Bangladesh in LDC status — an economic analysis

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A TV journalist called a few weeks ago to say that he will like to interview me about the graduation of Bangladesh from the list of least developed country (LDC) status by 2024. Just a day or so before that I was in a meeting with the Finance Minister who expressed optimism that Bangladesh will likely cross the threshold of the World Bank defined upper middle income (UMIC) ahead of the official target date of 2030. I could not simply reconcile the two conversations.

I did a little bit of digging into the facts, methodologies and approaches to the measurement of development performance of countries. As a professional economist I am acutely aware of the shortcomings of statistical approaches economists use to support their point of view. The most striking example of this is the story of two Nobel Prize-winning economists: Milton Friedman of the University of Chicago and James Tobin of the University of Yale. Friedman was a monetarist who believed that only money supply matters for economic activity; Tobin was a Keynesian who argued that only fiscal policy matters. The monetarists versus Keynesian philosophies have prevailed over decades. Proponents of each school have used sophisticated quantitative methods to prove their points and declare victory.

The LDC approach developed by the United Nations Economic and Social Council (ECOSOC) uses three criteria to identify an LDC: (1) per capita income, (2) human assets, and (3) economic vulnerability. The human assets and economic vulnerability are calculated as a composite index of a number of variables in each category. Thresholds are defined for each category to identify countries to be added or graduated from the list. The World Bank's income group classification uses only income criteria defined on the basis of what it calls the Atlas Method.

There is now a growing industry of other global indicators of economic and social progress of a country, including the Human Development Index (HDI) of the United Nations Development Programme (UNDP) and the Social Progress Index (SPI) of the Social Progress Imperative. The World Economic Forum (WEF) also publishes a useful composite index of progress with economic and social policies and institutions, known as the Global Competitiveness Index (GCI) that in many respects is a good representation of the development maturity of a country.

I do not wish to go into the micro details of each of these measures of a country's prosperity and performance; nor do I want to take side with any of the measures. The point I wish to examine is how best to assess and classify the development performance of Bangladesh within the limits of the two extreme views: a) the UN's ECOSOC thinks Bangladesh is still an LDC and will likely graduate officially only in 2024, and b) the country's Finance Minister thinks Bangladesh is well set on the course to achieving UMIC status around that time.

A review of the current list of 48 LDCs immediately makes one wonder if Bangladesh really belongs there in view of the solid development performance of the past 15-20 years. The list is shown in Table 1. Some 33 countries belong to Africa; eight to East Asia and Pacific; three to the Middle East and four to South Asia. Bangladesh is the largest country in the group. Within South Asia, Bangladesh is accompanied by Afghanistan, Bhutan and Nepal.

The listing also raises the question of the realism and policy relevance of putting the performance of a country like Bangladesh with 160 million people in the same group as small economies with population of less than 5.0 million (Bhutan, Central African Republic, Comoros, Congo, Djibouti, Gambia, Equatorial Guinea, Guinea Bissau, Kiribati, Lesotho, Liberia, Mauritania, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu). These constitute a third of the total LDCs. Of this, more than 50 per cent have a population of below one million.

A second issue is comparison of performance with other listings. The closest summary indicator is the HDI developed by the UNDP, which is also a composite index of income and well-being. The latest available data is for 2014. Bangladesh is ranked 142 out of 188 countries and grouped under "Medium Human Development". Whereas countries like Kenya

(146), Pakistan (147), Nigeria (152), Cameroon (153), Zimbabwe (155) and Cote'd' Ivore (172) all belong to the "Low Human Development" (LHD) category of the UNDP but are not a part of the LDC group.

How meaningful is it to consider Bangladesh as an LDC when it out-performs these six countries in a substantial and meaningful way based on an indicator that includes both income and human assets (which also are the two major components of the LDC classification). Furthermore, in terms of manufactured exports and foreign reserve holdings, Bangladesh's export performance substantially out-performs all these countries. So, external economic vulnerability is far lower in Bangladesh than in these non-LDC countries. Clearly, there is a methodological problem in categorizing Bangladesh as an LDC in comparison to these six non-LDC countries.

Another broad-based composite index of development performance is the SPI developed by the Social Progress Imperative led by Professor Michael Porter of the Harvard Business School. The Index defines social progress as "the capacity of a society to meet basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential" (List of Countries by Social Progress Index, Wikipedia, accessed December 20, 2016).

The ranking for 2016 puts Bangladesh at 100 out of 134 countries that were ranked, ahead of India (101), Kenya (104), Cameroon (114), Pakistan (122), and Nigeria (125). These later countries are non-LDCs by the UN ECOSOC classification. Interestingly, in terms of meeting Basic Human Needs (BHN) and Foundations of Well-being (FW) indicators, Bangladesh performs even better (97 and 95, respectively). Once again the rating of Bangladesh as an LDC in relation to these non-LDC countries makes it a clear outlier in the context of any meaningful policy perspective.

A final point, emphasized by Nobel Laureate Amartya Sen, is the meaning and relevance of development. He emphasizes the importance of longevity or life expectancy as a more fundamental indicator of development performance than per capita income. In this regard, at the estimated life expectancy of 71.8 years, Bangladesh is ranked 102 out of 183 countries in the rankings. It substantially out-performs many non-LDCs including Indonesia (120),

Philippines (124), India (125), Pakistan (130), Kenya (149), South Africa (151), Zimbabwe (160) and Nigeria (177).

In the context of the progress with economic and social policies and institutions, the GCI provides an indication of the maturity of an economy and its capability to address its development challenges. The 2016-17 GCI rankings put Bangladesh at 106 out of 138 countries included in the list. This ranking is relatively low but still exceeds the performance of such non-LDCs as Ghana (114), Cameroon (119), Pakistan (122), Zimbabwe (126) and Nigeria (127).

The evidence cited here using the many alternative measures of development performance, including those done by the UNDP, suggests that based on development performance Bangladesh does not belong to the LDC group. Simply because being in the list provides some favourable trade concessions is not a convincing reason to under-state the true development performance of Bangladesh. In many respects, such as high income growth, poverty reduction, human development and gender empowerment. Bangladesh has set a positive example for LDCs to emulate and get out of that dubious distinction. By putting Bangladesh in the same category it not only undermines the true development performance of Bangladesh but also weakens the show-casing of this global good practice example.

In the area of trade, Bangladesh has made solid progress in expanding manufacturing exports. With sustained policy progress Bangladesh can easily surmount the loss of a few trade concessions. Research shows that export growth of Bangladesh is hampered much more by domestic supply constraints than market access on concessional terms. Bangladesh policy making should focus on addressing those supply constraints through proper policy and institutional reforms rather than seeking trade concessions through the LDC route.

While there is solid evidence that Bangladesh is not an LDC, whether it can achieve UMIC status on or before 2030 is still an open question. In terms of potential, Bangladesh can be optimistic. But realizing this potential is no easy task. Major policy and institutional reforms will be needed. A particular challenge will be to increase the investment rate to the 34 per cent of gross domestic product (GDP) range from the present 28 per cent level, with emphasis on infrastructure and manufacturing. Export diversification through trade policy reforms will be necessary. Institutional reforms relating to taxation, financial sector, land

market, cost of doing business, climate change and urbanization will be essential.