Will Bangladesh miss out on first demographic dividend?

Thursday, Dec 3, 2015

By *Dr. Bazlul Haque Khondker*

The effects of demographic transition on economic growth has recently got a renewed attention in policy discourses. According to the Global Monitoring Report (2015), a 1.0 percentage point increase in the working-age population (15-64) has been estimated to enhance per-capita GDP by 1.1 to 2 percentage points. The report uses a Generalized Method of Moments (GMM) estimation technique covering 1,796 observations (five-year average) from 127 countries for 1950-2010 to determine a causal relationship between changes in the share of the working-age population and economic growth. This direct and immediate impact of the increase in working-age population on economic growth is known as the first demographic dividend.

In addition to the first dividend, a second demographic dividend may also arise to positively impact economic growth and overall development. More specifically, the second dividend results in when the faster growth of first dividend (i.e. rise in working-age population) leads to larger savings in the short run and higher investment in the human capital and investment per worker in the long run.

It is interesting to note that the potential contribution of second demographic dividend to economic growth is greater than the first one (Mason 2005). Growth experience of East Asia between 1970 and 2000 has been cited in support of the above conclusion. The contribution from the second demographic dividend on economic growth was 2.22 times larger than the first demographic dividend for East Asia between 1970 and 2000.

Bangladesh is a populous country and has been experiencing significant changes in her demographic structure. Therefore, it is important to understand the extent and nature of these two population dividends for their optimum utilization. Although policymakers have highlighted favourable age structure in Bangladesh while formulating medium-and long-term development plans, the expressed time of the window of opportunities is not bolstered by observational confirmation.

The absence of certain proof on the period and extent of the demographic dividend is a gap policymakers need to address while formulating human-resource and capital-investment strategies to gather the economic advantages of the population dividend. This paper is an attempt to provide some observational evidence with the aid of a relatively new methodology – National Transfer Accounts (NTAs).

NTAs provide an accounting of economic flows to and from residents of a country classified by their age. The accounts are comprehensive in that all economic flows that arise as a consequence of the production of goods and services during the year are incorporated into the accounts. The aggregate values are broadly consistent with those found in the national accounts, as detailed in the System of National Accounts (SNA) methodology.

The goal of NTAs is to provide a systematic and comprehensive approach to measuring the economic flows from a generational perspective -which is defined in the following way: (1) the social institutions and economic mechanisms used by each generation or age group to produce, consume, share and save resources; (2) the economic flows across generations or age groups that characterize the generational economy; (3) explicit and implicit contracts that govern intergenerational flows; (4) the intergenerational distribution of income or consumption that results from the foregoing (Mason and Lee, 2011).

Following the generalized NTA methodology, Bangladesh NTA 2010 has been developed. The data set for Bangladesh NTAs include: (i) Household Income and Expenditure Survey (HIES), 2010 produced by the Bangladesh Bureau of Statistics (BBS); Labour Force Survey (LFS), 2010 produced by the Bangladesh Bureau of Statistics (BBS); (iv) UNFPA population prospectus data; and (iv) National Accounts Statistics (SNA), produced by the Bangladesh Bureau of Statistics (BBS).

Within the NTAs specifications, the first demographic dividend measures the effects of changes in the age structure on consumption per equivalent adult holding the consumption rate and output per worker constant. The positive growth of the 'Economic Support Ratio (ESR)' measures the first demographic dividend which is defined as the contribution of the age structures to economic growth, in particular the per-capita income and the per-capita consumption from the NTAs estimation. The estimates for Bangladesh are shown in figure 1. It shows that ESR is varying according to the various variants of the population growth rates. According to these estimates, the first demographic dividend in Bangladesh is likely to stay somewhere between 2030 and 2040.

Table 1 summarizes the estimates of first demographic dividends under various assumptions of population growth, fertility-morality rate and rate of migration. According to these estimates, it may be argued that the first demographic dividend in Bangladesh will continue

to a point somewhere between 2030 and 2040. After that it will approach towards further change in the demographic situation.

Global Monitoring report (2015) also provides a list of policy priorities for leveraging demographic dividend at the country level (Table 2). The table reproduced here for ready reference.

While comparing the ESR estimates as contained in table 1 against the classifications in table 2, it may be argued that Bangladesh is inching towards the phase of late dividend (i.e. phase 3). Accordingly, Bangladesh should have implemented policies relevant for the early phase of demographic dividend during 1990s. However, review of policies in Bangladesh suggests that the country could not make adequate investment for creating employment (i.e. investment as per cent of GDP has remained short by about 3 to 4 percentage points) and in human capital including vocational and technical training (Bangladesh could only investment 2 per cent of her GDP in education – the figure seems inadequate given much higher levels of educational investment found in other countries. For instance, allocations to education sector in Malaysia, Thailand and India as percentage of GDP in 2011 were 5.9, 5.8 and 3.9 respectively). Very low female labour-force participation (i.e. 36% in 2010 compared to 82% male participation) envisaged existence of barriers to female labour-force participation.

Moreover, efforts to strengthen conditions conducive to savings and job creation were found insufficient considering a national savings rate in the vicinity of 30 per cent and underemployment rate of more than 20 per cent. Since Bangladesh did not take appropriate policies in the right time, Bangladesh may fail to exploit the benefit of the first demographic dividend.