

Is Bangladesh still a test case of development?

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When Bangladesh emerged from its 1971 liberation war desperately poor, overpopulated, and ravaged by acute food shortages and famines, it was designated as a 'test case of development'. Four decades after, Bangladesh still remains a poor country, but it can hardly be described as a uniquely difficult case of economic development. There are other candidates among the less developed countries which would more appropriately fit that description. Yet, economic development in Bangladesh has some unique features for which the country can still be viewed as a test case, even though not in the sense in which it was originally so designated. Let me explain why.

It is true that Bangladesh has successfully overcome its initial image of a famine-prone country unable to feed its population. But that image has now been replaced by that of a most corrupt and ill-governed country, as indicated by most global indicators of political and economic governance. Yet, Bangladesh has in the recent decades achieved reasonably rapid economic growth. Out of today's 25 largest developing countries (according to the size of gross domestic product or GDP in dollar adjusted for purchasing-power parity), Bangladesh ranks among the top 10 in terms of annual average GDP growth during 1980 to 2007. Among the major South Asian countries, only Bangladesh has had a steady increase in average annual GDP growth in each recent successive five-year periods, from 3.7 per cent in the later half of the 1980s to 5.5 per cent during 2001-05, and above 6.0 per cent since then.

Bangladesh is thus an outlier in cross-country comparisons relating governance to economic growth. To understand what is now sometimes termed as Bangladesh's "development paradox" — one needs to look at the drivers of accelerated growth as well as examine the possible growth-

retarding aspects of governance. Has the weakening of governance gone beyond the tipping point beyond which it becomes a binding constraint to further growth acceleration? Or, is it the case that as economic performance exceeded expectations, the institutions have been slow to adjust, and this imbalance manifests itself in the form of poor governance? While the governance environment may have been barely adequate so far to cope with an economy breaking out of stagnation and extreme poverty, it may increasingly prove a barrier to putting the economy firmly on a path of modernization and global integration. Bangladesh thus provides a test case of overcoming the vicious cycle of low incomes and poor governance. Fortunately, Bangladesh's problem is not to jumpstart growth, but to maintain, and to the extent possible, accelerate it.

The acceleration of growth of the Bangladesh's economy since the early 1990s has been underpinned by strong export growth, led almost entirely by the growth in readymade garment (RMG) export. The garment industry has flourished in Bangladesh because of the confluence of a number of favourable factors: the early relocation of garment producers and marketing intermediaries from East Asian countries (especially South Korea) to Bangladesh to evade import quotas in the US and European markets; easy transfer and spread of garment-industry-specific managerial and production skills; preferential access of Bangladesh's garment export to the major markets of the West; favourable policies adopted by the government in supporting the industry, specially by creating a set of enclave-type arrangements (e.g. bonded warehouses and back-to-back letters of credit or L/Cs to facilitate duty-free import of fabrics); and the abundance of low-cost female labour. The industry's early foothold has helped it to gain in efficiency and to withstand many adversities, including the stiffer

post-MFA competition in the global markets for garment export. Even despite the current global recession, garment export from Bangladesh has continued to grow at a robust rate.

While most low-income countries depend largely on the export of primary or resource-based products, Bangladesh has made the transition from being primarily a jute-exporting country to a garment-exporting one. The transition has been dictated by the country's resource endowment, characterised by extreme land scarcity and a very high population density. This makes economic growth dependent on the export of labour-intensive manufactures. Manufactured exports currently account for more than 90 per cent of the country's export earnings — a unique feature among countries at a similar stage of development. But can a least-developed country (LDC) like Bangladesh sustain rapid export growth by relying on manufactured exports? Having low wage costs can hardly compensate for its relative disadvantage in marketing skills and infrastructure (including transport, ports, product standards, and certification facilities). Moreover, the heavy dependence on imported raw materials and intermediate goods implies low domestic value-added contents for its actual and potential exports. This makes it difficult for Bangladesh to satisfy the so-called "rules of origin" (RoO) in getting preferential access for its exports in the markets of the developed countries. European Union (EU), however, relaxed the RoO in January, 2011 to a large extent.

Bangladesh's export base does still remain narrow as the impressive success in garment export has yet to be replicated in other industries. Indeed, Bangladesh's experience with the garment industry has demonstrated the limitation of relying on enclave-type arrangements to facilitate export growth in a specific activity, while postponing institutional reforms for improving the investment climate generally. Lack of a favourable investment climate is also reflected by the fact that, in spite of very liberal policies, Bangladesh has yet to become a favourite destination for foreign direct investment (FDI).

The most striking aspect of Bangladesh's "development paradox" is in respect of improvements in some of its social development indicators, particularly since the early 1990s. From being a laggard, Bangladesh now outperforms most Indian states and South Asia as a whole in such indicators as female school enrolment, child mortality and contraceptive adoption rates. Cross-country comparisons show that the current levels of these indicators in Bangladesh are significantly superior to what one would expect at a similar level of per capita income. These achievements are remarkable given the country's desperate initial conditions and allegedly poor quality of public service delivery.

What is happening? Much of the progress has been due to the adoption of low-cost affordable solutions like the use of oral saline for diarrhea treatment leading to decrease in child mortality, and due to increased awareness created by effective social mobilisation campaigns such as for child immunisation or contraceptive adoption or female school enrolment. The scaling up of programmes through the spread of new ideas is helped in Bangladesh by a strong presence of development non-government organisations (NGOs) and also by the density of settlements and their lack of remoteness. The government's commitment supported by innovative programmes has also helped. Thus far, however, Bangladesh has not really followed the typical pathways to human development: the income-growth-mediated path as in South Korea or the public-spending-driven path of, say, Sri Lanka. But further progress may become increasingly difficult as the gains from low-cost easy solutions are reaped and the amount of public spending, quality of services and the synergies with overall living standards all become important determining factors.

The extreme conditions of land scarcity and population density also make Bangladesh a test case of development, since there is no historical precedence of economic development taking place under such conditions. It is, therefore, not easy to

make projections about how its economy and the landscape will look like, say, 20 to 30 years from now. Where will the increasing population and the labour force be accommodated in terms of economic livelihoods and physical habitation? How much land will remain available for agricultural production with the growth of urbanisation and the increase in the numbers of rural dwellings? What increasing numbers of the population can be accommodated in the existing cities before the urban infrastructure of economic growth and technological developments crumbles down? And, what patterns will allow higher standards of living in an environmentally sustainable way? And the future uncertainty is compounded by the fact that Bangladesh faces the grim prospect of having to cope with the likely adverse effects of global warming and the associated rise in the sea-level.

Coming back to the issue of governance, Bangladesh provides a case study of a low-income country striving to achieve sustainable democracy that is also conducive to economic development. Among the low-income countries – there are about

80 of them according to the World Bank's definition – there is hardly any record of continuous uninterrupted democracy, let alone good democracy. India is an exception in this respect. Bangladesh has had a transition to multi-party parliamentary democracy in 1991. However, after three elected governments having completed their tenures and the fourth one being midway in its tenure, the country still remains a test case of whether economic development and democracy promotion can proceed hand in hand in such a low-income country.

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Economy: it's rough weather out there

The economy may enter a danger zone due to double-digit inflation, the government's excessive borrowing from banks and a dwindling foreign exchange reserve, a leading chamber warned recently.

Dhaka Chamber of Commerce and Industry (DCCI) said inflation that eased to 10.63 percent in December from 11.58 percent a month ago has caused stagnation in other indicators of the economy, threatening the target of 7 percent growth in the current fiscal year.

"High inflation may bring about disaster for the economy because Bangladesh is an import-dependent country. If inflation cannot be contained, achieving the targeted GDP growth will not be possible," said DCCI President Asif Ibrahim.

"Poor macro-economic management is responsible for the current economic instability," he said at a press meet at the chamber's office.

The DCCI organised the meet to inform the press of its activities for trade and business promotion.

"The main challenge for 2012 is not only to tackle financial mismanagement but also to boost investment in industries," said Ibrahim, "Inflation will only be contained if productive sectors receive investment at a faster rate."

The business leader shared the views about the economy, citing the government's excessive borrowing from the banking sector, and a continuous depreciation of the taka against the dollar due to import payment pressure.

A slowdown in exports, repeated hikes in the prices of fuel and electricity, a rise in the banks' lending rates and sluggish foreign investment have also emerged as drawbacks at a time when risks of political instability loom large.

"There is high risk of political instability in 2012," said Ibrahim, "But a stable political environment is necessary to attract investment and ensure economic growth."

The DCCI president said the amount of the government's borrowing stood at Tk 21,321 crore in the first five months of the current fiscal year, exceeding its target of Tk 18,957 crore for the entire year.

"If the trend continues, it will be impossible for banks to provide funds for entrepreneurs. It will also affect investment and job creation."