditure Survey of Bangladesh Bureau of Statistics (various years).

Table 3: Average annual reduction in national poverty rates

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<tbody>
<tr>
<td>Overall poverty rate</td>
<td>-1.65</td>
<td>-0.24</td>
<td>-1.8</td>
<td>-1.7</td>
<td>-1.2</td>
</tr>
<tr>
<td>Extreme poverty rate</td>
<td>-1.48</td>
<td>-0.32</td>
<td>-1.8</td>
<td>-1.5</td>
<td>-0.8</td>
</tr>
</tbody>
</table>

Source: authors’ calculations using the Household Income and Expenditure Survey of Bangladesh Bureau of Statistics (various years).
Figure 16 depicts the headcount poverty rates as per different international poverty line incomes. While it is apparent that Bangladesh has been able to reduce poverty based on the US$1.90 poverty line income to around 14 per cent in 2016 from as high as around 40 per cent in 2000, the poverty rates based on other poverty line incomes were very high in 2016. With respect to the US$3.20 poverty line income in 2016, the poverty rate was more than 55 per cent. In the case of the US$5.50 poverty line income, the poverty rate in 2016 was around 85 per cent and for the US$10 poverty line income the poverty rate is close to 97 per cent. For the last two poverty line incomes, the reduction in poverty rates has been very slow over the past three decades.

Figure 16: Poverty rates at different international poverty line income

Source: authors’ construction based on World Bank (2019b).

4.2. Trend in inequality

Major economic policies in Bangladesh highlight the importance of accelerated economic growth along with the reduction in poverty and improvement in the inequality scenario. However, over the past decade since 2010, despite high economic growth, the country has witnessed a rise in the inequality index. According to the Household Income and Expenditure Survey (HIES) of the Bangladesh Bureau of Statistics (BBS 2010), the Gini coefficient of income, which is a popular measure of income inequality, rose from 0.458 in 2010 to 0.482 in 2016 (Figure 17). The actual inequality picture is thought to be worse than the BBS’s survey estimate, as these household surveys mostly fail to capture information from ultra-rich households. However, despite the data limitations, the growing inequality index suggests that the richer segment of society has been benefited more by economic growth during the aforementioned period, and the economic growth process has been far from inclusive.
4.3 Trend in demographic structure

Bangladesh’s structural transformation so far has been driven by the growth of the RMG sector and remittance earnings. Bangladesh currently has the opportunity to realize a ‘demographic dividend’. This is because the share of working-age population in the country is higher than that of non-working-age population. However, this window of opportunity is only open till 2040. Figure 18 shows that the country’s age dependency ratio as a percentage of working-age population is declining. In terms of number, the working-age population has increased over the years (Figure 19). However, the composition of the workforce is highly dominated by low-skilled workers, which is a major concern in terms of receiving the true benefit of the demographic dividend.

Figure 18: Age dependency ratio as % of working-age population

Source: authors’ construction based on World Bank (2019a).
Raihan (2018b) argued that although the economy of Bangladesh has steadily grown over the last two decades, utilizing the potential of the youth population remains a big challenge. The country, being at the middle of the period of demographic transition, is yet to reap the benefits of its demographic profile. The Labour Force Survey 2016/17 of the BBS (2018) reveals that, although as high as 31.6 per cent of the total labour force are aged between 15 to 29 years, the youth unemployment rate of 10.6 per cent is much higher than the national average of 4.2 per cent—with the female unemployment rate much higher than that of men. There is a high degree of unemployment among educated youth too, as 13.4 per cent of unemployed youths have tertiary education and another 22.3 per cent have higher secondary education. Furthermore, the rate for youth not in education, employment, or training (NEET) is found to be 29.8 per cent, with this rate for female youths as high as 49.4 per cent. Raihan (2018b) further argued that the dominance of informal sector employment and lack of decent work are among the notable predicaments of the youth employment scenario, where in addition young women are lagging behind their male counterparts. Though there are several youth-focused policies e.g. the National Youth Policy (2017), the National Skill Development Policy (2011), and the Seventh Five-Year Plan, most of these policies are argued to lack detailed work plans for implementation as well as any effective financing strategy.

Figure 20 suggests that there has been a significant rise in the share of urban population in the total population over the years, and in recent years the pace of urbanization has been rather rapid. This has been promoted by a high rate of migration from the rural areas to urban areas due to both push and pull factors. Push factors include landlessness triggered by various economic (i.e. impoverishment) and environmental (i.e. various natural disasters) factors, and pull factors include better income opportunities in the urban areas. In 2017, around 37 per cent of the total population of Bangladesh lived in urban areas. Despite the growing share of urban population, the quality of services for citizens in urban areas remains poor.
4.4 Trend in the labour market

In terms of the number of new jobs, there has been slower growth in job creation in recent years. Between 2013 and 2016/17, while the average annual GDP growth was 6.6 per cent, the average annual growth of jobs was only 0.9 per cent. The number of manufacturing jobs declined by 0.77 million, and more importantly, female manufacturing jobs declined by 0.92 million. Also, manufacturing’s employment share declined in recent years: from 16.4 per cent in 2013 to 14.4 per cent in 2016/17. The slow growth in job creation is also reflected in the declining employment elasticity over the last decade. The employment elasticity of GDP growth saw a reduction from 0.54 to 0.25 for the periods between 1995–2000 and 2010–18. While Sustainable Development Goal (SDG) 9.2 highlights the target of doubling the share of industry (primarily manufacturing) in GDP share in LDCs by 2030, with the changing nature of manufacturing, leaning towards automation, increasing the number of new jobs will remain a, especially big challenge in this sector.

In relation to ensuring decent jobs, there are concerns about a high degree of informal employment in Bangladesh. In this situation, both the government and the private sector have important roles to play. In 2016/17 as much as 85 per cent of employment was informal (Table 4). Women are more likely than men to be in informal employment.

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Source: authors’ calculations using Labour Force Survey of the Bangladesh Bureau of Statistics (various years).

Over the past three decades, the labour force participation (LFP) rate of women has increased. Nevertheless, the LFP rate of women remained stagnant, between 33 per cent and 36 per cent, from 2010 to 2016/17 (Figure 21). Raihan and Bidisha (2018) explored both the supply and demand side factors affecting female LFP in Bangladesh. Their analysis suggests that issues such
Child marriage and early pregnancy, coupled with reproductive and domestic responsibilities, have not changed much with the economic progress of the country, and these factors constrict female LFP. To explore the demand side factors, especially the role of innovation and technology, affecting firms’ demand for female labour, the study used firm-level data from the World Bank’s Enterprise Survey of 2007 and 2013. Female employment intensity, defined as the ratio of female labour to male labour, declined in major manufacturing and services sectors from 2007 to 2013. Overall female employment intensity declined from an average of 20.35 per cent in 2007 to 17.67 per cent in 2013. The econometric estimation suggests a negative impact of innovation and technological upgrading on firms’ female employment intensity. In this context, there is a need to provide incentives and remove barriers to the creation of new and higher-productivity jobs in sectors which can generate large-scale employment for women.

Figure 21: Labour participation rate (%)

Youth employment is a major challenge in Bangladesh. There are two critical areas of concern with respect to youth employment. The share of youth NEET increased from 25.4 per cent in 2013 to 29.8 per cent in 2016/17, and 87 per cent of youth NEET are women. Also, the youth unemployment rate increased from 8.1 per cent to 10.6 per cent during this period. In order to address these challenges, there should be targeted programmes of skills development for specific disadvantaged segments of the youth population and appropriate labour market policies.

In relation to raising the productivity of labour, it is important to note that the productivity of labour critically depends on quality health and education services, and Bangladesh lags behind significantly in ensuring quality health and education for all. Public expenditure on both health and education as a percentage of GDP is among the lowest in the world. There is a need for a substantial rise in the ratios of public spending on both health and education in GDP in the coming years, and to make such spending more efficient.
5 Policies used to shape structural transformation, inequality, and inclusive growth in Bangladesh

5.1 Trade policies

It is important to note that the policy of trade liberalization in Bangladesh has been an integral part of the broad objective of developing and expanding the market economy in the country. It has been implemented under the structural adjustment programme prescribed by the World Bank and the International Monetary Fund (IMF). In this regard, an examination of the associated macro and sectoral policies and reforms is needed to get a clear picture of the overall changes in the policy environment of the economy. Therefore, this section evaluates trade policy and other relevant policies and programmes, such as industrial policy, exchange rate policy, monetary policy, fiscal policy, the privatization programme, and FDI policy, that affect the development and expansion of the market economy in the country.

In Bangladesh three broad regimes of trade policy reforms can be defined: from 1972 to 1980—the regime of restricted trade; from 1980 to 1991—the regime of moderate trade liberalization; and from 1991 to onwards—the regime of rapid trade liberalization. During the first regime, trade, industrial, and other associated policies were targeted at developing an inward-looking economy. The broad objective of the policy regime was to develop a public-sector-orientated economy, with the major emphasis placed on the leading and dominating role of the state. The expansion of the private sector was limited. On the other hand, the second policy regime is characterized by moderate reforms in all major aspects of economic policies and programmes. The restrictions on trade were relaxed and different industrial policies were put in place to move the economy from an inward-looking to an outward-looking one. Significant privatization took place during this period. During the third trade policy regime, the speed of reforms intensified. The trade regime became significantly more open compared with the previous two regimes, while industrial and other policies continued to uphold the broad objective of private sector development.

Trade policy in Bangladesh includes import and export policies. In Bangladesh several import and export policies have been put in place under different policy regimes. The general picture of the changes in policies reflects the fact that Bangladesh has been moving away from a ‘closed’ to a more ‘open’ economy.

Trade policy between 1972 and 1980 consisted of significant import controls. During this regime, Bangladesh followed an extremely restrictive import policy. The major administrative instruments employed to implement the import policy were the foreign exchange allocation system and Import Policy Orders (IPOs). Under the IPOs, items were specified in terms of whether their importation was allowed, prohibited, or required special authorization. The government relied on import-licensing rather than on tariffs and the exchange rate mechanism for the allocation of scarce foreign exchange among users. Except in certain cases, licences were required for all imports. The argument behind the import-licensing system was that it would ensure the allocation of foreign exchange to priority areas and protect vulnerable local industries from import competition. However, the system was criticized for not being sufficiently flexible to ensure smooth functioning under changing circumstances. Moreover, it was characterized by complexity, deficiency in administration, cumbersome foreign exchange budgeting procedures, poor inter-agency co-ordination, rigid allocation of licences, and time-consuming procedures (Bhuyan and Rashid 1993).

During the second regime, 1980–91, a moderate import liberalization took place. In 1984, a significant change was made in the import policy regime with the abolition of the import-licensing system, and imports were permitted against letters of credit (L/C). After 1986, there were
significant changes in the import procedures and in the IPOs with respect to their contents and structure. Whereas prior to 1986 the IPOs contained a lengthy ‘Positive List’ of importables, in 1986 the Positive List was replaced by two lists, namely the ‘Negative List’ (for banned items) and the ‘Restricted List’ (for items importable on fulfilment of certain prescribed conditions). Imports of any items outside the lists were allowed. These changes might be considered significant moves towards import liberalization, since no restrictions were then imposed on the import of items that did not appear in the IPOs. With the aim of increasing the stability and certainty of trade policy, two-yearly IPOs were issued, replacing the previous practice of issuing IPOs annually. After 1990, the Negative and Restricted Lists of importables were consolidated into one list, namely the ‘Consolidated List’ (Ahmed 2001).

The third regime, from 1991 onwards, represented a period of rapid import liberalization. After 1991, considerable rationalization of tariff rates took place in the form of lowering high tariff rates, reducing the number of rates, and compressing tariff bands. As a result, average nominal rates of protection for all tradables fell from 88.6 per cent in 1991 to 22.2 per cent in 1999. The import-weighted tariff also declined significantly during this period. Also, the dispersion in tariff rates was reduced. As a result of the continued liberalization of the import regime, the number of tariff rates was reduced from eight in 1993 to five in 2003, and the maximum tariff rate was brought down from 350 per cent to 32.5 per cent during the same period.

Until the mid-1980s, Bangladesh followed a strategy of import substitution. That regime was also characterized by a high degree of anti-export bias. However, since 1985 several export policy reforms have been implemented, which have included trade, exchange rate, monetary, and fiscal policy incentives, aimed at increasing effective assistance to exports. A few sectors, especially RMGs, have been major beneficiaries of these reforms. Reforms have provided exporters with unrestricted and duty-free access to imported inputs, financial incentives in the form of easy access to credit and credit subsidies, and various forms of fiscal incentives, such as rebates on income taxes and concessory duties on imported capital machinery. The reforms have also aimed at strengthening the institutional framework for export promotion (Rahman, 2001). Major export promotion policies in Bangladesh have included the following:

- **Export Performance Licensing (XPL)/Export Performance Benefit (XPB) Scheme**: Until 1986, under the XPL scheme exporters of non-traditional products were allocated import licences for specific products over and above their normal allotment. In 1986, the XPL scheme was replaced with the XPB scheme, which gave exporters an added benefit by allowing them to cash the export earnings in US$ in the secondary exchange market. However, the XPB scheme became redundant in 1992 as the dual exchange rate system was abolished in that year.
- **Special Bonded Warehouse Scheme**: This system was first introduced in 1978 for the RMG industry. The scheme exempts exporters from import taxes.
- **Duty Drawback System**: This system, introduced in 1983, targets the RMG sector. It enables exporters to clear imported inputs without paying any duty or sales taxes.
- **Back-to-Back L/C System**: This system, introduced in 1987, allows an exporter to import raw materials on a deferred payment basis, payments being effected out of the proceeds from exports.

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1 Bhuyan and Rashid (1993) and Raihan and Razzaque (2007) provide comprehensive reviews of the export promotion measures.
• **Cash Compensatory Scheme**: Introduced in 1986, this scheme is aimed at promoting backward linkages in the export sectors. It allows exporters cash assistance of a certain percentage of their free on board export value.

• **Export Credit Guarantee Scheme**: This scheme, introduced in 1978, provides exporters with credits at concessionary rates.

• **Export Promotion Fund**: This scheme targets exporters of new and non-traditional items by providing them with venture capital on easy terms and at lower interest rates.

• **Fiscal incentives**: Various fiscal incentives, such as rebates on income taxes and concessionary duties on imported raw materials and capital machinery, have been given to exporters.

• **Institutional development for export promotion**: Established in 1977, the Export Promotion Bureau (EPB) is a leading institution with the aim of promoting exports and designing plans and policies conducive for the private sector.

Though the aforementioned export promotion measures were put in place with the aim of diversifying the export basket, improving the quality of exports, stimulating higher value-added exports, and developing industries for backward linkages in Bangladesh, there are debates on whether these measures made the RMG sector the major beneficiary, while other export-orientated sectors lagged behind (Raihan and Razzaque 2007).

The growth of Bangladesh’s RMG exports is largely attributable to the international trade regime in textiles and clothing, which, until 2004, was governed by the Multi-Fibre Arrangement (MFA) quota system. This system restricted competition in the global market by providing reserved markets for a number of developing countries, including Bangladesh, where textiles and clothing items had not been traditional exports. The duty-free access for Bangladesh’s RMG products in the EU has also greatly supported the growth of the sector. It then follows from the above that despite the impressive growth record, the export base and the export markets have remained rather narrow for Bangladesh, which is a matter of great concern. Undiversified exports, in terms of both product range and markets, are likely to be much more vulnerable to various shocks than well-diversified exports. Despite the policy reforms and various incentives offered, it seems that Bangladesh has failed to develop a diversified export structure. It is also important to note that export markets for Bangladesh have been highly concentrated, with North America and the EU being the major destinations. In 2016/17, around 64 per cent of the country’s total exports went to the EU while another 21 per cent was destined for North America.\(^2\)

### 5.2 Industrial policy

Bangladesh’s government nationalized all heavy industries, banks, and insurance companies after independence in 1971. The nationalized units accounted for 92 per cent of the total fixed assets of the manufacturing sector by 1972 as a result of this rapid nationalization policy (Rahman 1994). The involvement of the private sector was severely restricted to small and medium-sized industries (Sobhan 1990). In 1974, several industrial policy revisions occurred, loosening limits on private investment from 2.5 million taka (US$0.3 million) to 30 million taka (US$3.65 million),\(^3\) and providing room for domestic and international private investment.

After the 1975 shift of political regime, the government stepped away from the programme of nationalization and revamped industrial policy with a view to promoting greater participation for

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\(^3\) At the prevailing exchange rate.
the private sector. Under the Industrial Investment Policy announced in December 1975, several major reforms were implemented, including raising the private investment cap to 100 million taka, lifting limitations on the involvement of the private sector in large-scale manufacturing, allowing for direct foreign investment in the private sector, and reactivating the Dhaka stock exchange (Rahman 1994). The shifting industrial policies, along with the cycle of denationalization and privatization, led to a situation where by the end of the 1970s only 19 out of 144 industrial subsectors remained exclusive to the public sector (World Bank 1989). Such reforms led to a policy climate in which the key focus was on promoting private sector development by amending the state’s exclusive authority in the economy.

The private sector growth agenda became more prominent in industrial policies during the 1980s, and focus was placed on a rapid expansion of Bangladesh’s private sector. This process was encouraged by the Structural Adjustment Plan (SAP), recommended by the Bretton Woods Institutions, which was initiated in 1986 with a view to expanding the private sector’s position by relying more on market forces and growing the public sector’s position in economic activities. The New Industrial Policy (NIP) was developed in 1982 and was further updated in 1986 by the Revised Industrial Policy (RIP). The thrust of these policies was to support the growth agenda for the private sector and speed up the privatization process for public enterprises. This was achieved by offering significant private investment rewards and resources. Furthermore, foreign investment limits were further eased and in some cases eliminated. This also offered some opportunities for foreign investment. Steps were also taken to boost public enterprise efficiency. This included reforming public enterprises, greater flexibility in pricing, capital reform, and setting up an enhanced framework for evaluating the performance of public enterprises (Rahman 1994).

Throughout the 1990s, the SAP was progressively and intensively introduced by numerous reform initiatives, and these were often reflected in industrial policy. The 1991 Industrial Policy, which was updated in 1992, re-emphasized the leading position of the private sector in industry growth and explicitly stated that its aim was to change the government's position from a ‘regulatory’ authority to a ‘promotional’ body. The Industrial Policy of 1999 also emphasized the promotion of domestic and foreign investment in the overall growth of industry. This industrial policy also underlined the importance of developing export-orientated industries, building forward-looking and backward linkages, and increasing economically productive import-substitute industries. In addition to certain reserved sectors such as arms, ammunition, and other defence equipment and machinery; nuclear power generation; forest planting and mechanized extraction within the boundaries of reserved forests; and rail and air transport (except air cargo and domestic air transport), all other sectors were opened up for private investment. Industrial policy also allowed 100 per cent FDI, as well as joint ventures with both a local private partner and the public sector.

The 2005 Industrial Policy cited a variety of sales and fiscal opportunities—for example: (i) no distinction in respect of customs duties or taxes between the public and private sectors for the same industry; (ii) a tax holiday facility (5–7 years, or 10 years in Export Processing Zones/EPZs); (iii) accelerated depreciation allowance where tax holidays are not available (conditions apply); (iv) reduced rate taxes where tax holidays/reliefs are not available; (v) duty exemptions on the importation of machinery; (vi) continuation of the growing duty structure; (vii) special benefits for non-resident Bangladeshis; and (viii) special income facilities for ‘thrust’ sectors, small and medium-sized enterprises, and cottage industries. The policy listed 33 sectors as economic thrust sectors, described as those subsectors that played an important role in industrializing the country and reducing poverty through positive impacts on GDP, jobs, and export earnings. The top ten of these thrust sectors included the agro-based and agro-processing industry, textiles, jute and jute-mixed goods, RMGs, computer software and information and communications technology (ICT) goods, electronics, and light engineering such as vehicles, pharmaceutical goods, leather and leather products, and ceramics. However, close inspection of the subsectors shows that many of those
listed as thrust industries were unable to affect the country’s overall industrialization, although they had potential.

The Industrial Policy 2010 aimed to achieve the Millennial Development Goals (MDGs) and, above all, to reduce unemployment and the proportion of the population suffering from deprivation and hunger to less than half by 2017 by implementing short-, medium-, and long-term programmes to help create a new, vibrant industrial sector. Other targets included achieving the ‘Digital Bangladesh’ plan by 2021, and creating job opportunities for at least one person from each household to reduce poverty and unemployment. In the group of ‘service industries’, the strategy included more sectors, raising their number to 30, from 19 in 2005 and 5 in 1999. In the 2010 policy the number of ‘thrust sectors’ was reduced from 33 to 30.

The Industrial Policy 2016 listed seven high-priority sectors, including agro-based and agro-processing industries, the RMG industry, computer software and ICT goods, pharmaceutical products, leather and leather products, light engineering, and jute and jute products. Another 24 sectors were listed as areas of priority.

All of the country’s successive governments since independence have announced policies and strategies to accelerate economic growth through industrial sector development, but industrial sector growth remained sluggish. One may associate this slow growth with factors such as energy shortages, reduced bank credit availability, weak FDI inflow, labour unrest, poor law and order conditions, etc., but no less to blame were the contradictory policies that vitiated the overall business climate, discouraged investors, and hindered the country’s industrial activity. Such industrial policies were not successful because they lacked a strategic vision or a clear path for the growth of industry. The policies barely tackled the hardcore concerns that hampered economic development, making the policy measures meaningless. The supply-side constraints, both systemic and policy-induced, that were the major impediments to the expansion of private sector manufacturing industries were virtually not recognized in the policies.

5.3 FDI policy

Founded under the Bangladesh Investment Development Authority (BIDA) Act 2016, BIDA was Bangladesh’s primary private investment promotion and facilitation agency. The act was created on the 1 September 2016, and required BIDA to provide diversified promotional services and promote services with a view to speeding up the country’s industrial growth. The government also assigned some other functions to BIDA in its service list. The present functions of BIDA—now BOI—can be classified as follows: pre-investment information and advice, investor welcoming service (faster immigration), international registration/approval, joint venture and local projects, registration/approval of branch/liaison/representative offices, approval of work permits for foreign nationals, facilitation of connections to services (electricity, coal, water, and sewerage, telecommunications, etc.), assistance in acquiring industrial packages, approval of remittances, technical know-how and technical assistance payments, encouraging the importation of capital equipment and raw materials, granting credit to international borrowers, payment scheme, etc.

The Bangladesh Export Processing Zones Authority (BEPZA) provides the same facilities for companies investing in the EPZs; the authorities emphasize that BEPZA provides its investors with a ‘single-window’ service, through which operational and documentation procedures have been developed to make them easy to use. Investors in infrastructure and natural resource

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4 BIDA was replaced by the Board of Investment (BOI) in 2016.
industries, including energy, mineral resources, and telecommunications, need to obtain approval from the relevant government ministries.

The Bangladesh Economic Zones Authority (BEZA) was established under the 2010 Bangladesh Economic Zones Act. The government formally established BEZA on 9 November 2010. BEZA aims to create economic zones in all potential areas of Bangladesh, including underdeveloped regions, with a view to promoting rapid economic growth through manufacturing, jobs, and output and export diversification.

Current foreign investment legislation includes the 1980 Foreign Private Investment (Promotion and Protection) Act; the 2005 Industrial Policy Act; the 1980 Bangladesh Export Processing Zones Authority Act; the 1994 Companies Act; the 2001 Telecommunications Act; the Bangladesh Economic Zones Act 2010; and the Investment Development Authority of Bangladesh (BIDA) Act 2016. The Foreign Investment Act provides for the right to repatriate spent money, earnings, capital gains, post-tax dividends, and approved royalties and fees.

Legislation offers opportunities for buyers, including 100 per cent ownership of most sectors; tax holidays; lower import duties on heavy equipment and spare parts; duty-free imports for 100 per cent RMG exporters; and tax exemptions. Benefiting industries include agro-processing, diamond cutting, steel production, jute industries, some units of the textiles sector, and underground rail, monorail, and telecommunications networks excluding cell phones. In addition, a tax refund facility was extended to non-resident Bangladeshi investors to attract foreign investment. Trade has been liberalized slowly, but import duties and supplementary taxes remain high and are the largest single source of government revenue. Customs bonded warehouse facilities are given to 100 per cent export-orientated industries that can import duty- or tax-free inputs. Industries located in EPZs are duty-free importing inputs. There are few conditions for results, and these usually do not impede investment. The free repatriation of earnings is allowed, and income on the current account is almost entirely convertible. Bangladesh Bank allows foreign currency repatriation subject to the furnishing of necessary documents as stated in the Foreign Exchange Transaction Guidelines 2009. The 1980 Foreign Investment Act prohibits nationalization or expropriation without fair compensation, and since the Foreign Investment Act was enacted there have been no instances of expropriation of foreign property. While there is no major discrimination against foreign investors, certain discriminatory policies and regulations do exist. For example, 2006 regulations governing the licensing of freight-forwarding agents place higher bonding and capital requirements on foreign companies. Historically, land registration has been subject to conflicts over conflicting land titles, but the government has introduced legal changes to resolve these issues.

Within most types of business enterprise, foreign and domestic private entities can create, own, operate, and dispose of interests. Nevertheless, government spending is reserved for four sectors: weapons and ammunition and other defence equipment and machinery; forest plantation and mechanized extraction within the limits of reserved forest production; nuclear power; and mining. The Foreign Investment Act provides for a national treatment guarantee. National treatment for the promotion and security of foreign investment is also provided for in bilateral treaties.

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5 In the years immediately following independence in 1971, widespread nationalization resulted in government ownership of over 90 per cent of fixed assets in the modern manufacturing sector, as well as all banking and insurance interests, except those in foreign (but non-Pakistani) hands. Domestically owned cotton textiles, jute, and sugar manufacturing units, none of which were owned by foreigners, were placed under government control.
However, even compared with the LDC norm, Bangladesh has still not been able to attract much FDI (Figure 22). Bangladesh’s weak infrastructure and poor business climate are critical issues in attracting both domestic and foreign investment. According to the 2018 Doing Business index of the World Bank, Bangladesh ranked 177th among 190 countries. Bangladesh’s worst performance is observed in the areas of ‘enforcing contracts’, ‘getting electricity’, and ‘registering property’.

Figure 22: FDI share in GDP in Bangladesh in comparative perspective, 2016

Source: authors’ construction based on World Bank (2019a).

5.4 Private investment

Bangladesh’s long-term trend in GDP growth rate shows that the country has continued to gradually boost its growth rate over the past 46 years, following independence in 1971. Starting with a highly volatile growth rate in the 1970s, the rate of GDP growth in the 2000s and 2010s grew higher and much steadier (Figure 23). The growth rate has risen steadily since the early 1990s, rising to over 5 per cent a year, just reaching the 6 per cent mark for a number of years over the 2000s, and then hitting the 7 per cent mark over the past few years. The average growth rate of GDP rose from 3.7 per cent in the 1970s to 6.7 per cent in the 2010s. For every decade since the 1990s, Bangladesh has been able to raise the average GDP growth rate by one percentage point. the nation reached the highest growth rate in the past four decades, of 7.9 per cent, in 2018.
Figure 23: Private investment–GDP ratio (%) and GDP growth rate (%) in Bangladesh

![Graph showing Private investment–GDP ratio (%) and GDP growth rate (%) in Bangladesh]

Source: authors’ construction based on World Bank (2019a).

In spite of the steady rise in the investment–GDP ratio over the past three decades, the share of private investment in GDP has remained stagnant in recent years, and the share of public investment in GDP has increased. It is also noted that private investment’s share of total investment has dropped while public investment’s share of total investment has risen. One very significant aspect of Bangladesh’s investment regime trend in the 1990s and 2000s is that the main contribution to the investment–GDP ratio increase stemmed from the increase in private investment and its share of total investment. In particular, there was a steady increase in the ratio of private investment to GDP between 1995 and 2008. The ratio fluctuated between 2009 and 2017, during which time it rose by only 1.2 percentage points.

As Bangladesh seeks to attain 9 per cent real GDP growth rate by 2030, the requisite investment–GDP ratio would be close to 40 per cent if we consider a 4.44 ICOR (incremental capital–output ratio)—which is the average of the ICORs between 2013 and 2017. In this case, the investment–GDP ratio will have to be raised annually by 0.73 percentage points between 2018 and 2030. This means a 171 per cent increase in the annual average percentage point rise of the investment–GDP ratio over what the country achieved between 2013 and 2017. For such a level of acceleration in growth rate and augmented investment, a significantly larger contribution from the private sector will be needed.

How to boost Bangladesh’s private sector investment to achieve the far broader GDP growth target? Many problems created by policies need to be tackled. More trade policy reform is required, with strategic and competitive industrial policies that seek to rapidly expand and diversify the economy through large-scale domestic and foreign investment. In addition, Bangladesh’s banking sector crisis is not conducive to private sector investment. There is a need to take concrete and successful remedial steps against banking irregularities to improve private sector trust. In addition, Bangladesh’s tax system is still a revenue-orientated tax policy, not a development-orientated tax policy and thus needs a significant overhaul.

Several supply-side constraints need to be tackled as quickly as possible to solve the problems of inadequate infrastructure and the high costs of doing business. These issues seem to be being
addressed by the Bangladesh government’s initiatives in developing 100 Special Economic Zones (SEZs) as well as the construction of major infrastructural projects. However, faster and better implementation of these projects is required, as delay in implementation, cost overrun, and substandard project quality are longstanding problems in Bangladesh that deter private investment.

The existing level and efficiency of the country’s human resources is restricting increased private investment in highly valued and diversified sectors. Bangladesh’s public education and health spending as percentages of GDP are among the lowest in the world. Therefore, the country needs to emphasis and prioritize raising the current low level of human resources by enhancing investment in education, skill growth, and health facilities.

5.5 Agricultural policy

Post-independence, Bangladesh implemented a restrictive trade and exchange rate policy. This policy was similar to that of the 1960s. The policy was highly restrictive for the agricultural sector. The government was able to enjoy monopoly power over imports of the majority of agricultural products and imposed barriers on exports of raw jute. This led to reductions in agricultural price incentives. Agricultural reforms were undertaken over the span of the 1980s to mid-1990s. Reforms took place in two phases, during which subsidies on inputs were reduced and liberalization of domestic trading inputs took place. The next phase of reforms was in the late 1980s and early 1990s, when imports of inputs were liberalized and private trading in grain markets, both domestically and internationally, was encouraged. During this era, a wide range of agriculture policy reforms were introduced spanning a period of 15 years. During these years, the markets for both inputs and outputs were liberalized. Agriculture reforms in the country led to a decline in public transfer to farmers and to food consumers, and a smooth functioning of private markets. The reforms also helped to increase rice production and reduced the retail and wholesale price of rice.

Agriculture development policies have been included in Bangladesh’s five-year plans. The First Five-Year Plan (financial years 1973–78) was finalized and published in 1973. Before the plan was devised, there was a large expansion of public ownership of the productive sectors in 1972. The plan included recommendations that would lead to the expansion of the public and co-operative sectors. It recommended using lower ceilings on landholdings and that the economic position and bargaining power of landless tenants and poor farmers needed to be strengthened. Furthermore, it suggested the extension of co-operative enterprises in construction, housing, and internal distribution.

The Second Five-Year Plan (financial years 1980–85) initiated changes in the form of support provided by the government in the agriculture sector. The government concentrated on the development of the agriculture sector through input management, fertilizer, and machinery equipment. Some of the policies adopted to accelerate the growth of the agriculture sector are as follows. (i) Input management: in 1980, the government discontinued pesticide subsidies and liberalized the import and distribution of inputs to the private sector. (ii) During the period 1978–84, there was reform in fertilizer management. Before that, the Bangladesh Agriculture Development Corporation (BADC) had held monopoly power. The government opted for the deregulation of prices and a reduction in subsidy from 50 per cent of cost in financial year 1979 to 21 per cent by financial year 1982. (iii) From 1980–85, the irrigation system was emphasized, and BADC sold low-lift pumps and tube wells to private parties.

According to the Third Five-Year plan (financial years 1985–90), in 1987 private traders were given access to purchasing fertilizer from factory gates and ports. In the same year, import engines and pumps were imported by private dealers. In 1988, the rules of irrigation were standardized. Import
restrictions for power tillers and standardization rules were eliminated in 1989. Through 1988/89 to 1995/96, there were reductions in import subsidy from 2.53 per cent to 0.83 per cent of value of output; a decline in price support from 0.20 per cent to 0.01 per cent of output; and a drop in the Producer Subsidy from 2.73 to 0.84.

In the Fourth Five-Year plan (financial years 1990–95), a new policy for seeds was suggested in 1990. In 1992, the government allowed free imports of fertilizer from the world market. During 1994/95 there was a scarcity of fertilizer. In 1995, the government supported buyers of machinery by allowing the duty-free import of power tillers and tractors. In 1992, rural rationing and statutory rationing ceased. Public procurement experienced a decline from 1991 to 1993. Through the same years, trade liberalization led to a reduction of tariffs on imports. As the key reforms were concentrated in the input markets, there were steep reductions in the prices of inputs, leading to efficient distribution of inputs and reductions in marketing margins. The agriculture sector received a boost as result of the reduction in prices of pumps and tube well equipment brought about by liberalization of imports. Input market reforms led to the cultivation of irrigated rice (boro crop) even in the winter season. Reforms increased the use of technology in agriculture production. Reforms in the 1980s helped to increase government savings by reducing subsidies on inputs. The reforms led to the ‘green revolution’ as new varieties of rice were introduced by farmers and cropping land was put to use more than once a year. As a result, rice production expanded during this period, allowing the country to reach close to self-sufficiency in the early 2000s.

### 5.6 Social protection programmes

Safety protection programmes have always been at the core of the anti-poverty strategy of governments. They mainly address two issues in Bangladesh: risk and vulnerability. However, the erosion of informal safety nets, rapid urbanization, economic integration worldwide, and democratization of the political system have led to the demand for more strategic social protection programmes. Hence, a total restructuring of the safety nets or, more broadly, of the social protection policies is needed. Safety nets, different types of social insurance, labour market policies, self-help, and so on are components of social protection. Thus, risk reduction and social protection are not only desired goals in themselves but rather a necessity to mitigate the negative psychological consequences on the work of poorer communities in the face of unaddressed risk and vulnerability.

Social protection programmes in Bangladesh can be categorized into the following groups: cash transfer (mainly targeting poor individuals or families directly); income support to poor households; conditional transfer to poor households (conditional on these households sending their children to school); access to or possession of income-generating assets and households for the ultra-poor; and the creation of job opportunities for the ultra-poor by providing free collateral loans, programmes for public works and various rural development programmes (Khatun and Saadat 2018).

### 5.7 Policies for human capital development

While Bangladesh has made significant progress in gross enrolment in both male and female primary education, the country is seriously lagging behind in securing quality education for all. If we take average years of schooling as an indicator of any country’s educational status, in 2017 Bangladesh’s average was just 5.8 years—higher than Pakistan (5.2) but lower than India (6.4). But Bangladesh was well behind Sri Lanka (10.9) and some of the leading countries in South-East Asia, such as Malaysia (10.2), Thailand (7.6), and Vietnam (8.2).

Disappointingly, with only 1.5 per cent of GDP allocated to public expenditure on education in 2016, Bangladesh was among the countries in the world with the lowest ratio (Figure 24). The
average ratio was 3.3 per cent for LDCs, 4.3 per cent for lower-middle-income countries, 4.1 per cent for upper-middle-income countries, and 5.2 per cent for high-income countries. Bangladesh’s ratio of public expenditure on education to GDP was even lower than the South Asian average. This is one of the reasons why private spending on education as a share of monthly household spending in Bangladesh is much higher than that of other South Asian nations. According to the latest household income and expenditure surveys available from five South Asian countries, the share of private expenditure on education in average monthly household expenditure in Bangladesh is about 5.5 per cent, compared with 2.6 per cent in India, 4.8 per cent in Nepal, 2.5 per cent in Pakistan, and 1.9 per cent in Sri Lanka (Raihan 2017). This indicates that responsibility for educational expenditure falls heavily on private households in Bangladesh, and the position of the government is not yet ideal.

Figure 24: Public expenditure on education as a share of GDP (%)

![Figure 24: Public expenditure on education as a share of GDP (%)](image)

Source: authors’ construction based on World Bank (2019a).

It should be mentioned here that there are huge inequalities in the education sector in Bangladesh too. Differences are observed between regions, and between rich and poor. Poorer people and people in remote rural areas have more restricted access than other groups to higher education and to better-quality educational services. Also, the current education system is not helpful in building a strong education sector, because quality, access, and opportunities differ considerably across the different mediums of education—namely English medium, Bangla medium, and Madrasa system—and also among educational institutions in the public and private sectors.

Public health spending as a percentage of GDP in Bangladesh is just 0.4 per cent (Figure 25)—one of the lowest in the world. For this reason, Bangladesh’s share of out-of-pocket health spending in overall health spending is one of the highest in the world. In 2015, it was as high as 71.8 per cent, compared with the 51.65 per cent LDC average or the 57.3 per cent lower-middle world average. This indicates that the burden of health spending falls heavily on Bangladeshi households while the government a far smaller share.
5.8 Labour migration and remittances

In the context of the labour market dynamics of Bangladesh, international labour migration has been performing a substantial role since the early 1990s. A densely populated country mostly comprising unskilled and semi-skilled labours, Bangladesh has sent more than 10 million migrant workers to more than 140 countries across the globe over a period of four decades since the late 1970s. A substantial part of the employment of the labour force has been generated by the international labour market, which comprises more than 12 per cent of the total labour force. About 1.8 million new labourers enter the market each year while the current labour market mechanism only generates about 200,000 new formal sector jobs each year. Since the early millennium, remittance has been translated into one of the growth drivers of Bangladesh and has contributed significantly in terms of poverty reduction and improving household welfare for a mass population. Workers’ remittances accounted for around 6 per cent of GDP in 2017. Studies show that the households of migrant workers benefit from remittances by having better education outcomes and better access to health care, water, sanitation, and nutrition. In the case of Bangladesh, remittance earnings are considered a vital source of foreign exchange, and short-term overseas employment helps to reduce unemployment.

In 2006, for the first time the Bangladesh government adopted an ‘Overseas Employment Policy’. Then, taking into account the SDGs, the inclusion of migration in the Seventh Five-Year Plan, the government’s formulation of the Overseas Employment and Migrants Act 2013, and the adoption of the Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families in 1990, the Expatriates Welfare and Overseas Employment Policy 2016 was formulated in January 2016 with the scrapping of the previous policy. The new policy seeks to promote and protect self-elected overseas jobs by means of healthy and dignified migration. In compliance with Article 2(3) of the Overseas Employment and Migrants Act 2013, the Expatriates Welfare and Overseas Employment Policy 2016 covers both migrant workers and the Bangladeshi diaspora, living abroad for a longer period of time. The 2011 National Skills Development Policy is an alternative framework on labour migration issues. The importance of comprehensive preparation for migrant workers was acknowledged in this strategy. Migration support services are said to be important for safe migration and livelihoods.
In addition to the Overseas Employment and Migrants Act 2013, there are a range of laws including the Emigration Rules 2002, the Wage Earners’ Welfare Fund Rules 2002, the Recruiting Agents Conduct and License Rules 2002, the Commercially Important Persons Selection (non-resident Bangladeshi) Rules 2015, the Special Privilege Policy of Expatriate Bangladeshis for Remittance, 2008, and the Medical Test Policy for Overseas Employment 2008. Such rules were designed to regulate the migration process, opportunities for overseas jobs, hiring agents’ role in labour migration, and the protection of migrant workers and their families.

5.9 Microfinance and other types of non-/quasi-state development initiatives involving non-governmental organizations

Over the last two decades, Bangladesh has shown progress on a number of social indicators, mostly due to a multifaceted service provision regime. With the expansion of services provided by non-governmental organizations (NGOs) during this period, the possibility of scaling up innovative anti-poverty experiments into nationwide programmes has become evident. Innovations in providing access to credit to the previously ‘unbanked’ poor, the development of a non-formal education system for poor children, particularly girls, and door-to-door health services through thousands of village-based community health workers are some of the notable examples. Despite a strong patriarchal society, the large proportion of NGO beneficiaries comprising poor women is evidence of the institutionalization of a large segment of NGO beneficiaries.

Delivery of social services and pro-poor advocacy are not the only unique features of NGOs. They have developed commercial ventures aimed at creating a bridge between poor farmers and an input–output market as well as an internal revenue generation model for the organization. Their pro-poor services have become an integral part of achieving national poverty reduction targets.

NGOs differ in their size and coverage. There are about 2,000 development NGOs, some of which are among the largest such organizations in the world. Large NGOs such as BRAC, the Association for Social Advancement (ASA), and Proshika have tens of thousands of employees and multi-million-dollar budgets, with operations spreading throughout the nation. Other NGOs are smaller in scale and spread, with limited managerial and staff capacity.

Microfinance is one of the key factors behind the growth of NGO programmes. NGOs such as Grameen Bank, BRAC, ASA, and Proshika dominate in the microfinance sector. Micro lending has critical impacts on household income and also in reducing households’ vulnerability to seasonal shocks. Improvements in social indicators such as women’s empowerment, schooling, and health status represent in part complementary social mobilization, training, and awareness-building activities, along with microfinance.

Door-to-door health services are provided by NGOs through village-based community health workers, focusing mostly on preventive care and simple curative care for women and children. NGOs have also achieved notable success in promoting behavioural change at community level by providing water and sanitation services. This includes programmes on child nutrition and tuberculosis treatment in collaboration with the government. Also, around 1.5 million children—about 8.0 per cent of primary enrolment—are in NGO-run schools, making them the most popular form of non-formal primary education.

Donors provide financing to NGOs in a number of ways, the common form being for specific projects. If the needs are great, donor funds are pooled and a donor-liaison function is introduced to co-ordinate support and cut down on transaction costs for NGOs. Often, when donors provide funds for an entire project, the institution transforms into a new legal entity at the end of the funding period.
6 An analysis of the political economy of structural transformation, inequality, and employment in Bangladesh

Hassan and Raihan (2018) applied the ‘deals’ framework to explore the politics of development in Bangladesh. In contrast to ‘rules’ (formal law-based governance), ‘deals’ are characterized by informal arrangement and personalized transaction. Deals can be further categorized as open versus closed deals and ordered versus disordered deals. If the deals, once negotiated between business actors and state officials, are honoured, they are considered ordered; if they are not, they are disordered. If deals are widely available, they are open; if they are limited to a few elites, they are closed.

Bangladesh has been generally pro-business except during a few years after independence. But it manifested big ‘soft state’ syndromes and was hesitant on enforcing regulatory reforms, especially related to privatization and relaxing the bureaucratic regulation of industry. The convergence of international pressure (by the World Bank and the IMF) and national politics since the late 1970s, dominated by pro-market elites—politicians and bureaucrats—provided room for the state to devise and implement business-friendly regulatory and economic policies. These features of the political settlement of elites at the macro level broadly dominated the deals mechanism at the meso level and organized state–business relationships during the earlier growth acceleration phases.

A distinctly noticeable change in the deals landscape emerged in the late 1970s—from a mostly closed and disordered one to an increasingly open and ordered one (governing industrial nationalization procedures, the distribution of licences and permits, ambiguity about land reform, the granting of property rights, etc.). In its bid to establish new entrepreneurs and improve the industrial development driven by the private sector, the state adopted a de facto highly lax form of regulatory environment, sanctioning loans for industries from specialized state-owned banks that culminated in a high level of defaulting on bank loans. This policy of so-called ‘primitive accumulation’ was usually focused on cronyism to a lesser degree (for a few politically aligned and partisan businesspeople), and mostly focused on open deals (for the majority of businesspeople without political identity). The latter category created a constructive form of market-led corruption (bribing of government officials by businesspeople) as well as large-scale rent-seeking, primarily by bank officials but also by officials of the ministries concerned, and the mechanism was largely regulated by an organized system of deals. This form of rent management contributed to the emergence of the RMG sector in the late 1970s and to the development of local entrepreneurs, specifically in the RMG sector. Many of these entrepreneurs, too, were created by the privatization of some state-owned industries.

Closed but organized deals during the 1980s can be found to cover a range of economic activities—licensing, export and import, and large-scale development ventures, though not specifically developing industries. The management of sanctioning industrial loans and the restructuring of the nationalized sectors remained marked by a mixture of cronyism and open-ordered deals. These forms of state–business relations led to the development of a significant number of local entrepreneurs (in particular an escalation of owners of RMG factories) and private sector capital accumulation, which may explain, to some degree, the acceleration of growth, although low in nature, that one sees during that decade.

During the competitive democratic political period (1991–2013), a major transformation of the deals mechanism occurred, primarily as a result of comparatively newer methods of rent management—a complex combination of monopolistic and especially duopolistic rent distributions (sharing rents around the political divide). In line with the process of de facto rent management, direct access to state resources/privileges (permits, licences, leases, etc.) tended to
be largely closed and ordered and, critically, depended on the political identity of the person. Yet market players with the wrong political identity (or no political attachment, as was the case for most businesspeople) were still able to work with government elites to gain state resources, under the environment of closed deals. These business practices, in essence, effectively turned closed deals into open deals.

In Bangladesh, the competitive political process ended in 2013. What evolved after that can be considered the dominant-party phase in the political realm. During this dominant-party phase, earlier rent management, i.e. rent distribution across the political divide, changed considerably. Crony capitalist practices have seen a sharp rise since the emergence of dominant-party politics. Cases of crony capitalism in the banking industry have become prevalent, as reported widely in the print media. Private bank licensing was also the result of an apparent type of crony capitalism. Except in a few important sectors of the economy such as electricity (in particular, related to large ventures) and very large infrastructure projects, state–business activities are now subject to growing numbers of rent-seekers (more politicians, government officials, police, regulatory officers, etc.), which has increased the cost of doing business. The rent-seeking model has also changed from the earlier fairly centralized one to an increasingly decentralized one. However, important economic sectors—large power plants, for example, or infrastructure—are still largely dominated by centralized rent allocation processes. This has resulted in a large rise in the number of actors involved in rent-seeking activities. Businesses now have to deal with veto-empowered rent-seekers at different levels of the hierarchies of the bureaucracy.

7 The future trajectory of the structural transformation, inequality, and inclusive growth in Bangladesh

Raihan (2018a) explored the future prospects of Bangladesh’s structural transformation by applying an analysis of Bangladesh’s past economic growth in a comparative perspective. The analysis showed that Bangladesh was among the 30 countries in the world to have registered an annual average GDP growth rate of 6 per cent or more over a period of 10 years from 2007 to 2016, with low volatility of growth rate during the period under consideration. Among these 30 countries, Bangladesh ranked third in terms of volatility of growth rate: only the Lao People’s Democratic Republic and Vietnam were less volatile in this regard. Though countries like China and India had average growth rates higher than that of Bangladesh, they experienced much greater volatility. All this suggests that Bangladesh’s experience of economic growth over the past decade has been quite remarkable.

However, there are some apparent contradictions that are revealed by analysing 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 shares of more than 90 per cent, while India and Vietnam had shares of 73 per cent and 82 per cent respectively. Interestingly, from 66 per cent in 1980, Bangladesh was able to increase this share to as high as 96 per cent by 2016. Bangladesh’s progress in manufacturing exports is comparable only to that of China and Vietnam. 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-complexity products. A measure of the complexity of the economy is the

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6 On which this section draws heavily.
Economic Complexity Index (ECI) of the Center for International Development at Harvard University. The ECI measures the knowledge intensity of an economy by considering the knowledge intensity of the products it exports. Among the aforementioned top five countries, Bangladesh performed poorly in the ECI. Between 1972 and 2016, Bangladesh never had a positive ECI value and the country’s ECI deteriorated over time. In contrast, China, India, and Vietnam observed positive and growing ECI over the last two and half decades. Furthermore, Bangladesh also performed very poorly in terms of cost of doing business; the country ranked 177th out of 190 countries according to World Bank’s 2018 Doing Business Index. All this suggests that despite slow progress in structural transformation, poor business environment, and weak institutions, Bangladesh was able to keep the momentum of economic growth in the past.

One political economy explanation for this apparent contradiction could be that Bangladesh has so far used its ‘youth bulge’ of demographic dividend quite efficiently and also has tapped in quite remarkably to its comparative advantage in low-skilled labour on two major fronts: RMG exports and exports of low-skilled labour. According to the United Nations Population Fund (UNFPA), a ‘demographic dividend’ is the economic growth potential that can result from shifts in a population’s age structure, mainly when the working-age share of the population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older). One problem with UNFPA’s definition is that the age span (15–64) is quite long and it doesn’t capture the youth bulge aspect of the demographic dividend. In this case, the share of the youth population (15–24) in the total population would be a more relevant indicator. It appears that among the aforementioned five countries, the youth bulge share of the population, between 1980 and 2015, for Bangladesh increased while for Cambodia, China, India, and Vietnam it declined. In 2015, Bangladesh’s youth bulge share (19.5 per cent) was much higher than those of China (13 per cent), India (18.4 per cent), or Vietnam (16.9 per cent).

With this high youth bulge as part of the demographic dividend, Bangladesh also managed to maintain a labour regime for a long time characterized by an equilibrium trap of low-skilled labour and low wages, poor working conditions, and relaxed execution of labour laws in defiance of workers’ rights. Despite overall weak governance and weak institutions, there have been supportive efficient non-conventional economic and political institutions in place in maintaining this labour regime. The returns from such a labour regime in the form of economic and political rents are so high that they act as a disincentive for further economic and export diversification, and in turn the production and export of high value-added and sophisticated products, investment 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.

Can Bangladesh sustain the current momentum of economic growth? From a political economy perspective, the ongoing economic growth momentum is likely to persist as long as Bangladesh can continue managing the labour regime riding on the youth bulge and comparative advantage in low-skilled labour. However, there are concerns that the challenges in the future are likely to be very different from those that Bangladesh encountered in the past. In the coming years, if proper investments are not made on human capital development, Bangladesh will lose much of the larger prospective productive returns from the youth bulge and demographic dividend. The country is also in the process of graduating from LDC status, aims to achieve the SDGs by 2030, and wants to move up to upper-middle-income country status. The economic growth strategies thus need to be revisited to negotiate the coming challenges.
8 Conclusions

Bangladesh’s economic growth and development performance over the past two decades have been impressive. With the poor quality of institutions, such performance has often been termed a ‘development surprise’ or the ‘Bangladesh paradox’. Despite the aforementioned achievements, the fundamental question is whether Bangladesh can continue its success and achieve larger development goals with business-as-usual processes. There are concerns that the weak institutional capacity of the country may work as a binding constraint as the country seeks to meet the stiff targets of the SDGs by 2030, aspires to become an upper-middle-income country by 2031, and aspires to becoming a developed country by 2041.

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

References


