

Annual BIDS Conference on Development 2021

Enabling Environment for Economic growth: Some Country contexts for Bangladesh

Keynote speech by **Wahiduddin Mahmud**

I feel privileged to be invited to speak at the end of this 3-day BIDS Conference, which is a great initiative and I hope will continue to be an annual event. The event carries the banner of Bangladesh at 50 with an optimism about the future of the country. I do not want to be a spoiler at the end, particularly after having been alleged to have coined the term the “Bangladesh development surprise”; but I would only like to say a few words of caution.

Our eyes are set on becoming an upper-middle income country by another ten years, and a developed country by another 20 years. Those are inspirational goals, but we need to concentrate more attention to exactly the pathways that might lead us to those goal. The economic growth studies show that episodes of rapid growth are quite common among the developing countries, but the growth is rarely sustained: that is why we need to be watchful. The other day, in a BIDS public lecture, I mentioned that the development discourses have perhaps spent too much efforts on how to imitate the success stories of the so-called East Asian tigers, which reminds one of the famous 1965 song by the rock band called Beach Boys: “I wish they could be all be California girls” (translate: I wish they could all be East Asian Tigers).

I may add that, in contrast, the contemporary development literature has given relatively less importance to the example of Japan which had about the same per capita income as Argentina around 1900, and look at them now! While China has seen one of the highest increases in income inequality along with high economic growth since its embracing of the market economy, and is only now clamping down on big businesses, Japanese growth has been remarkably equitable. Japan followed its business model tied to workers’ welfare and loyalty – the so-called “Japanese ethos”. And it may not have occurred to many as to why Japan has many rich people, but few billionaires (only 25 as against America's 675 and India's 153). Notice that Bangladesh is also now cited as a country producing

billionaires, which means we are achieving high economic growth, but it also means that growth has become increasingly unequal.

All success stories, of course, have some common element like providing an enabling environment for fostering economic entrepreneurship that is also compatible to creating a welfare society; what that enabling environment may mean will depend on the specific country context. What are those elements of specific country context for Bangladesh?

An immediate concern is the challenges to be faced in post-LDC era. We have to start preparing ourselves regarding how we shall negotiate our way in the global economic order without the preferential treatment that we have been enjoying. Most of our trade competitors have already become part of one or more regional free trade arrangements (FTAs). Negotiations of FTAs take a long time and lot of expertise. Governments often make the mistake of relying too much on the business leaders assuming rightly that they have the first-hand insights on trade potentials. But any beneficial FTA involves some losers and some gainers among the existing businesses; when an FTA proposal gets whole-hearted support from the entire business communities, economic theory of FTA tells us that it is a non-starter. A possible research agenda for BIDS could be to help the government identifying the post-LDC challenges.

Another important country context for Bangladesh is its extreme land scarcity; the proportion total land area that is not already used for habitation and production activities is the lowest among all countries (forget the island states like Singapore). That makes it extremely difficult to have urbanization and industrialization without impinging on agricultural land or whatever environmental resources like forests and water bodies we are left with. If we become even a high-middle income country, we shall have to imagine an environmentally sustainable configuration of land use where we shall be producing GDP per square kilometre that will be higher than most of today's industrialised countries. That could be another research agenda for the BIDS.

In one of the sessions yesterday, Ahamad Ahsan emphasised the costs of Dhaka city's overgrowth and rightly so. A megacity like Dhaka has the advantage of agglomeration of economic activities nested together supporting one another, but it has the disadvantage of congestion that pollutes the environment and

requires the provision of costly urban civic facilities. In Dhaka's case, the disadvantage of congestion has far out-weighed the advantage of agglomeration. Simply put, Bangladesh can hardly afford to have one of the ten largest megacities in the world, population-wise, given the income of the general the city-dwellers which permit very little cost recovery for the required civic amenities. For example, the maintenance costs of commuter metro-rails, be it underground or sky rails, need to be heavily subsidised even in cities with much wealthier city-dwellers.

But there is a brighter side. We can convert the disadvantage of city congestion into a density dividend - like the population dividend - for the country as whole, if we have a farsighted strategy for dispersed urbanisation and industrialisation. The density dividend may come from the entire country transformed into urban-like habitat where economic activities can reap the benefit a lack of remoteness, closely-knit supply chains and from economising on the spatial spread of required infrastructure.

Well planned development of physical infrastructure is essential for such spatially dispersed development, but it has to be complemented by policies to improve business environment. Studies now show that the envisaged benefits from the Jamuna Bangabandhu Bridge could not be reaped in terms of more industrialisation in the Northeast part of Bangladesh. Part of this may be because of the land-locked feature of the region. The Padma bridge has a greater potential since the areas to be connected have access to sea, but we need to plan ahead. Note that the construction of rural networks of roads, once pioneered by LGED, has done at least as much for economic development through connectivity as some of the planned mega-infrastructure projects are envisaged to do.

These mega-infrastructure projects will be potentially beneficial to economic growth, but only if these can foster more private investment, especially export-oriented FDI, so that the repayment of the suppliers' credit for these projects would not create balance of payments problems. That again in turn is related to the whole issue of economic governance and the improvement of the business environment. My former student Dr Akhtar Mahmood has in a recent newspaper column aptly made a distinction between a market-friendly environment that encourages the market competition and growth of efficient

businesses vis-à-vis apparently business-friendly policies that provide high protection to selected favoured business houses along with providing other largesse, say, in the form of public contracts. This later type of business-friendly policies may easily degenerate into what is called crony capitalism.

Governance is a complex issue and has been much discussed in the Bangladesh context, so I do not want to go much into that. Let me point out just one aspect of governance in contemporary Bangladesh. Economists are now aware the functioning of markets and the capacity of the market system to foster economic growth depend on the political, social, cultural and ethical norms of behaviour, which together provide the infrastructure in which the market economy is embedded; this infrastructure is also called the social capital. The so-called governance indicators are mostly to do with procedural and enforcement problems in the formal governance structure, such as policy reforms aimed at reducing corruption, maintaining the basic law and order, ensuring property rights, or to address the bureaucratic hurdles, all of which could presumably reduce the currently high cost of doing business.

But what is overlooked is that these administrative reforms towards enforcing accountability and reducing corruption among government functionaries are less likely to succeed without an understanding of how incentives for deviant behaviour arise and how behavioural norms are formed. This is also true regarding attempts towards preventing unholy collusion among market regulators and unscrupulous businessmen when such collusive behaviour has already become the norm.

Social behavioural norms are all the more important in the non-urban setting, with relatively lax regulatory enforcement. And remember that a major driving force of the Bangladesh economy has been the diversification of the rural economy with scaling up of small non-farm enterprises and giving rural areas a semi-urban look. This growth of this mostly informal economy has been based on the traditional behavioural norms of trust, cooperation, reciprocity and moral codes that have evolved over time. The present danger is that this socio-cultural infrastructure of the market economy is in the risk of being undermined by political polarization, ethnic and religious strife and replacement of trusted village elders by politically powerful party cadres.

The last aspect of the country-specific aspect of Bangladesh I would like to mention is the remarkable progress in many social development indicators, in which Bangladesh has transformed itself from being a laggard to a clear leader among comparator countries, as Binayak showed graphically in the opening presentation of this conference. How to consolidate these achievements and make further progress is an important policy issue, that I have discussed in many of my writings. Certainly, it will require more public social spending as well as better service delivery, since achievements thus far has been possible mostly by relying on low-cost solutions and through social awareness campaigns that bypassed the mainstream public service delivery establishment.

While these achievements in social development indicators are valued on their own rights in contributing to human well-being, we need to pay more attention to creating the synergies between these achievements and economic performance of the country. There is research evidence on the interlinks between female school enrolment and employment in the country's burgeoning garment industry. But there is also evidence of a large number of secondary school graduates remaining unemployed because of either their lack of employable skills or lack of enough employment opportunities to match their skills. The challenge is to create the needed skills and capabilities of the increasing labour force with enough employment opportunities to match those skills. Bangladesh has had an early demographic transition resulting in the so-called demographic dividend in the form of a youth bulge in the population age-structure, which is a factor fuelling the current economic growth. But we have to make better use of this window of opportunity that may last for another two decades, after which the growth of the labour force will slow down due to the aging population. As in the case of individuals, you have to get rich as a nation before you get old. Incidentally, the target year for Bangladesh to become a rich country is also the year around which the era of demographic dividend will end.

