Khan Bahadur Ahsanullah Memorial Lecture

"Economic Development: The Journey of Bangladesh 1972-2017"

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7th LECTURE

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Introduction and Benchmarking:

Bangladesh has been triumphantly transforming itself from a 'bottomless basket case' to a 'test case' to a 'miracle economy' in four and a half decades. During the period 1972-2017, Bangladesh has some key socio economic data changed as under:

	1972	2017
Population	75 m	160m
Gross Domestic Product	$8.5 billion	$256 billion
Per Capita Income	$170	$1702
Per Capita Income	Tk. 876	Tk. 130212
Annual Budget	Tk. 786 Crore	Tk. 4,64,573 crores
Rice Production (tons)	10m	39m
Life expectancy at birth	43 Years (47 Years)	72 years
Literacy Rate	23%	63%
Tertiary Enrolment	31,000	3.3m
Population Growth Rate	3.3%	1.3%
Contraceptive Prevalence Rate (CPR)	3.3%	62.3%
Foreign Trader as % of GDP	3%	39%
Exports	$77m	$35b
Economic Participation Rate of Women	3%	39%
Population under poverty line	80%	24.3%
Infant Mortality Rate	179/1000	29/1000
Maternal Mortality	600 per hundred thousand live births	192/100000
Total Fertility Rate (TFR)	5.0	2.1
Average Family Size	6.2	4.2
Access to Potable Water	--	98%
Sanitary Latrins	--	75%
Access to Electricity	--	70%
Investment : GDP Ratio	--	31.47%
Gini Co-efficient	0.33	0.48

	1972	2017
Structure of GDP:		
Primary	53	16
Secondary	17	30
Tertiary	30	54
GDP Growth Rate	3.5-4%	7.65%

Rehabilitation and Early Foundation of Growth:

At birth of the independent People's Republic of Bangladesh, rehabilitation and rebuilding had to start from the ruins of an economy devastatingly damaged under a denial policy by the vanquished army of Pakistan. In some areas such as central banking, a fresh start had to be made. Yet in other sectors like the industrial establishments, banking and insurance institutions, the void in the management left behind by the fleeing Pakistan owners had to be filled by, an inexperienced public sector administrators and Bangali bankers and insurers also in the public sector. Eventually these replacements proved to be inept and corrupt. It should thus be clear that the nationalization of the banks, insurance companies and commercial and industrial establishment as well as other assets had been necessitated by the situational context and not only because of the ideology of socialism in a welfare state adopted by the ruling party.

On January 10, 1972 Bangabandhu Sheikh Mujibur Rahman, the father of the nation returned to his dreamland of a liberated Bangladesh from the ten months detention in Pakistan at times from a close proximity to the gallows. He immediately changed the governance to the Westminster type parliamentary democracy opting to be the Prime Minster of the government rather than the President of the Republic. No time has been wasted in identifying the major problems facing the nascent democracy. In addition to the insinuation of Dr. Henry Kissinger "a bottomless basket", two world class economists Dr. Just Faaland of Norway and Dr. Jack R. Parkinson of England in a 1976 research article, "Bangladesh a Test Case for Development" surmised that it would be impossible for the country to maintain sovereignty and survive as a viable economic unit and if it could achieve economic development, any country in the world could also do so. After three decades, however, the same two economists lauded in 2007 the important economic progress of Bangladesh. Mujib Government prioritized 1) rehabilitation and rebuilding of the physical infrastructure, 2) clearing the mines in the ports for restarting the shipping services, 3) repairing and rebuilding the educational institutions, 4) establishing a central bank, Bangladesh Bank and grouping all the scheduled banks into six nationalized banks, Sonali, Agrani, Janata, Rupali, Pubali and Uttara, 5) set up Bangladesh Krishi Bank, Bangladesh Shilpa Bank and Investment Corporation of Bangladesh also in the public sector, 6) establishing the Trading Corporation of Bangladesh, TCB as a government buffer for importing food grains and other essential commodities for distribution through the newly created Consumer Supplies Corporation, COSCOR as well as Statutory and Modified Rationing to the people, 7) restoring the rail, road and other means of transport and communications, 8) restarting agriculture as a top priority and 9) restoring the education, health services and 10) proceeding with an industrialization programme and 11) an rehabilitating work ravaged women.

The government took bold steps in formulating in Bangla (English translation as well) a modern and forward looking constitution which was in place in less than one year. Qudrt-E-Khuda Commission formulated (the single stream education in mother tongue up to the eighth grade) a modern scientific and progressive education policy. Eminently qualified top economists under the leadership of Professor Nurul Islam formulated a Five Year Plan FYP with highest priority towards poverty eradication, disparity reduction and rehabilitation of agriculture in which sector the government withdraw half a million certificate cases, heavily subsidized inputs including irrigation, seeds and fertilizers at ridiculously low price.The FYP also provided for industrialization with greater emphasis in small and cottage industries in rural Bangladesh in particular.

Industrial areas were established in Tejgaon, Dhaka and in Chittagong. The Bangladesh Small and Cottage Industries Corporation, BSCI was activated.

Schools, colleges and universities which were used as military camps by the Pakistani Occupation Forces were recovered, repaired and restarted. The government put singular emphasis on expanding the literacy rate towards converting the population into human resources. Population planning had also been a priority and the government set up model thana population clinics.

A very high priority had been accorded to ‘friendship to all enmity to none’ in establishing diplomatic relationship with the global community. The Prime Minister Sheikh Mujibur Rahman brushed aside opposition and permitted the World Bank operations in the country but making sure that the interests of the new economy would not be jeopardized. For instance, after hard bargaining it was agreed that foreign assistance liability of Pakistan would be accepted by Bangladesh only to the extent of the resource that had been used in the project activities in the erstwhile East Bengal. World Bank also unprecedentedly agreed to hold the first Donor Meeting in Dhaka. Riding on the crest of the high level goodwill for Bangladesh and respect for its leader who was now physically present in Bangladesh, diplomatic recognition of the newly independent country started pouring in culminating in the first ever address in Bangla in the United Nations by Bangabandhu Shiekh Mujibur Rahman on September 24, 1974. Along with the political recognition foreign economic assistance also started flowing in with a significant level of it coming in the form of grants and as if grants. International Development Association IDA of the International Bank for Reconstitution and Development (the formal name of the World Bank) and the Asian Development Fund, ADF of the Asian Development Bank started providing soft loans at no interest, at minimum service charge on the undisbursed amount, ten years grace period and forty years repayment after the grace period. Some bilateral development partners also extended grants. Almost half of the total external assistance portfolio was in grants and as if grants. The idea for obtaining this major concession was to get a breathing space period to earn foreign exchange to repay the loan in foreign currency.

The First Five Year Plan, FFYP 1973-78 adopted ambitiously bold objectives for transformation of the economy through poverty reduction, economic growth, infrastructure building, recovery and growth of agriculture and rural sector, industrialization, employment generation, education and healthcare services, containing price inflation and ensuring growth with equity. The plan contained an exhortation that the GDP growth rate of the less fortunate should be higher than the national average rate and if necessary, the rich should be taxed at a higher rate to generate resources for investment in education, health care and other public goods activities towards the improvement in the economic condition of the unprivileged and the underprivileged.

The Change in the Politics and the consequential impact on the Economic Policy

In course of time, the economy of Bangladesh achieved annual GDP growth rates during several phases as under :

Time Period	Average Annual GDP Growth Rate
Up to 1990	3.5% or so except that in the year 1974-75, the rate accelerated to 8% (5% according to an alternative view)
1991-96	5%
1996-2001	5.5%
2001-2005	5-5.5%
2006-08	5.5-6%
2009-15	6.5-7%
2015-16	7.1%
2016-17	7.28%
2017-18	7.65% (estimated)
2018-19 (Projected)	7.8%

It is to be noted that the GDP has been growing monotonously and there has not been any flip flopping. Social progress accompanied the economic growth; the resultant harmony and stability have been causing a steady improvement in the welfare level of the people i.e. a rising standard of living.

The sad and heinous assassination of the father of the nation and most of his family members on August 15, 1975 apparently aiming to obliterate the ideals of a prosperous but egalitarian society also caused a change of economic philosophy from one of socialism of the Bangladesh variety to a reliance of the market economy regime. The growth continued and at times accelerated. However, disparity in income, asset and opportunities both at interpersonal and regional level, as often happens in market economy was started and bolstered over time as a result of which the gini-co-efficient (a reliable measure of disparity with a value of zero indicating an equitable economy and of one indicating absolute disparity) from 0.33 in 1972 to 0.48 in 2018. A significant gender empowerment and a strong social security network in the last one decade have somewhat moderated the trend towards disparity but obviously additional innovative measures are needed to ensure 'growth with equity' as witnessed during the 1996-01 period.

Recent Performance of the Economy : Positive and Trend Setting

Bangladesh economy has been treading an impressive growth path for a decade now. Late Dr. Mahbubul Huq (Pakistan) who co-authored Sir Richard Jolly, the concept of Human Development Index, HDI of UNDP as a vastly improved alternative measure of welfare had been lauding the impressing economic growth and its social transformation, human resource development gains in particular in the last few years of his life. Professor Amartya Sen, the Noble Laureate in Economics has found in the Bangladesh Economy a spectacular growth translated into heart warming social progress which is top in South Asia jointly with Srilanka and which is superior to India. Dr. Sen cites the life expectancy at birth in Bangladesh to be four years more than that of India and attributes the social gains to the public sector investment in education and healthcare. Wall Street Journal described Bangladesh in 2012 as the standard bearer in South Asia. In recent times, CNN Money based on IMF data adjudged Bangladesh in 2015 to be the fifth fastest economic growth achiever. It predicted third position for Bangldesh in 2016. In 2017, with a GDP growth rate of 7.1 almost matched China's 7.2 and surpassed India's 6.8 growth rate. In fact achievement of over 7% GDP growth rates in three consecutive years culminating in 7.65% in 2017-18 augurs extremely well in attaining a double digit economic growth rate in the next six to seven years. Chief Economist and Senior Vice President Dr. Kaushik Basu of the World Bank, now a Visiting Professor in Cornell University has characterized Bangladesh as a new tiger in economic growth scenario. The ECONOMIST in its third issue of 2012 lauded the development of Bangladesh as a demonstration of what can be achieved as a model under difficult circumstances. Poverty reduction and creation of a formidable middle class with increasing purchasing power have made Bangladesh a model in socio-economic development.

Boston Consulting Group, BCG has cited data from Indonesia, Vietnam, Thailand and Bangladesh to show that the growing consumption purchasing power in Bangladesh has been expanding at a very fast pace. BCG report also mentions that 12.5 million of

Bangladesh has a per capita income of at least $4000 (equivalent to taka 3,20,000) each as the source of purchasing power for good quality consumer durables. It may be noted here that Lord John M. Keynes has found spending to be the kernel for market base economic expansion.

The ECONOMIST in its 7th September 2017 issue describes how Bangladesh economy advanced to surpuss Pakistan in per capita income as under:

"When Bangladesh won independence from Pakistan in 1971, it was much poorer than the country it left. Industry accounted for only 6-7% of its GDP, compared with over 20% in Pakistan. The battle for independence had killed or displaced millions, damaged roads and railways and severed ties with Pakistan's bankers and industrialists (including the owner of the world's biggest jute mill). Even before the war, Bangladesh had been trampled by another apocalyptic horseman: a cyclone killed hundreds of thousands in 1970. The country's independence leader, Sheikh Mujibur Rahman, complained that West Pakistan had not promptly shared its bumper wheat crop or "given a yard of cloth for our shrouds".

Last month revealed a remarkable turnaround. Bangladesh's GDP per person is now higher than Pakistan's. Converted into US dollars at market exchange rates, it was $1538 in Bangladesh in the past fiscal year (which ended on June 30th). Pakistan's was about $1470.

Strange as it may sound, Bangladesh jumped ahead because of an advance in Pakistan. On August 25th Pakistan released the results of its census, updating earlier population estimates. They showed that the country had 207.0m people, 9m more than previously thought. It may now have the fifth biggest population in the world, surpassing Brazil's. But the new count also lopped 4-5% off Pakistan's GDP per person, the arithmetic consequence of revealing so many more people.

This is nonetheless a good moment to celebrate Bangladesh's economic progress. Its annual growth has averaged more than 6% over the past ten years and has run above 7% over the past two. Industry accounts for 29% of its GDP. A country that once lacked cloth for shrouds now exports more ready-made garments than India and Pakistan combined. Working conditions are still far worse than they should be. They are also far better than they were."

In the meantime, THE DAWN, Pakistan's leading English daily (also amongst the top in South Asia) on June 04, 2018 cited the 'economic miracle' in Bangladesh and lamented that the part of Pakistan which was thought to be a liability of Pakistan in 1971 now surged ahead in economic performance in the independent Bangladesh.

It is worth noting that Food and Agriculture Organization, FAO has ranked Bangladesh as the

10th largest producer of food grains (Rice +) at 5.5 million tons. In the production of sweet water fish Bangladesh occupies the 4th highest position with an annual production of 4.1 million tons.

World Economic Forum, consistent critic of high cost of doing Business in Bangladesh finds that Bangladesh ranks 47th in the world, highest in South Asia in the Gender Parity Index. In a recent survey by the Thompson Reuters, ten countries have been identified with worst abuse to women; three of these are South Asian countries, namely India (worst), Afghanistan and Pakistan. Bangladesh is not in this list of 10.

Middle Income Country and the Graduation from the Least Developed Country to a Developing Country

There exists two different stream of classifications of the countries that are yet to develop their economics. The World Bank classification is based on per capita income....$750 or so as low income countries, $1250 or so as low middle income and $4100 per capita as middle income threshold. In this regard Bangladesh was announced as a low middle income country by the World Bank in 2012. Bangladesh has adopted a policy determination to cross the threshold in 2021 to become a middle income country.

On the other hand, the UN and the affiliated bodies like WTO classification criteria as determined by the UN Committee on Development Policy, UNCDP are based on three counts: per capita GNI, economic vulnerability index (EVI) and Human Asset Index (HAI). Countries aspiring to move out of the Least Developed Countries, LDC category must meet any two of the three criteria i. e. a per capita GNI of $1250, maximum EVI of 33 and a minimum HAI of 66. Bangladesh is the only LDC so far which has the unique distinction of meeting all the three criteria simultaneously. UNCDP in a meeting in New York in mid-March 2018 noted that the country with a per capita GNI of $1650, EVI of 25 and HAI of 69 has qualified to graduate to a developing country. In Bangladesh there is a debate at times uninformed about the pros and cons of the transformation to Developing Country status. Disadvantage perceived in the form of losing the concessional assistance of WB/IDA and ADF/ADB is infructuous because given the much higher per capita income, Bangladesh has been more and more forced to forfeit the right to as if grants and borrow from these two multilateral development partners on a medium stream terms i.e. an interest rate of around 8% and a repayment period of 10 years. The other loss is one of denial of trade privileges to an LDC e.g Quota and duty free access, GSP etc. some of which are not being made available in any case by some countries. On the other hand, Bangladesh has, through this qualification to move to a developing country status after an observation period starting 2021, come out of the ignominy of an LDC (miskin by some). More importantly, this should also redouble the impetus, which while enjoying the 'facilities' of an LDC upto 2021, to further accelerate the pace of economic growth and social transformation. For instance, the country may think of changing the model of economic growth from a trickle down poverty reduction strategy to one of growth through industrialization, employment and income generation, vocational education up to the eighth grade, vastly expanding the technological bias in tertiary education under the current 'Digital Bangladesh' emphasis of the government, continued and accelerated empowerment of women, making serious effort in including the household works in GDP (as in India and Brazil), greater priority in renewable energy (solar and biogas) to generate 10% of the total electricity as in India and adopting a micro-small-medium enterprise (MSME) strategy. It is expected that the government which is starting the formulation of the next perspective plan 2021-45 will vastly strengthen the Planning Commission (may be with the 1972 as a model with some modification). In than event, two major weaknesses e.g. project formulation as well as project monitoring should be receiving a big fillip through the capacity building in the planning cells of the ministries for the average sized projects. An Economic Advisory Group in the Head of the Government apparatus for mega projects which account for two thirds of the public sectors investment may also be thought of. Setting up Incubators in some leading universities for transforming promising youths into entrepreneurs (built on the success of poverty reduction graduates) will certainly help.

A coop type education as in some universities of USA whereby undergraduate students alternate between universities and the corporate entities. This will help creating graduates of relevance helping reduction of foreign workers. A modification in the tertiary education necessitating a 09 (nine) credit mandatory supervised internship in the rural areas will also help creating graduates of relevance with first hand acquaintance with the problems and prospects of the economy.

After a successful implementation of the Millennium Development Goals, MDG (2000-2015), government is also deeply engaged in achieving the same level of success in the Sustainable Development Goals, SDG 2016-2030 carefully noting that SDG exhorts "nobody should be left behind" and that primary responsibility for financing the programmes and projects rests with the government itself.

The Wishes, The Challenges and the Way Out:

- Within the framework of Digital Sonar Bangladesh botstered by the successful launching of Bangabandhu-1 satellite into the orbit, it is expected that ICT would be taken to its best application for enhancing the productivity of the factors of production and of the economy.

- The complaints about the misuse and corruption in the name of digitalization should be carefully scrutinized and action taken thereof.

- The onward march of the economic growth and social progress would continue uninterrupted. The obstacles in the growth path such as the inadequate quality of human resources, loopholes in the management process and the infrastructure facilities falling behind an ever expanding demand can be met by being more innovative. Use of coal, hydro, nuclear and renewable energy sources for generating 20000 MW electricity by 2021 and 25000 by 2030 would be seriously explored. Open pit extraction of Dinajpur-Rangpur excellent quality of bituminous coal can be carefully but boldly planned to enlist through support of the land owners resettlement, most attractive compensation value of land, share and job opportunities in Coal Bangla will help. Modern and environment tolerant technology may be acquired to generate the 20000 MW additional coal powered electricity to have a defining impact on the economic growth for the next half century.

- Inadequate revenue resources is a major bottleneck in the development equation of Bangladesh. Significant simplification in the taxation system, investment in the upliftment of the quality of the tax officers and of the infrastructure spreading upto the upazila level, explaining the rationale for and justification of the tax for prosperity accompanied by reduction of corruption leakage of the tax payers money should all be within a priority scheme. Undertapped areas such as the Alternative Dispute Resolution, spreading of the tax net including VAT to reach at least 12.5 in people pointed out by BCG by 2025, tobacco taxation, mobile fund transfer, revenue sharing with the BPC; and the loopholes in the leaking revenue collection of the public sector utilities and other services as well tax on pay roll including the hidden perks inclusive would yield much larger revenue than now. We have not yet been able to make a convincing case why all those people who can including the rural industrialists would do better for themselves as well in paying the right amount of tax.

- The tax: GDP ratio, 10:7 now lowest in Asia, would better rise to 12 in 2021, 15 in 2025 and 20 in 2030 to enable an investment : GDP ratio (31:6 now) to 33 in 2021, 35 in 2025 and 40 in 2030 for a double digit GDP growth rate starting in 2025.

- Adequacy of physical infrastructure including a vastly expanded Railways (broadgauging, double lining and pilot basis electrification) electricity, gas, telecom as well as social infrastructure like improved governance, more relevant and qualified human resources, reduction in corruption will make investment more productive in an Incremental Capital Output (ICOR) regime of 4 (four or so) as in recent past. It may be desirable to set up a high powered full time permanent Finance and Banking Reforms Commission to look into and remedy the problems in the banking sector, capital market and the insurance industry.

- A coordinated and innovative effort to reduce illegal fund transfer through over invoicing of imports and under invoicing of exports.

- Continue the rigorous efforts to solve the Rohynga Problem which is eating into the vitals of the economy.

- Remembering the time tested Chinese proverb
  If you plan for a year
  You sow rice
  If you plan for ten years
  Plant trees
  If you plan for hundred years
  Invest in education.

  It is essential in the context of a Demographic Dividend for Bangladesh to make utmost efforts to improve the quality of education and to diversity education to vocational and technology lines. Any spending in education is an investment in creating human capital and the country may set a target to reach a deployment of five (05) percent of GDP in education by 2030. Undertaking an old fashioned manpower survey (a) to catalogue what mix of human resources skills Bangladesh now has and (b) to separately determine the requirements in the rapidly developing economy. Thereafter a master plan will measure the gap and recommend a through overhaul of the education system to determine in unison by the corporate sector, government and the institutions providing education services as to the strategic steps in bridging the knowledge gap and in producing graduates qualified to fit in all the skills requirements including replacement of the foreign hands. The economic growth through industrialization, job creation, gender empowerment and an MSME strategy will also come to fruition thereby.

- A switch to a January-December financial year will certainly add to the efficiency and integrity of the economy.

- Of the two methods of computing GDP and per capita income, many economists are uncomfortable with the computation in nominal US Dollars because in this measure of per capita income, the purchasing power differential, differing requirements in various countries, and variable testes and habits are disregarded. That is the reason why a majority of the economists prefer the IMF system of measuring the GDP and per capita income in terms of purchasing power i. e. per capita income in PPP dollars. Bangladesh which is one of the fastest growing economies of the world, according to a projection by Price Waterhouse Coopers (PWC) is now the 32nd largest economy in PPP dollars and will become the 28th largest in 2030 and 23rd in 2050. This is also consistent with the projection by the present Head of the Government Prime Minister Janabandhu Sheikh Hasina to achieve a prosperous Developed Country status for Bangladesh in 2041.

- That may also be the golden point when Bangladesh will become a model of democratic governance for equitable prosperity.