ISAS Brief

No. 576 – 23 May 2018

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Bangladesh's Graduation and Economic Realignment within South Asia

Bangladesh recently met the criteria for graduating from a least developed country (LDC) to a lower-middle developing country. This marks the progress recorded by Bangladesh on economic as well as social and human development indicators. This paper compares Bangladesh's economic progress in recent years with those of India and Pakistan. It argues Bangladesh's ability to raise per capita income faster would enable it to catch up with Pakistan in the near future and reduce its economic gap with India, leading to a major economic realignment within South Asia.

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With around 1.8 billion people, South Asia accounts for almost 24 per cent of the global population. India, Pakistan and Bangladesh, with populations of 1.3 billion, 193 million and 163 million respectively (Table 1), comprise nearly 1.7 billion, or roughly 95 per cent of the region's population. Bangladesh alone is home for more than nine per cent of South Asia's residents. The overwhelming importance of India, Pakistan and Bangladesh in the region's economy is not only due to their large populations, but also the size of their economies. The three countries account for more than 95 per cent of the South Asian economy. Regional

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growth and development prospects, therefore, are significantly influenced by the economic performances of these three countries.

<u>Table 1:</u> South Asian Economies: Income and Population

	Income Classification	**GNI per capita (US$) 2016**	**Population ('000)**	**GDP (US$ mn) 2016**
Afghanistan	Low income	580	34,656	19,469
Bangladesh	Lower middle income	1330	162,952	221,415
Bhutan	Lower middle income	2510	798	2,213
India	Lower middle income	1670	1,324,171	2,263,792
Maldives	Upper middle income	10,380	428	4,224
Nepal	Low income	730	28,983	21,132
Pakistan	Lower middle income	1500	193,203	278,913
Sri Lanka	Lower middle income	3780	21,203	81,322
South Asia		**1610**	**1,766,394**	**2,892,481**

Source: World Bank (http://dataworldbank.org).

Bangladesh's eligibility for graduating from a low income least developed country (LDC) to a lower-middle developing economy is a significant development for the region. It now joins India and Pakistan as a lower-middle income economy, bringing 95 per cent of the region within this income group. Bangladesh's success in raising living standards is accompanied by a steady progress by Bhutan and Nepal towards a non-LDC status. Both countries met the eligibility criteria for the first time in 2015.[2] From a per capita income perspective, Bhutan has already successfully met the eligibility criteria, while Nepal is yet to. However, given that LDC graduation requires consistent performances by economies not just on income, but also on expanding human development and in minimising economic vulnerabilities, Bhutan and Nepal still have ground to cover.

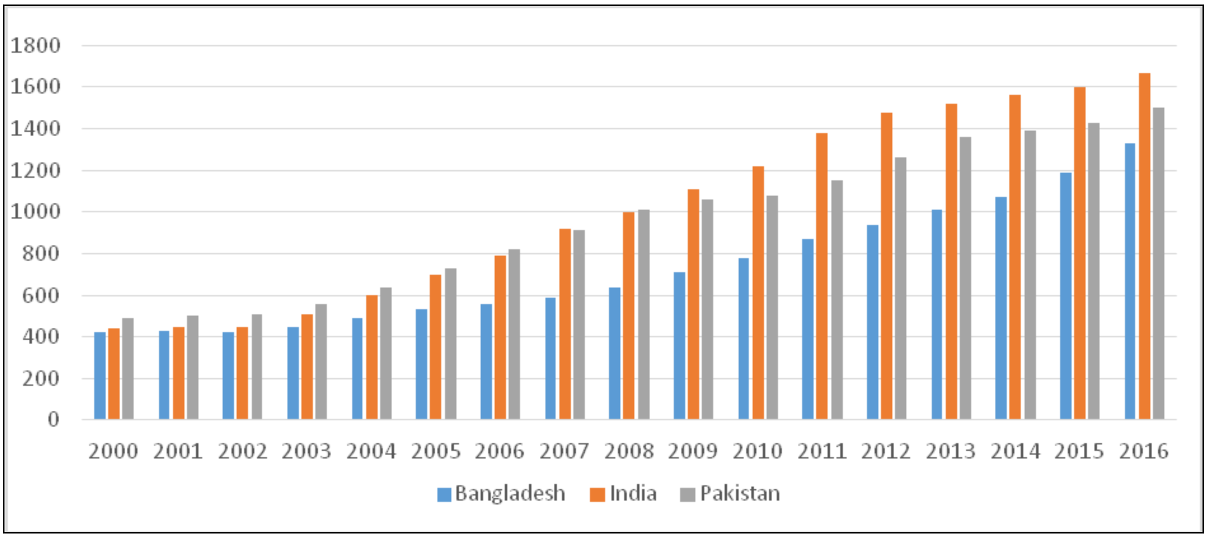
Bangladesh's Per Capita Income: Comparative Performances

The comparative performances of the three largest South Asian economies since 2000, measured in terms of per capita income – the most common indicator of economic well-being – reveals an interesting aspect of Bangladesh's economic performance. Per capita incomes of India, Pakistan and Bangladesh were almost identical at the beginning of the millennium

[2] "UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries And Small Island Developing States". http://unohrlls.org/about-ldcs/criteria-for-ldcs/. Accessed on 13 May 2018.

(Figure 1). India and Pakistan were able to raise incomes faster in the first few years of the century, with India closing its income gap with Pakistan around 2007-2008 and moving ahead from 2009 onward. In 2008, Bangladesh's per capita income of US$640 (S$860) was much lower than the US$1,000 (S$1,342) for India and the US$1,010 (S$1,356) for Pakistan. By 2016, however, Bangladesh was able to more than double its per capita income to US$1,330 (S$1,786), reflecting an increase of 107 per cent during the period. Comparable increases by India and Pakistan were much less. While India's per capita income increased by 67 per cent from US$1,000 (S$1,340) to US$1,670 (S$2,243), Pakistan's increased by less than 50 per cent from US$1,010 (S$1,342) to US$1,500 (S$2,014). Bangladesh's comparative performance looks even more formidable during the current decade. During the period 2010 to 2016, its per capita income increased by 71 per cent from US$780 (S$1,047) to US$1,330 (S$1,786). In contrast, India and Pakistan's per capita incomes increased by much lower and nearly identical proportions of 37 per cent and 39 per cent respectively.

Figure 1: Gross national income, per capita (US$) 2000-2016: India, Pakistan and Bangladesh

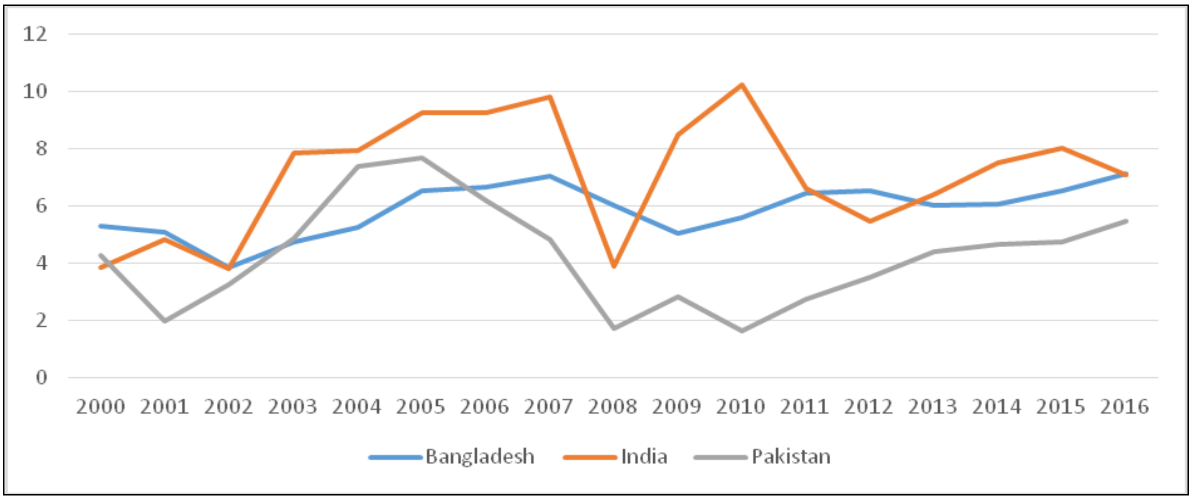


Source: World Bank (http://dataworldbank.org).

What explains Bangladesh's success in raising per capita income at a faster rate than India and Pakistan? The answer is provided by the comparative trajectories of the gross domestic product (GDP) and population growth in the three countries (Figure 2 and 3).

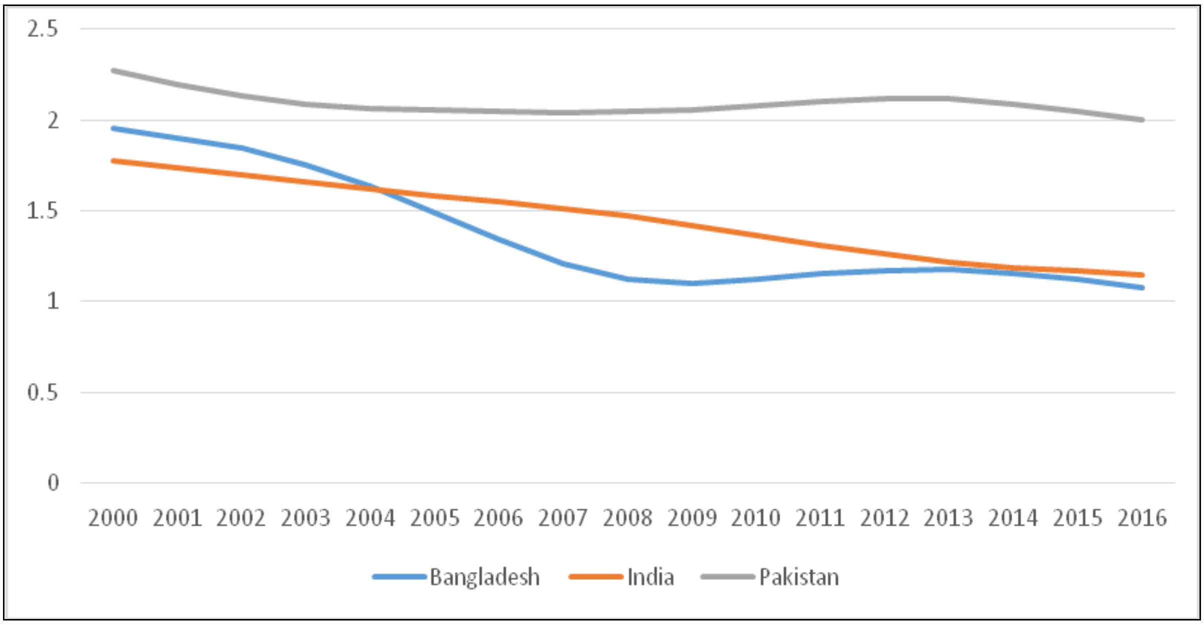
India recorded the fastest GDP growth among the three economies for almost the entire period of the new millennium till now. Since 2009, however, Bangladesh has been growing at a steady rate with limited fluctuations and has been able to catch up with India's GDP growth. Moreover, since 2006, Bangladesh's GDP has grown at a much higher rate than that of Pakistan (Figure 2). The stable and high GDP growth, which crossed seven per cent in 2016, was accompanied by an impressive performance in stabilising the rate of growth of its population (Figure 3). The annual rate of growth of the population has been declining in all the three economies. However, Bangladesh's performance has been particularly noteworthy. Since 2005, its annual population growth has remained lower than those of India and Pakistan (Figure 3).

Figure 2: **GDP growth (Annual %) 2000-2016: India, Pakistan and Bangladesh**



Source: World Bank (http://dataworldbank.org).

Figure 3: **Population growth (Annual %) 2000-2016: India, Pakistan and Bangladesh**



Source: World Bank (http://dataworldbank.org).

Taken together, the GDP and population growth trends provide a clear answer for Bangladesh's success in improving its per capita income. This is a result of it being able to increase its GDP growth while maintaining a declining rate of population growth. Since the per capita income of a country is its average income – computed as the ratio of total income to total population – a greater rate of growth in income (measured by the GDP) over population would lead to an increasing per capita income. Indeed, the ability to restrict the rate of growth of the population at 1.1 to 1.2 per cent per year since 2008 has had a profound impact on Bangladesh's per capita income. The country's success in controlling its population has not only been much better than that of Pakistan, whose annual rate of growth of population is still at around two per cent, but also that of India, which has come close to Bangladesh's population growth levels only during the last few years.

Key Lessons

Bangladesh's economic success draws attention to two important factors. The first of these is the fact that it was able to consistently raise per capita income at a time when much of the rest of the world was struggling to handle the adverse effects of a global economic slowdown. The early years of the new millennium were economically robust for several LDCs that specialised in the export of natural resources and agricultural commodities. However, the global economic meltdown in 2008 and the subsequent deceleration in demand from major global markets, particularly China, resulted in a fizzling of the resource and commodity upswing. This is a major reason for several other LDCs not having been able to improve their per capita incomes on a sustained basis during the current decade. Bangladesh has been a notable exception to this global trend.

The second lesson from Bangladesh's economic success is the beginning of an economic alignment within South Asia. For more than a decade now, Bangladesh's GDP has been growing at a faster rate than that of Pakistan. It has also been able to reduce the rate of growth of its population below that of Pakistan. The result has been a higher rate of growth in per capita income and the narrowing of the economic gap with Pakistan. Based on nominal GDP estimates for 2016, the Bangladesh economy (US$221.4 billion [S$297.3 billion]) is almost 80 per cent of the Pakistan economy (US$279 billion [S$374.7 billion]) (Table 1). If

Bangladesh maintains its current rates of growth in its GDP and population, it should be able to catch up with Pakistan, both in economic size and per capita income in the near future.

While still much smaller than India in economic size, the maintenance of a high GDP growth and a stable population rate can also enable Bangladesh to steadily reduce its gap from India's per capita income over the medium term. These prospects point to a major economic realignment within South Asia, with Bangladesh gaining higher economic weightage within the region.

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