Taking Bangladesh to a higher growth path

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In 2005 I edited a book published by MacMillan: “Transforming Bangladesh into a Middle Income Economy” that projected that with concerted efforts Bangladesh could achieve middle income status by 2016. Many at that time thought it was too optimistic. Have I changed my mind after four years? My short answer is no. I continue to believe that this is an achievable target. Although we have lost some very valuable time due to the political impasse of 2006-2008, I still think we can catch up provided we put our heart and mind to this task. The restoration of the democratic process and the emergence of a new government with a resounding majority in the parliament provide an exciting opportunity to tackle the growth challenge head on. While higher per capita income alone is not a panacea for tackling Bangladesh’s multi-faceted development challenge, without higher income sustained long term reduction in poverty and improvement in human development will not be possible.

A little bit of history and the power of compounding will help illustrate the importance of accelerating the growth effort. In 1975 Bangladesh and India both hadper capita income of about 210 in current US dollars. Today, India’s per capita income is about $1070, which is nearly double that of about $600 in Bangladesh. This is a huge gap. This happened because Indiagrew at a much faster rate than Bangladesh. Thus as compared with India’sper capita income growth of 5.0 per cent in current US dollars, Bangladesh grew at 3.2 per cent. The power of compounding is obvious here: even a 1.8 percentage point annual growth differential in current dollars caused India’sper capita income to become double that of Bangladeshover a 33 year period.

What will it take for Bangladesh to transit to the middle income group? For projections purposes we will need to talk in constant dollar terms. Ifper capita income in Bangladesh continues to grow at the present rate of 4.0 per cent (average per capita dollar income growth between 2003 and 2009 in 2003 prices), it will reach only $800 by 2016 and Bangladesh will remain in the group of low income economies. If on the other hand Bangladesh could raise this to 8.0 per cent (the rate prevailing in India over the past six years in 2003 US dollars),per capita income would exceed $1000, thereby placingBangladesh in the group of lower middle income economy.

This is difficult but not an impossible challenge. Past experience shows that the return to good policies is substantial. This is illustrated in the two books edited by this writer. The books — entitled “Transforming Bangladesh into a Middle Income Economy” and “Explaining South Asia’s Development Success: Role of Good Policies” — are published by McMillan, New Delhi (2005) and World Bank, Washington DC (2006) respectively.

Bangladesh has succeeded in accelerating its per capita income growth from around 1.0 per cent per annum in the 1970s to 4 percent now. This did not come by on its own. A review of experience shows that policies including economic liberalization, investment in infrastructure and human development, outward orientation, and promotion of private sector all contributed to higher growth by increasing the domestic saving andinvestment rates, boosting the growth of exports, and contributing to higher total factor productivity. These were first round, relatively easy reforms implemented in an environment of very low level of initial economic base.

The stepping up of the growth effort to achieve an additional 4.0 per cent growth in per capita income over a much higher economic base than in the early 1970s will not be an easy task and will require a bold new vision and the willingness to tackle the second generation economic and institutional reforms. These new reforms will likely entail tougher political trade-offs and sharper resistance by vested interests than in the past. Sound analysis and strong political leadership will be the key.

The doubling of per capita income growth strategy requires exploring new and additional sources of growth. Bangladeshhas three major assets: abundant supply of potentially high productive labour, access to sea, and enviable geographic location. Some effort has been made to exploit the cheap labour force advantage throughinvestment in education and health and also through a liberal policy of labour exports. It is not surprising that remittances today are the single most important source of foreign exchange earnings and also provide the best source of social protection. Yet, the agenda for converting the labour force to its full productive potential is a long one and there are still miles to go. Additionally, supportive policies to use remittance inflows productively and to avoid the “Dutch Disease” problem associated with these foreign exchange flows remain to be tackled. So far as the second asset is concerned, our effort to convert the advantage from the excellent access to sea is very weak. There is considerable economic evidence that access to sea is a major favourable factor for higher economic growth. Our two major ports, Chittagong and Mongla, remain underutilized and fall far behind in contributing to their full potential. The experience of Rotterdam, Singapore and Hong Kong are all examples of what this true potential might be. Similarly, we have also failed to exploit the other advantage presented by geography: location. Bangladesh is fortunate that it is the gateway connecting South Asia with East Asia. Taking advantage of this location asset by providing connectivity in all forms of transport modes to all Asian neighbours can transform Bangladesh in ways that cannot be fully imagined in a static context.

There are many other politically less dramatic policy decisions that Bangladesh can take to spur the growth effort. While the overall macroeconomic environment is favourable in terms of the foreign exchange situation, the investment effort is weak. Domestic investment rate is lower than the domestic saving rate, suggesting the need for better investment policies. The policy reforms need to focus on the investment climate, especially to attract foreign investment, by reducing the cost of doing business and improving competitiveness. Public investment performance is especially weak with associated problems for the supply of infrastructure services and better human development. Indeed the shortage/inefficiencies of infrastructure services like power and transport threaten to choke off Bangladesh’s growth momentum and require urgent and comprehensive actions, including a stronger public resource mobilization effort. Export diversification remains a challenge. Remittances and garment exports have kept Bangladesh afloat and there is much to celebrate their contribution, but these are not likely to be dynamic sources of growth and employment in the future. Creating good jobs will require a much stronger and diversified manufacturing base. Loss of competitiveness from the appreciating real exchange rate needs to be carefully monitored and managed. Trade policy reform, which risks being reversed by protectionist tendencies, needs to be carefully reviewed and put back on track to support export diversification.

My development economics professor at the Boston University, the late Prof. Rosenstein Rodan, used to say ‘when the British government were deciding where to locate the first textile industry, the choice was between Bombay (now Mumbai) and Lancashire. In the end, they chose Lancashire. If they had instead chosen Bombay, the course of history and the associated first industrial revolution would have been so different that it is unthinkable today”. Indeed, opening up of Bangladesh by taking advantage of its location and the access to the sea requires a new vision for Bangladesh and strong political leadership. One will never know what we are missing out on the growth front without taking these and other similar bold policy decisions. (The writer is vice chairman of the Policy Research Institute of Bangladesh)