ISAS Brief
No. 649 – 15 April 2019

Bangladesh among the Five Fastest Growing Economies

Rahul Choudhury

Summary

The World Bank ranked Bangladesh among the top five fastest growing economies in the world. This paper examines some the major factors that helped Bangladesh achieve this position and identifies a few challenges that remain.

Fast Growing Bangladeshi Economy

A report, titled '*Bangladesh Development Update: Towards Regulatory Predictability*', released in April 2019 by the World Bank, ranks Bangladesh among the top five fastest growing economies in the world. The report projected Bangladesh to grow at a rate of 7.3 per cent during 2018-19. Bangladesh is preceded by two other South Asian neighbours, India and Bhutan, which are estimated to grow at the rate of 7.5 and 7.6 per cent respectively during the same period. It is undoubtedly a time for celebration for Bangladesh but it is important for the country to note and address the many challenges that its economy continues to face. In this context, the current piece takes stock of some of the key factors that helped Bangladesh achieve this position and also tries to identify a few challenges that still remain.

In 2018, Bangladesh fulfilled the United Nations' criteria for graduating from a "least developed country" to a "developing country". From its independence in 1971, Bangladesh has achieved this milestone in a considerably short span of time. It can attribute its economic growth to major contributions from the readymade garment (RMG) industry, as well as remarkable agricultural production and infrastructural development. With around 4,500 factories, Bangladesh is the second biggest exporter of RMG in the world.

Factors Driving Growth

Against this backdrop, it is pertinent to understand the factors that has led Bangladesh to this stage of economic growth.

Among the domestic factors, the Index of Industrial Production, which increased by 18.5 per cent in 2018, has played a vital role. This increase is mainly attributed to the growth in the textiles sector along with pharmaceuticals, non-metallic minerals, leather, and chemical products. The industries sector grew at 10.2 per cent in 2017 with a significant contribution from the large and medium scale manufacturing industries.

Electricity is a key input for any industrial production and Bangladesh has invested heavily in this sector. This allowed energy generation to more than double over the last decade. Currently, it has an installed capacity of 18275 megawatts (MW).

For the agricultural sector, it has been a wonderful year. A bumper harvest in an area of more than 5.65 million hectares was contributed by rice, wheat, and maize. Bangladesh produced around 70 million metric tonnes (MT) of rice, 3.7 million MT of Maize and 1.3 million MT of wheat in 2018. In 2018, the agricultural sector grew by 4.2 per cent.

Thanks to its macroeconomic policies, Bangladesh has been able to maintain, by and large, a stable inflation rate of between 5 to 5.5 per cent for quite a long time. Further, the gap between rural and urban inflation has been narrowing in the last three years.

In the external sector, exports have recorded a strong growth of 14.5 per cent in RMG and 8 per cent in non-RMG exports. This sector took advantage of the United States (US)-China trade dispute and expanded the US market by 17.4 per cent, compared with only 1.4 per cent the last fiscal year.

Along with exports, remittances are a major source of external earnings for Bangladesh. Bangladesh received more than the US$10 billion (S$13.54 billion) of remittances in the first eight months of 2018, primarily from the US, Europe and the Gulf countries. This resulted in a sharp decline in the current account deficit to US$4.3 billion (S$5.82 billion) in the first seven months of the fiscal year 2018-19, compared with US$5.4 billion (S$7.31 billion) in the corresponding period of 2017-18. Further, the investments made by foreign institutional investors and brokerage firms, among others, kept the index of the Dhaka Stock Exchange largely at a stable position.

Challenges Remain

Having discussed the key factors responsible for the fast growth of the Bangladeshi economy, there are several challenges that need attention so as to elevate the growth trajectory.

Attracting foreign direct investment (FDI), which currently accounts for only one percent of gross domestic product, remains one of the key challenges for Bangladesh. In spite of having a large pool of labourers, moderate infrastructural development and well-established foreign relations with major investing countries, Bangladesh remains unappealing to foreign investors. This is an area which needs urgent attention.

Income inequality and extreme poverty are two prominent obstacles in Bangladesh’s economic growth. Bangladesh faces an unemployment rate of more than six per cent with a large difference between male and female job-seekers. Policies need to be devised to address these concerns.

High fiscal deficit, low tax collection, regulatory uncertainties, labour unrest and a high level of corruption are among other issues that are putting a drag on economic growth.

The economic performance achieved so far is definitely commendable. However, to sustain and, perhaps, achieve even higher growth, the country needs to take a number of important measures. These include banking sector reforms, implementing labour laws, and improving the indicators of ease of doing business index and curbing corruption – all of which are the need of the hour. Bangladesh also needs to be vigilant about the threat posed by religious fundamentalism and it needs to create a safe and secure environment both socially and economically, which will undoubtedly stimulate FDI and, hence, growth.

. . . . .

Dr Rahul Choudhury is a Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasrnc@nus.edu.sg.
The author bears full responsibility for the facts cited and opinions expressed in this paper.