

Issues on Economic Growth of Bangladesh

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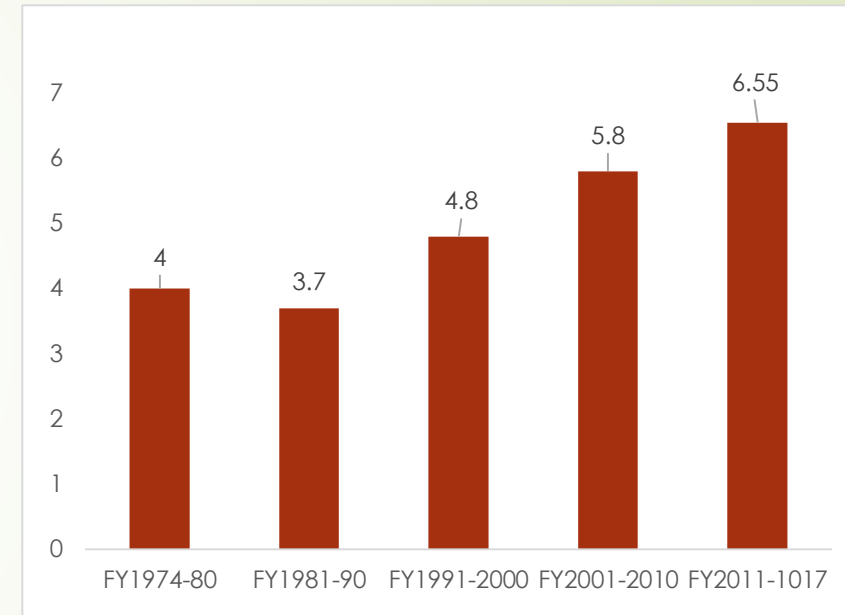
BIDS Critical Conversation 2019

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Economy has been growing fast!

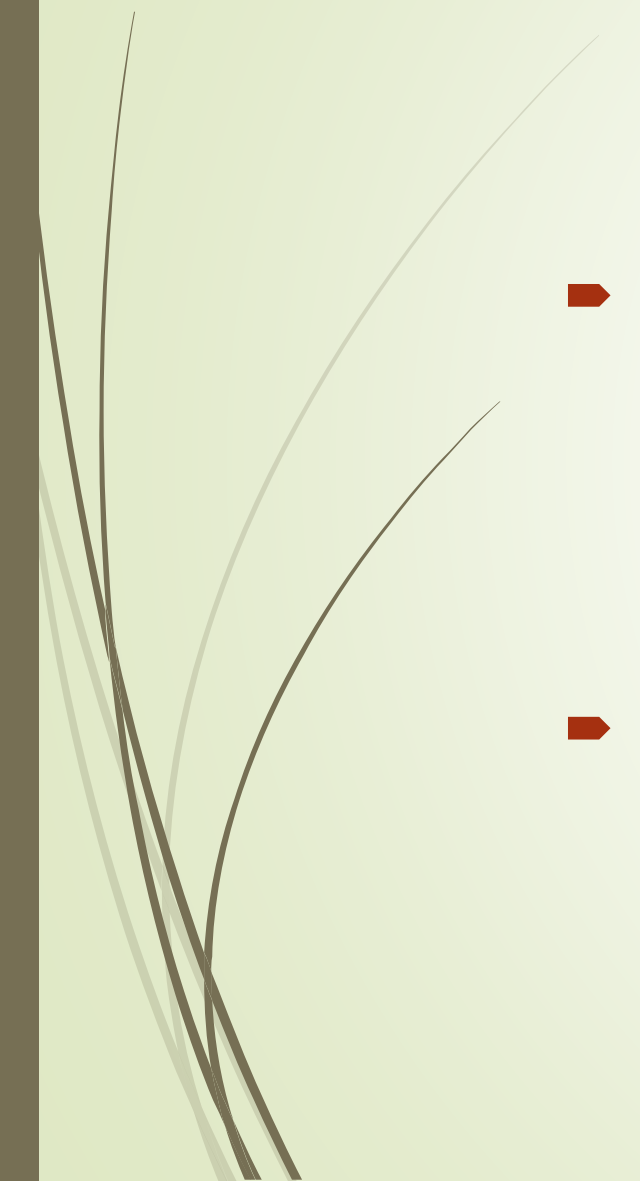
- ❑ One percentage point increase in every decade
- ❑ Average real GDP growth over the last five years: 6.5%; All developing countries: 4.7%
- ❑ World Bank: Bangladesh is among the five fastest growing economies of the world
- ❑ ADB: Bangladesh as the fastest growing economy in the Asia-Pacific region

Forecasted 8% growth in the current fiscal year!





Debate on “growth” is growing too!

- **Issue 1: Quality of growth**
 - effect on poverty
 - effect on inequality
 - effect on employment generation
 - **Issue 2: Sources of growth**
 - domestic demand-led growth
 - productivity growth
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Issue 1: Quality of growth (effect on poverty)

► The role of growth in reducing poverty has been diminishing

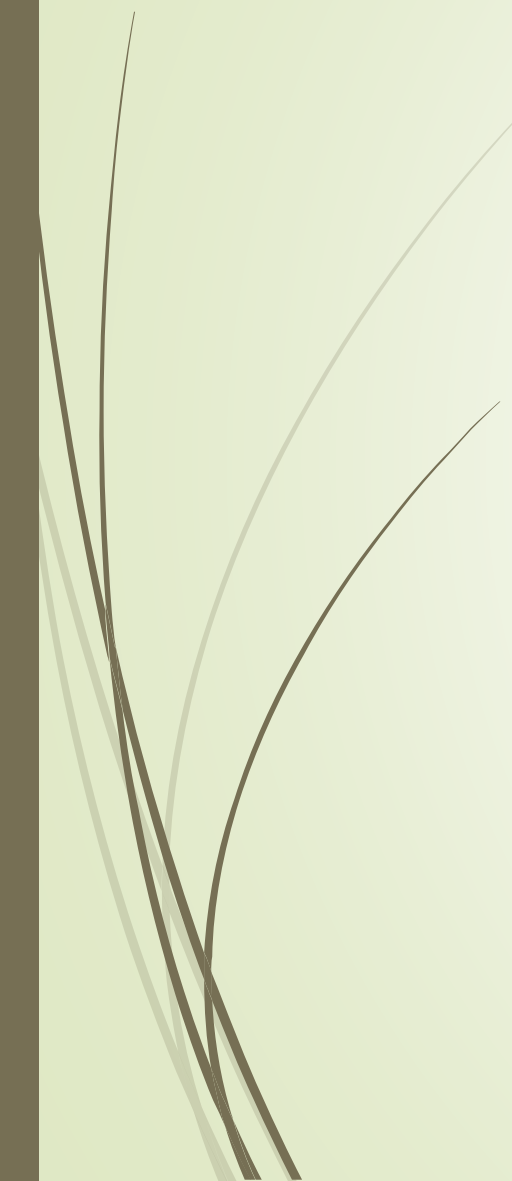


Figure: Growth elasticity of poverty

Hard-to-reach people: geographically excluded, disaster vulnerable people



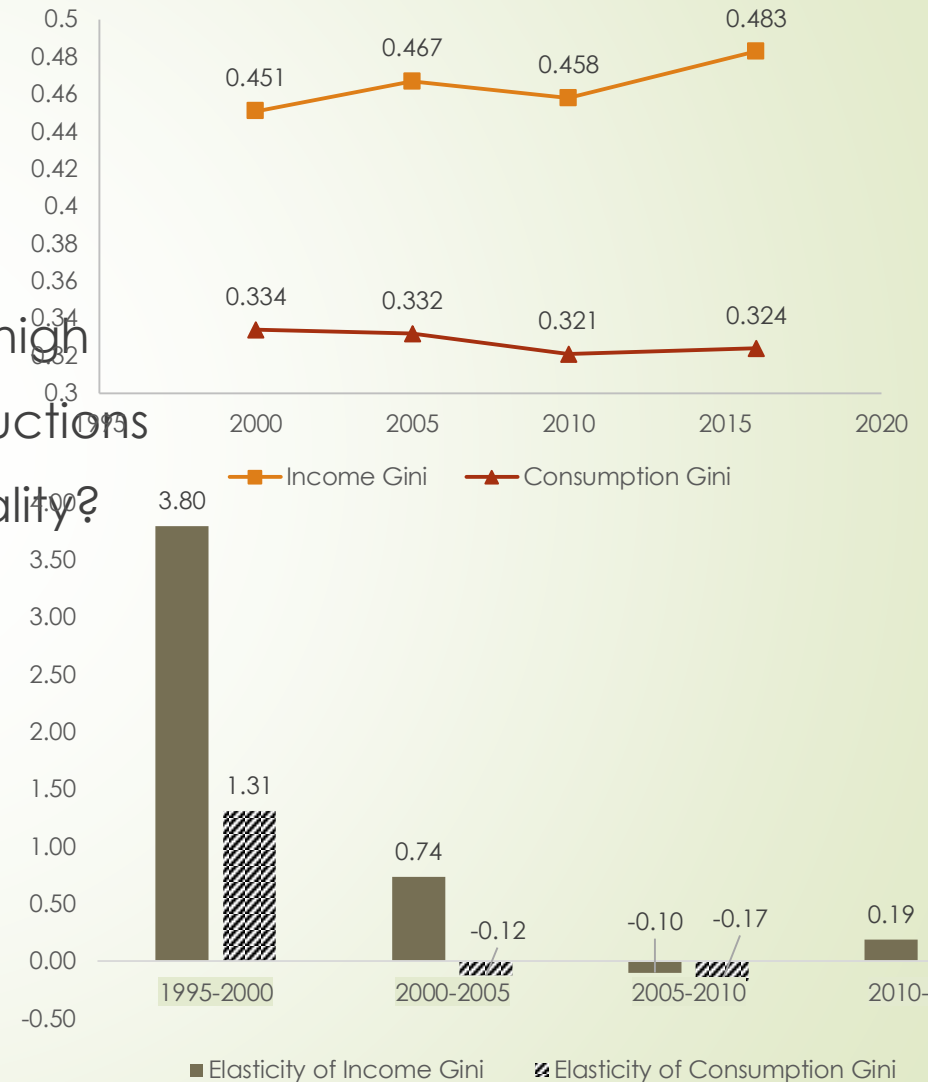
Three strategies:

- ▶ Role of growth is over: Government takes the responsibilities regional targeting, safety net programs, 'graduation model'
 - ▶ Public investment in the vulnerable areas to bring them in the growth process: infrastructure (roads, embankments, markets, etc.)
 - ▶ Move the people out of vulnerable regions
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Quality of growth (Effect on inequality)

- Income inequality is increasing
- Sources of inequality:
 - Return to human, financial
 - political and social capital is very high
- ➔ Unequal access to factors of productions
- How large is the increase in inequality?

Inequality with respect to growth:
Slight increase in recent time!





How to restrain inequality?

- Ensure equal access to human and financial capital
 - Universal access to quality education
 - Universal health coverage
 - Financial inclusion
 - Governance
- Restrain the higher rate of return of factors of production
 - tax

Quality of growth (effect on employment generation)

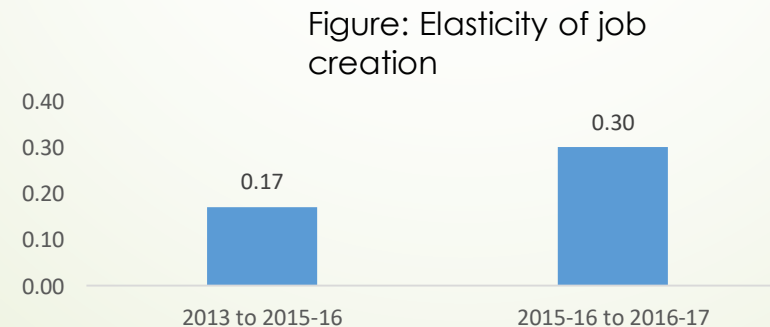
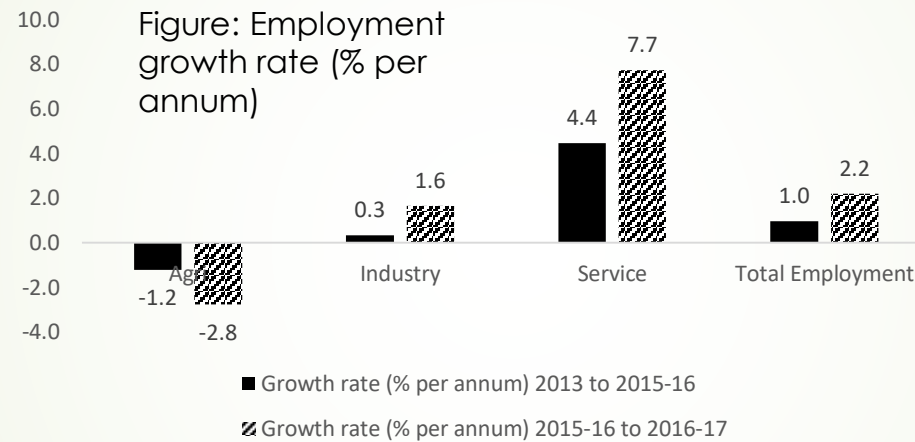
► “Jobless Growth”

Three definitions

First, positive economic growth is associated with zero or negative employment growth.

Second, the positive economic growth is associated with employment growth which lags behind labour force growth and results in rising unemployment;

Third, the economic growth is associated with employment growth below a “satisfactory level.”



“Jobless growth”.....

➤ BIDS survey on SMEs:

➤ Specific question:

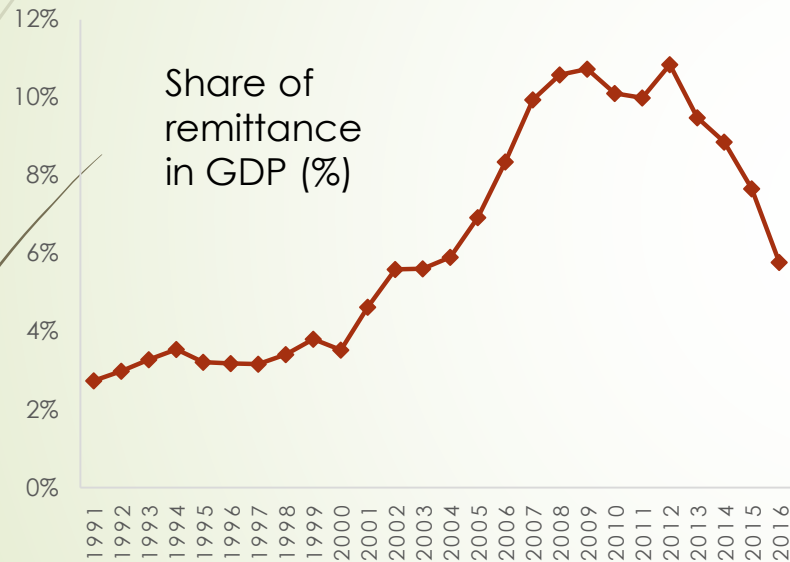
Purchased new machine in last 5 years? **30%**

To what extent it replaces labor? **Machine-labor ratio did not change**

Output = TFP. $f(\text{capital, labor})$

Issue 2: Sources of Growth

➤ Role of domestic demand led growth has increased



- ➔ Shares of remittance and RMG export in GDP are decreasing!!
- ➔ GDP is increasing ➔ There must be something else!!

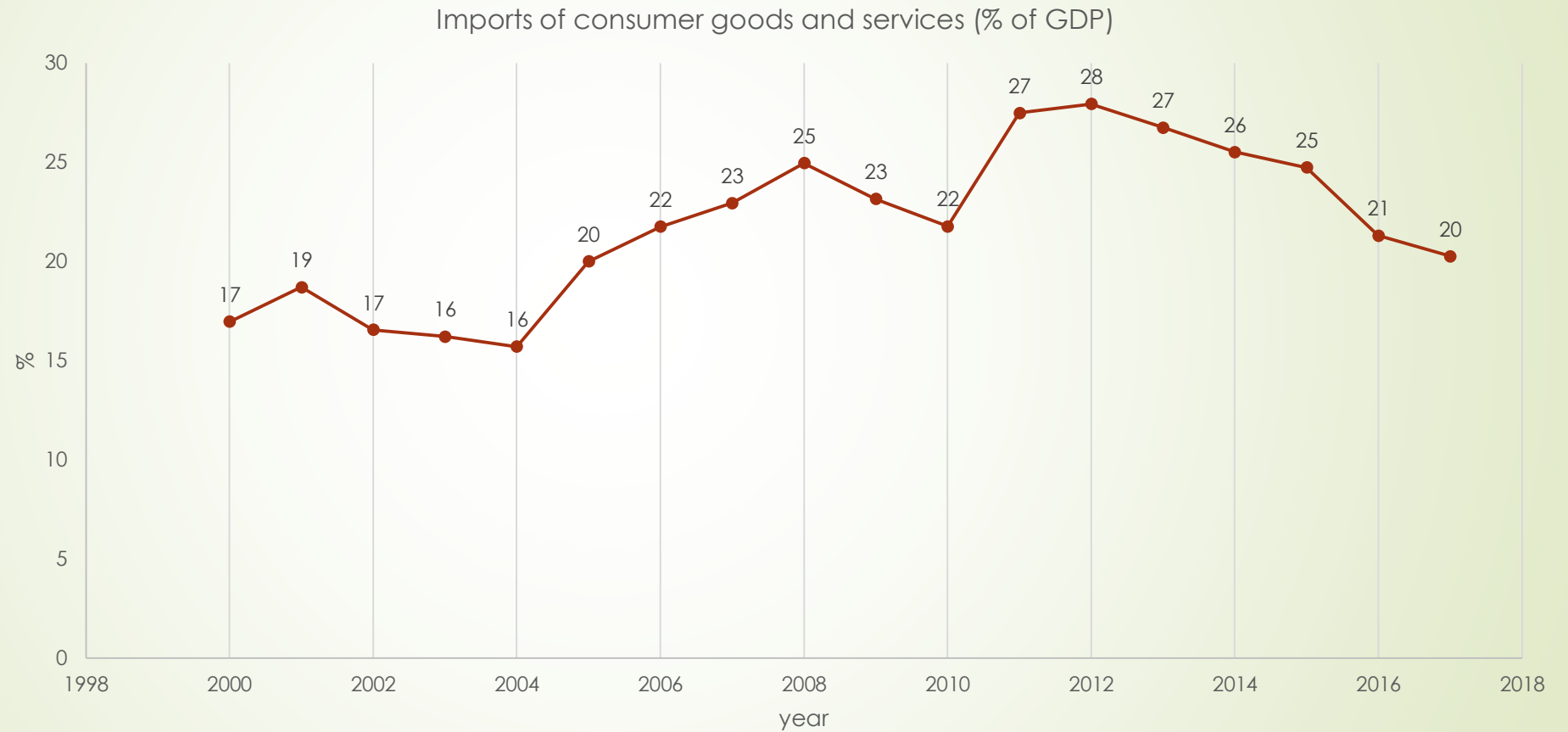
Not only an RMG-Remittance story – it is an RFL-Walton story too!

- ▶ RFL-Walton: domestic manufacturers of household goods, home appliances, consumer electronics, etc.

Household goods	HIES 2000	HIES 2010	HIES 2016
Percentage of rural HHs with TV	7.42%	8.52%	28.68%
Percentage of rural HHs with Refrigerator	0.61%	3.91%	9.86%
Percentage of rural HHs with Mobile phone	0.21%	12.57%	86.98%
No. of Furniture per HH	-	2.14	6.29

It is highly likely that these goods are locally produced !

Imports of consumer goods and services have been decreasing!



Share of FDI in GDP is decreasing !



It is highly likely that those manufacturers are local!



Export-led growth and demand-led growth strategies

- ▶ Bangladesh: too much focus on export led growth
- ▶ Complementarity between these two policies:
- ▶ China, India, the Republic of Korea, the Philippines, and Thailand —finds no evidence that domestic demand led growth comes at the expense of a decline in net exports

Sources of growth (Productivity growth)

- ▶ Growth has been driven by factor accumulation

Growth accounting: role of productivity is meagre

Diminishing marginal return of factors → stagnation of growth (middle income trap)

- ▶ **Australia/New Zealand: Productivity Commission**

- ▶ **Bangladesh:**

- ▶ Bangladesh Productivity Organization (1989)

- ▶ National Skill Development Authority

- ▶ When skill is transferable across firms, private sector has little incentives to invest!

- ▶ Quantity → Quality, MDG → SDG

- ▶ Need huge public investment



Thank You