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Bangladesh: The Next Level of Development

The Institute of South Asian Studies and the Bangladesh High Commission in Singapore organised the panel discussion on "Bangladesh: the Next Level of Development" on 15 May 2018. The panel examined Bangladesh's key achievements and possible challenges in light of its graduation from the status of a least developed country to that of a developing country.

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Introduction

On 15 May 2018, the Institute of South Asian Studies (ISAS) and the Bangladesh High Commission in Singapore jointly organised the panel discussion on "Bangladesh: The Next Level of Development". The event was held against the backdrop of the announcement of the graduation of Bangladesh from the Least Developed Country (LDC) to the Developing Country list. The session was geared at discussing the potentials offered to Bangladesh by the graduation as well as the key issues it would need to address arising from its graduation.

Ambassador Gopinath Pillai, ISAS Chairman and Ambassador-at-Large at Singapore's Ministry of Foreign Affairs, and H.E. Mr Md Mustafizur Rahman, High Commissioner of

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Bangladesh to Singapore, inaugurated the event. The panel discussion featured three speakers – Ms Ayesha Aziz Khan, Managing Director and Chief Executive Officer of Summit Power International Pte Ltd; Dr Monzur Hossain, Senior Research Fellow at the Bangladesh Institute of Development Studies; and Dr Amitendu Palit, Senior Research Fellow and Research Lead (Trade and Economics) at ISAS. Dr Iftekhar Ahmed Chowdhury, Principal Research Fellow at ISAS and former Foreign Minister of Bangladesh, chaired the panel discussion.

During his opening address, Ambassador Pillai stated that the panel discussion followed in the footsteps of another Bangladesh-focused event organised by ISAS in March 2018, prior to the visit by Bangladesh's Prime Minister, Sheikh Hasina, to Singapore. He remarked that ISAS has been expanding its expertise and focus beyond India to cover all of South Asia.

Ambassador Pillai stated that several elements make Bangladesh's successful development story exemplary. These include women empowerment, which demonstrates that countries that empower their female citizens develop faster than others. He added that Bangladesh can also count on its exceptional human resources, as shown by the Bangladeshi migrant workers of Singapore, who after completing their duties on construction sites, dedicate themselves to the composition of poems. In this regard, he mentioned that ISAS had organised a public reading of such compositions a few years ago. Turning to the graduation of Bangladesh, Ambassador Pillai stated that attracting greater investment will be critical for the country to balance the loss of important benefits under the status of an LDC.

Mr Rahman delivered his address on the implications of this graduation for Bangladesh. He stated that the graduation represents a watershed moment for Bangladeshi history. When the country was born, many doubted its potential, while it is today the 32nd largest economy in the world with a gross domestic product (GDP) of US$220 billion (S$295.5 billion), export volume of US$35 billion (S$47 billion) and a foreign currency reserve of over US$33 billion (S$44.3 billion), the second highest in South Asia. The High Commissioner declared that Bangladesh is a politically stable, economically sound and socially thriving country. Although this transformation has taken place over two decades, it however accelerated during the last decade under the premiership of Prime Minister Sheikh Hasina. In this period, along with economic growth and increased employment, the country also recorded an improvement in all social indicators, such as gender mainstreaming, female empowerment, mortality rate, life expectancy, access to health, water and sanitation, and immunisation.

Mr Rahman then turned to the prospective graduation of Bangladesh. He noted that, as distinct from previously graduated countries (Botswana, Cape Verde, Maldives, Samoa and Equatorial Guinea), Bangladesh is a large country. He declared that the achievement of the status of a “developing country” implies both opportunities and challenges for Bangladesh. Among the opportunities, he identified, first, is its “brand value”, which will be enhanced with the graduation of Bangladesh to a developing country. This will possibly attract investors and creditors, which will, in turn, increase production capacity and diversification. Secondly, the graduation might also enable Bangladesh to negotiate bilateral and regional trade agreements from a position of strength.

Among the challenges, Mr Rahman mentioned the loss of preferential market access under LDC-specific support schemes across the spectrum of trade, finance, technology transfer and technical assistance. Specifically, this will imply the abolition of LDC duty-free/quota-free access, resulting in a possible annual export loss of US$2.7 billion (S$3.7 billion), equalling 8.5 per cent of Bangladesh’s exports. The High Commissioner added that the country would lose access to concessional finance, as well as facilitation regarding intellectual property rights and other obligations under the World Trade Organization.

In light of this scenario, Mr Rahman recommended a number of policy reforms as priorities for a smooth transition. These include the transformation of human resources into capital through education and skills development; the creation of employment opportunities for the youth through industrialisation and increased manpower export; the attraction of foreign investments; and the improvement of export competitiveness, through the exploration of new markets and diversification of the export basket. The High Commissioner concluded his address by stating that the successful graduation will be a stepping stone for Bangladesh to become a developing country by 2021, and perhaps an advanced economy by 2041.

Panel Discussion

Dr Chowdhury set the context of the panel discussion by speaking on the imperatives of Bangladesh's foreign policy. He stated that, in foreign policy, Bangladesh has two major aspirations: the preservation of its sovereignty and security, and the obtainment of resources for development. The latter pushed Bangladesh to establish connections with the United States, the European Union, the Middle East, China, Japan and international financial institutions. Such connections aimed at satisfying demands for aid, trade, investments and the employment of excess workforce. In force of these aspirations, Dr Chowdhury said, Bangladesh calibrated its international position to maintain a low-key posture in global crises. In addition to this, since economic development necessitated global governance and stability, he added, Bangladesh supported the South Asian Association for Regional Cooperation (SAARC) and the United Nations (UN).

Dr Chowdhury stated that the next level of development for Bangladesh will see both prospects and challenges. He added that development cannot be achieved by the government alone, as the people play an important role as well. He concluded by declaring that Bangladeshis need to learn from the words of Rabindranath Tagore, who said: "If you wish to cross the sea, it is not enough just to stand at its edge and merely stare at the waters".

The first panellist, Ms Khan, spoke about the impact of infrastructure on social development, with special reference to women empowerment. She introduced the Summit Group as the largest independent power producer in Bangladesh, headquartered in Singapore. She stated that the primary purpose of infrastructure is to ensure a country's growth in a sustainable manner, and it is not possible to have social development without infrastructure. Consequently, Ms Khan asserted that countries which base their growth only on commodities, services or natural resources are likely to find, at some point in their development process, a disconnect between society and economic growth, as such development fails to spread through the various levels of society.

Ms Khan stated that the first level of infrastructure necessary for a country to develop is an ideological one: democracy and free market. Secondly, the country needs physical infrastructure, to enable industrial activity and, thus, employment. In this regard, electricity is "the infrastructure of the infrastructures" because of its extraordinary effect on industrialisation and manufacturing capacity. Ms Khan explained that the biggest bottleneck for infrastructure is capital. To attract capital, the capital market needs to be open and allow capital flows to both pour in and out. Hence, Bangladesh's market needs to be reformed accordingly, and this is indeed one of the fields in which collaboration between Singapore and Bangladesh would be fruitful.

Ms Khan also stated that, in Bangladesh, the electricity market has been opened, allowing the private sector to enter and play a large role. Such results were made achievable by a clear plan, incentives and a regulatory process. The privatisation of electricity had a great impact on social development, as proven by high female employment rate, for example. Now, Ms Khan added, it is time to allow the private sector to participate in other forms of infrastructure, such as education and healthcare. She added that while large-scale deployment of capital implies the existence of pockets of inefficiency, this issue is overcome when capital deployment is enacted by private actors.

Dr Hossain, the second panellist, spoke about Bangladesh's economic priorities in its next level of development. He explained that while it has been declared in 2018 that Bangladesh has qualified for graduation, the final review will occur in 2024. Therefore, it will be necessary for the country to maintain the current record by which it has been considered eligible. Dr Hossain specified the criteria considered by the UN to determine the graduation from an LDC to a developing country: 1) per capita income; 2) economic vulnerability index; and 3) human asset index.

Dr Hossain then listed the priorities for Bangladesh to sustain its graduation. The first would be to maintain the current level of economic growth. To this purpose, increasing per capita income, increasing investments, diversifying exports, and making growth inclusive are important and necessary steps. Dr Hossain explained that while Bangladesh's economic growth has been remarkable and far better than any of the other South Asian countries, inequality has also increased as a result. Income inequality, therefore, should be kept under control.

On investments, Dr Hossain stated that the current private investment rate is stagnant at 22-23 per cent of GDP and needs to be increased to about 28 per cent. Public sector investment has risen as a consequence of the megaprojects promoted by the government. In order to maintain the GDP growth at 8 per cent, the GDP/investment ratio should be about 35 per cent. Therefore, private sector investments should be increased in the coming years. In this respect, the priority should be investments in infrastructure (roads, bridges, railways, airports, seaports and deep seaports), gas and electricity, renewable energy and climate change adaptation.

Dr Hossain opined that since land is scarce in Bangladesh, investors are not able to find serviced land easily. In order to facilitate private investments, the government has established various special economic zones (SEZs) [Bangladesh Small and Cottage Industries Corporation, Special Economic Zones and Export Processing Zones], which now need to be quickly implemented and regulated for utilisation.

According to Dr Hossain, there are various causes of poor investments in the country. These include faults in the financial system (high-interest rate, financial scams and low competitiveness); poor capital market and bond market; high cost of doing business; slow growth of gas and electricity sectors; land scarcity; and confrontational politics.

On the diversification of the export basket, Dr Hossain noted that this is a target to be achieved progressively. Currently, ready-made garments represent 80 per cent of exports. Like in the case of other developing countries, the process of industrialisation in Bangladesh can also be explained through the “flying geese model” – industrialisation starts with the production of non-durable consumer goods, then progresses to durable consumer goods and finally to capital goods. Therefore, the next target for Bangladesh’s industry should be information and community technology, and electronics.

Dr Hossain stated that Bangladesh will have to find alternative and innovative financing for development to balance the lost benefits. He mentioned that the tax-GDP ratio needs to be improved. Bangladesh’s aid has also been declining as a percentage of gross national income. This is a sign that the country has already gained some confidence in financing its development, whereas in the other South Asian countries, increased development has not resulted in reduced dependence on aid. Among the sources of financing alternative to official development assistance, Dr Hossain mentioned the South-South cooperation, bilateral negotiations and free trade agreements, bond issuance, and other funds such as Gavi, the Vaccine Alliance, and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Dr Hossain also stated that the country should further invest in human capital development. At the same time, in light of its climate change vulnerability, policies need to be made investment- and climate-resilient.

The last panellist, Dr Palit, contextualised Bangladesh's graduation within the broader picture of regional and global economic events. He stated that Bangladesh's graduation is a significant development for South Asia. In the region, out of eight countries, five were classified as LDCs (Afghanistan, Bhutan, Maldives, Nepal and Bangladesh). After the Maldives, Bangladesh is the second South Asian country to achieve graduation. Bhutan and Nepal too are well-positioned to attain the same qualification. Therefore, there is hope that perhaps, in less than a decade, South Asia, as a whole, would have graduated and would not be identified anymore as one of the poorest regions of the world.

Dr Palit contrasted Bangladesh's achievements with global economic trends. He noted that, since 2008, the year of the financial crisis, national successes like that of Bangladesh have been rare. For the country, 2006 was the year of inflection for its economic rise. Bangladesh's case is, in this sense, an exceptional success, sustained by the maintenance of high economic growth and accompanied by a low rate of poverty growth, a combination which eventually allowed the country to meet the per capita income criteria.

According to Dr Palit, SEZs have been critical in achieving such results. Various countries have employed the "unqualified systemic economic sources". For example, even before the advent of the Shenzhen and Guangzhou areas (China), in 1966, India created a SEZ in Kandla, Gujarat, but without delivering the expected results. Dr Palit added that while other countries close to the graduation mark (like Nepal) have their economic growth driven by services (mainly tourism), Bangladesh is the only country which has graduated based on manufacturing.

Dr Palit then spoke about the challenges imposed by the graduation, such as the loss of unilateral preferential access (quota-free and duty-free) and possible ways to overcome them. He commented that Bangladesh exports will need to achieve increasing competitiveness from other improvements. According to Dr Palit, the increased use of artificial intelligence, integration in the regional supply chain and the availability of digital transactions represent considerable advantages that Bangladesh could bank on. Dr Palit explained that Bangladesh has already integrated itself considerably within the region's economy. The case of cotton provides a good example. Now, the largest importer of Indian cotton, Bangladesh has taken advantage of the availability of raw material in the region to transform and re-export it. At the same time, digital transactions are now available with most Bangladeshi banks and have considerably reduced transaction costs.

Dr Palit also spoke about the difficulty of doing business in Bangladesh. Dr Hossain had earlier highlighted this as one of the main obstacles to successfully attracting investments into the country. Dr Palit stated that, while such an index has a scarce econometric value, it certainly contributes to forming perceptions (Bangladesh ranks 177th out of 194 countries in the 'Ease of Doing Business' ranking). He added that, however, the index is a sum of elements. To this regard, it must be noted that, while Bangladesh has performed reasonably well in many of them, it has not done so in several aspects which also see other fellow South Asian nations (with the virtual exception of Sri Lanka) performing poorly.

Another challenge, Dr Palit said, is that Bangladesh's trade partners will be more demanding in terms of export quality. This will require the generation of domestic capacity (for example, certification capacity) as well as awareness among exporters. He added that the Bay of Bengal would certainly be a commercial space to further develop for Bangladesh. Being already a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation and other networks, it has room to work towards the attainment of access to the countries in the Bay of Bengal. If Bangladesh can successfully pursue such a sub-regional growth strategy pushing it to the next level, it will be possible for it to profitably re-explore the strategy of the value chain and the SEZs.

The panel discussion was followed by a question-and-answer session in which the speakers engaged the audience on a range of questions. Overall, the discussion offered a platform to analyse and debate the future of Bangladesh's economic development, highlighting, in particular, the critical role of foreign investments. This emerged as an area in which possible avenues of collaboration between Bangladesh and Singapore could be explored.

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