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SUSTAINABLE ECONOMIC GROWTH A CHALLENGE TO EMBRACE FOR BANGLADESH

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“Sustainable Economic Growth: A Challenge to Embrace for Bangladesh”

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I. OBJECTIVE

The objective of this manuscript is to show over the year's macroeconomic stability of Bangladesh and how to sustain this economic growth and challenges for further accelerating economic and socio-development.

Key Signs: Fostering Development

- Population: 165 Million;
- 5 Year Average GDP Growth: 6.7%;
- The Population of Working Age: 90 Million (growing middle class with a young demographic);
- Strategic Geographic Location (bridge between South and East Asia);
- Economic Growth, e.g., growing infrastructures and educated workforce;

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II. THE ECONOMY OF BANGLADESH

Despite some of the perceptions, Bangladesh's relatively stable economy offers a huge potential given its GDP of around USD 260 billion and population of 165 million which makes it amongst the larger economies in the region after China and India. Perceptions aside, this market should not be ignored as income levels rise for a large young population with a median age of 26 who will be a large consumer market over the next decade. Bangladesh is expected to have one of the fastest growing middle and affluent class populations just after Vietnam.

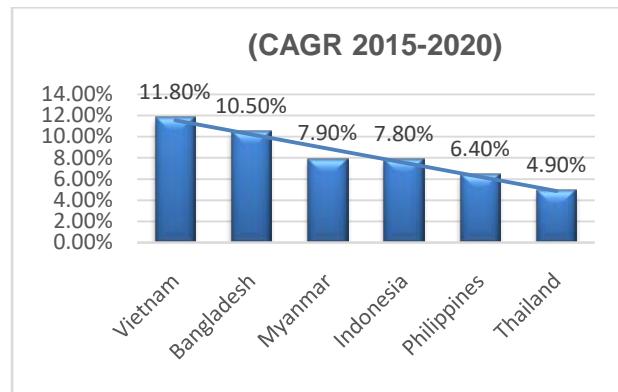
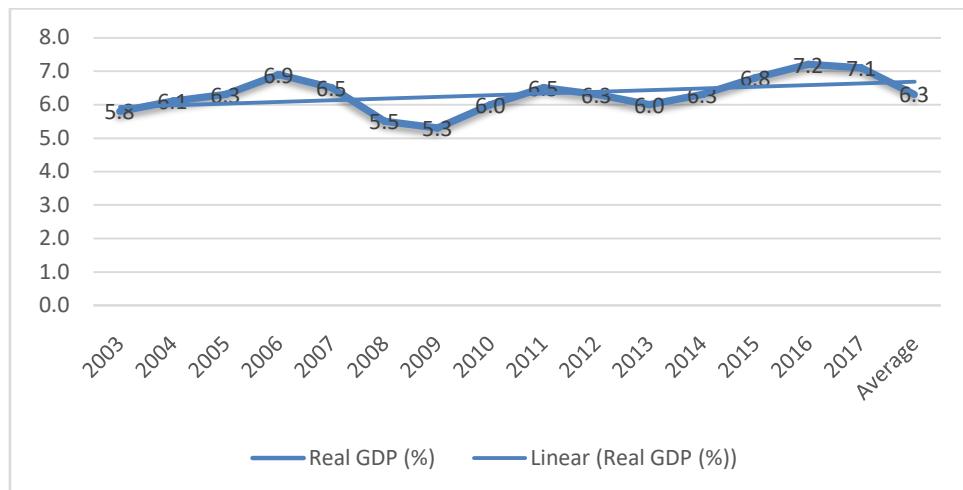


Figure 1: The Compound Annual Growth Rate

Besides the opportunities that the various sectors provide, geopolitically Bangladesh has developed a balanced foreign policy which is not too one-sided or antagonistic towards a specific country and this has resulted in good relations with China, India, Japan, and the U.S. These balanced relations have generated commitments from most of these countries to help develop the country's infrastructure which should be positive for the overall economy. The economy of Bangladesh has been stepping up by the help of export-oriented industrialization. Apart from the apparel industry, other vital sectors include jute and jute goods, leather and leather goods, tourism, ICT outsourcing, pharmaceuticals, shipbuilding, ceramics, and electronics.

An interesting trend has been observed when we look at the Gross Domestic Product (GDP) growth rates of Bangladesh during the last decade. After plotting real GDP growth rates, according to year,



Source: International Monetary Fund (IMF)

Figure 2: Real GDP of Bangladesh (Year wise)

It has shown a resemblance to a wave and consistency over the years. The exponential line indicates an upward trend over the years and the average growth rate of 6.3 percent GDP per year, which allows Bangladesh in recent times to become the most vibrant economy in South and Southeast Asia. A growth rate of seven percent would require an investment-GDP ratio of more than 30 percent as opposed to the current level of 27 percent. Now, Bangladesh's economy needs to hold the growth at 8 percent in the next five years to become an upper middle-income nation and cut the poverty rate to zero percentage. In the same time, for sustainable growth, Bangladesh needs to raise its tax-GDP ratio from the current 12-13 percent to at least 20 percent, which is relatively lower compared to many other countries at this stage of development. The government's ability to finance infrastructure projects and provide services to the citizens has been constrained because of the low level of revenue generation.

I individually believe, if Bangladesh Government issues, sovereign bonds and collect funds from worldwide investors, then the cost of borrowing could be much lower than from any other sources. International credit rating company, Standard and Poor (S&P) has rated Bangladesh as BB- for the consecutive 5th year. Stable real GDP growth and strong external balances have also helped Bangladesh to achieve a BB- rating with Stable Outlook from Fitch Ratings. Present country ratings and foreign reserve (USD 32.01 billion, December 2018) Bangladesh can raise a fund of USD 10 billion from foreign investors. By using that fund, Bangladesh can rapidly overcome the congestion bottlenecks of infrastructure development, and it will boost up our economic growth and make a level playing field with some other developing countries.

a) Factors Influence Sustainable Growth

Education, employment and Investment (foreign or local) these three factors are interrelated in any economy. It won't be a good sign for a country unless the country makes a fruitful combination of these three factors. Suppose, if any country has a high percentage of academically qualified human resources, what is the benefit of it unless the government could provide them employment in a sense to give the opportunity to work and utilizing the acquired knowledge in the practical field? The government solely can't create as much as those jobs has been required in the economy.

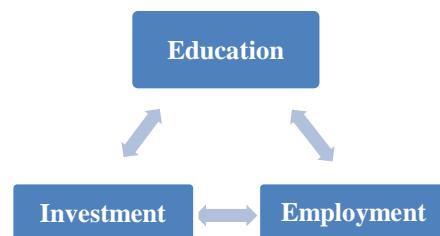


Figure 3: Factors Influence Sustainable Growth

From our childhood, we have learned that education is the backbone of a nation. Now you can ask me, is it a false statement? No, it is true. A truly educated person can change his or her life, even not just looking for a traditional job. Entrepreneurship can stimulate investment and contribute to building a knowledge-driven economy, which plays a central role in economic growth (Aghion and Howitt, 2005). Secondly, entrepreneurial activity also pays to economic growth by stimulating job creation, improving skills and encouraging technological innovation, and can increase efficiency and productivity by encouraging competition (Audretsch and Fritsch, 2002), (Audretsch and Keilbach, 2004), (Wong et al., 2005), (Naudé, 2011).

Differences in entrepreneurship have a significant effect on economic performance, controlling for traditional production factors (land, labor, and capital), (Casson et al., 2006).



Figure 4: Entrepreneurship's Contribution to Economic Growth

Entrepreneurs are self-employed and empowering others to contribute by creating job opportunities in the economy. In recent time, mobile apps-based ride-sharing service "Pathao" Bengali word meaning send it has received massive popularity among the young unemployed workforce and within the shortest time, it has a direct positive impact on the economy. An Indonesian based company GO-JEK has invested USD 10 million in 2018 to Pathao due to its vast popularity and success among the young generation. In

my view, Bangladesh needs to develop more entrepreneurs rather than just looking for traditional jobs. We need to change the attitude of our students and the government should promote vocational and research based education to compete with global competitors.

III. FOREIGN DIRECT INVESTMENT (FDI)

Investment especially, the FDI (Foreign Direct Investment) inflow is significant for a country because it creates jobs and helps reduce poverty and facilitate the transfer of technology. As a result, Investment in any form, especially foreign investment has the most positive impact on the economy apart from its negative impact, e.g., environmental issue or repatriation of profit or tax benefit. Now an important question is why big investors will come to Bangladesh instead of Myanmar, Vietnam, Malaysia or Indonesia? What paybacks or facilities can we provide them, which others can't offer them? Moreover, Bangladesh government yet not offer any lucrative packages to attract foreign investments. Indeed, it's a competitive global market; investors will run for such a place where they will receive maximum benefits. At the same time, political stability a key watchdog for investors to get confidence in investing in the country.

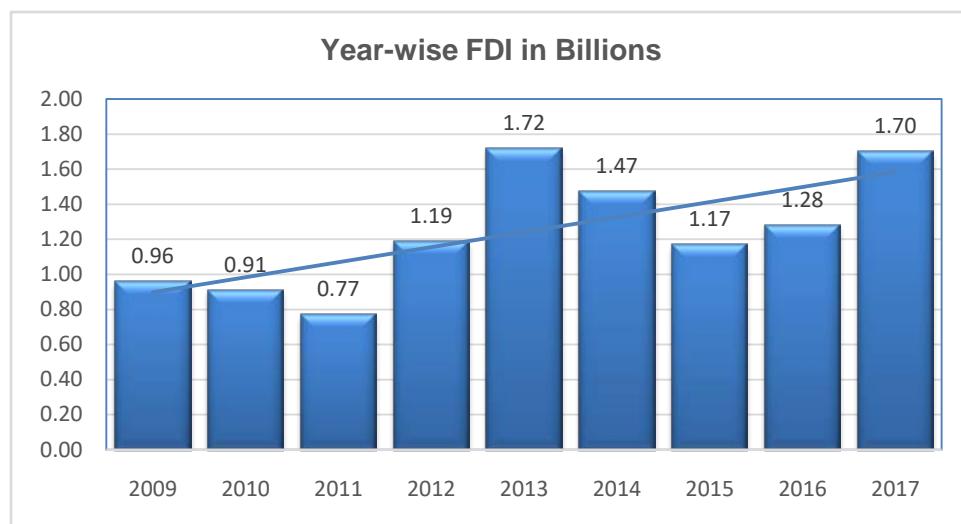


Figure 5: FDI Inflow in Bangladesh

As unemployed people gain employment due to FDI, the standard of living increases along with purchasing power, providing the impetus for the business cycle to move faster. This gain has been compounded by the development of local support industries and institutions. Simultaneously, transport facilities and infrastructure, communications systems and education stand to benefit as education, employment and investment working together as a part

of the sustainable growth of the economy. Increased competition in the local market, meanwhile, can reduce the price of commodities, as gross domestic product rises. From an FDI inflow of \$0.96 billion in 2009, gradually it has ascended to \$1.70 billion years by year in 2017. The growth of FDI over the years is an uptrend and if we look at the graph, the injected funds gradually grew up. It's a fact that such inflow of FDI is not up to the mark. The country is yet to become a favorite destination

for FDI. The inward FDI flow to Bangladesh is lower than other countries having the same status of the least developed countries (LDCs).

a) *FDI & Low Wage:*

We are most likely seeing a structural shift as Vietnam (USD 13 billion of FDI has been received in 2018) is attracting low-cost manufacturing jobs due to its political stability, lower wages, disciplined workforce, and improving infrastructure.

Besides Vietnam benefitting from being a low-cost manufacturing location as well as from the China-U.S. trade war, other Asian frontier countries, e.g., Bangladesh could also take advantage in the long run as Bangladesh has significantly lower wages compared to China and are seeing improvements in their infrastructure.

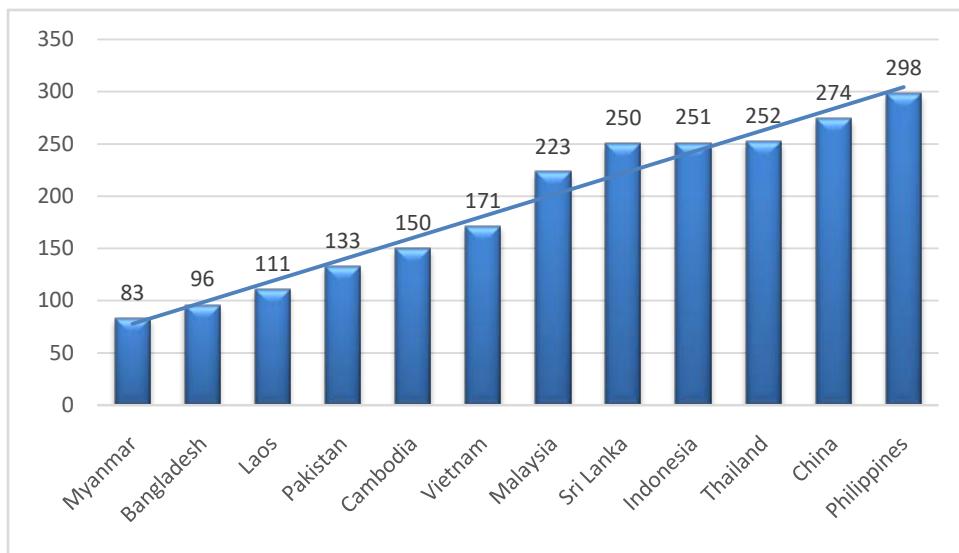


Figure 6: Minimum monthly Wage in USD

To maintain competitive strength in attracting FDI, it is important to continue to promote the country's natural economic assets, including its strategic geographic location with concerning global trade, its convenient access to the international sea and air routes and its low-cost workforce. Also, domestic purchasing power for FDI products in a country of 165 million people is not negligible.

In my view, Bangladesh needs to update foreign investment policy to attract more FDI in Bangladesh. The regulations and guidelines for investment should be made clear, and arrangements have been completed so that, all procedures could be completed from a one-stop center within a prefix period after submitting the proposal because at globalization time is money. Our political parties should be more responsible and should not do anything to impede the country's image and economic activities. However, as a long-term, it is imperative to build a positive branding for us. If we can shrink political uncertainty and boost up confidence in the investor's mind, then Bangladesh would be a remarkable destination for FDI. Special economic zones across the country and lucrative investment offers will attract foreign investors to invest in Bangladesh. The focus should be as a long-term basis and always look forward to having a win-win position for both parties.

b) *Export, Import & Remittance:*

Worker remittances have also played an immense role in building up foreign exchange reserves (USD 32.01 billion, December 2018) and these have rebounded in the latest financial year ended June 2018 by 17% to USD 15 billion (6% of GDP). The majority of foreign remittance has been injected by our workers working abroad, thus we can't ignore the importance of their contribution to the economy. As a result, the ministry of expatriates' welfare and overseas employment should ensure the initial investment for on board to abroad within an affordable price. Thus, they can repay the investment amount within shortest possible time. Furthermore, the ministry must ensure fewer intermediaries for overseas employment business and should straightly maintain a ceiling for different onboard countries to export human resources. However, the government should confirm the welfare of the expatriate workers and the enhancement of overseas employment by discovering new destinations for the skilled and semi-skilled workers in the global market.

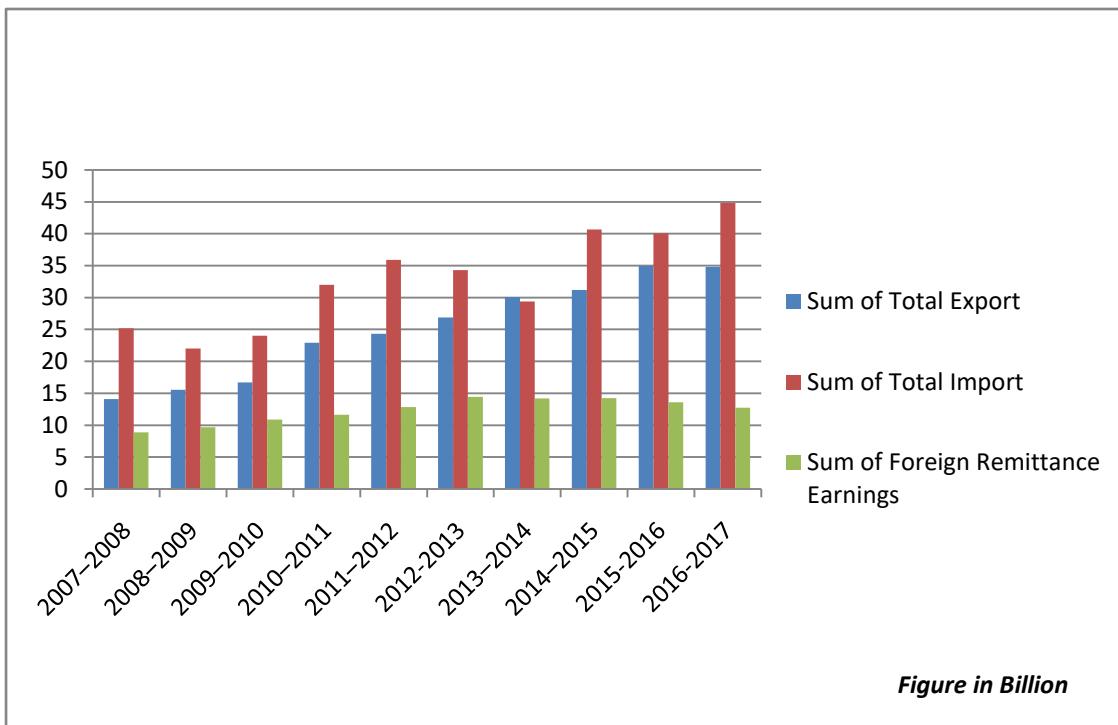


Figure 7: Year-wise, Export, Import & Remittance

In my view, those workers are boarding mostly in the Middle East, and South East Asia are more likely unskilled labor, hence there earning capabilities is remained low. Now, Bangladesh needs to give more emphasize on technical education and improve the skills level of the workers. As a result, if the government can facilitate to improve their competency level, the investment that, they have spent through intermediary to go abroad will take less time to recover. In the same time, if Bangladesh could arrange to make them at least semi-skilled or highly skilled, then the remittance inflow will boost up too. No doubt that in our economy, the remittance inflow has a vast contribution to make our sustainable growth.

IV. HUMAN DEVELOPMENT INDEX

In recent years, the population growth rate of Bangladesh is relatively stable; (growth rate 1.04%, 2017) and it won't become a burden unless if we couldn't make our population as human capital. The Human Development Index (HDI) is a respectable turn for Bangladesh regarding life expectancy which was 71.6years (2017), the highest in South Asia and regarding Infant mortality rate 31.70 deaths/1,000 live births (2017) which were the lowest in South Asia. Aside, last one decade, there are some foremost significant changes taken place in some of the other HDI indexes:

Table 1

Function	Percentages (%)
Literacy Rate	Total: 75.4% (2015) Male: 77.1% (2015) Female: 71.5% (2015)
Birth Rate	18.80 births/1,000 population (2017)
Death Rate	5.40 deaths/1,000 population (2017)
Growth Rate	1.04% (2017)
Life Expectancy	71.6 years (2017) Male: 71.3 years (2017) Female: 75.6 years (2017)
Fertility Rate	2.17 children born/woman (2017)
Infant Mortality Rate	31.70 deaths/1,000 live births (2017)

a) *Young Demography:*

Youth is the main strength or power if we want to see Bangladesh as middle-income countries by 2021 on the 50th birthday of the country. The principal reason for that, Bangladesh is currently experiencing a 'demographic dividend' (a rise in the proportion of people in the working age population, accompanied by a decline independent age population) and 1.8 million people are entering the job market every year. Without adequate expansion, the economy will not be able to absorb all the people entering the workforce. Thus, we need to concentrate on our youth population. Indeed, they have the competencies to compete with others. As a nation, we have limited resources, limited accessibility towards resources, but it is also true that as a nation we have resilient power. We have seen in the past, during any flood or cyclone the people has shown the countless intensity and tenacity to face the natural calamities and within a shorter period, they make their life stable. This is an unique characteristic of Bangladeshi people.

For coastal areas, the government needs to facilitate tree plantation. Hence, it can create a barrier while cyclone hits. The output of this type of investment will certainly save resources and lives. PPP (Public Private Partnership) can be a great option to encourage private sector investors from investing in tree plantation, and take care of them in coastal areas. At the same time, trees can be a great asset. It has financial and environmental benefits as well. However, it also works against global warming and carbon emission. As we know that, economic welfare is not merely about economic growth preferably for the sustainable development and enhances the quality of life. Thus, we can't ignore the environment either. We need to set up environment-friendly industries and need to concern about by product and recycle process while producing goods in the factories as by definition of sustainable growth implies maintained growth without creating other significant economic problems, especially for future generations. Aside, if we have a mighty cyclone or prolonged flooding, then it would be a threat to sustainable growth. In the past, when Bangladesh faced for a long-term flood or had devastating hurricane, it takes away 1-2 percent of expected GDP of that year. As we can't change our geographic position, we must think about it and take the initiative to stop deteriorating the growth even if there any natural calamities or force majeure.

b) *Connectivity:*

Connectivity is very crucial for accelerating economic growth and quick development. We have to use the best of our geographical resources. If we look at Singapore or UAE, what can we learn from them? Basically, they are just utilizing and efficiently using their

port and make a hub for surrounding other activities. In a typical sense, they have nothing special what we can't achieve or something unrealistic to achieve. Only professionalism and time constraint at work give them much success as a nation. What we need to do is to make transparency in every place; make accountability in everyplace and overall good governance would give Bangladesh competitive advantages in South and South East Asia. Strategically Bangladesh located between India and China, two economic giants of the next generation world whereas we have many keen opportunities for sharing our ports, railways and roads & highways for transshipment and regional connectivity, e.g., China's one belt, one road, (Southern China to India via Bangladesh & Myanmar), and thus, could be an option to earn foreign currencies as well as the development of our territories. At the same time, we can share regional hydro-electricity power and consequently could be an option for further growth in investment.

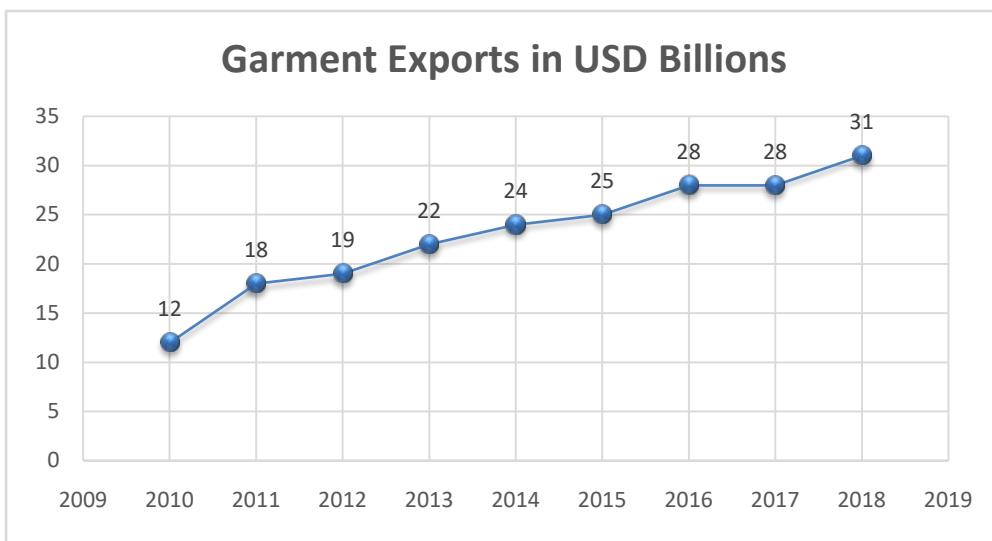
c) *Apparel Industry:*

RMG (Ready-made Garments) is the core export items of Bangladesh. With higher prospects, the Bangladesh government and garment exporters set a target to export apparel items worth \$50 billion in the next three years. Bangladesh that accounts for 5 percent of the \$450 billion global garment trade will need at least 15 percent yearly growth in exports to reach that target. In globalization prospect, Bangladesh has a wide-open market for RMG sector. Despite cheap labor which should not be our focus to emphasize, we need to brand our competencies as well as creativities and perfection. We have many other comparative advantages to compete with others, e.g., Bangladesh's textile industry is the second-largest in the world. If we could utilize the vertical and horizontal integration of ready-made garments with our textile industries, then that will give us an enormous opportunity to capture the highest market share in the apparel industry. If Bangladesh could combine these two sectors and alien with global needs, then no doubt the country will receive comparative advantages regarding pricing, quality, and services. As a result, the target set by \$50 billion exports is no more to be unrealistic and could be a better option by escalating further growth to becoming the number one exporter in the apparel industry by 2021.

Currently, our garment industry has a comparative advantage in two main areas, mainly high capacity and low wages. With 5,600 factories, Bangladesh's apparel industry is ahead of countries like Indonesia (2,450 factories), and Vietnam (2,000 factories) regarding capacity. However, the other prime factor, low wage, may not be a sustainable comparative advantage for Bangladesh. Besides preferential access to the European market, the Bangladeshi garment industry benefits from a large labor pool while wages at

USD 96/month are significantly lower than those in competing nations like Cambodia, China, and Vietnam. A combination of these factors has now made

Bangladesh the second biggest garment exporter after China.



(Source: Bangladesh Garment Manufacturers & Exporters Association)

Figure 8: Bangladesh Garment Exports (Year Wise)

Aside, the trade spat between China and the US is providing a tailwind for garment production hubs like Bangladesh and Vietnam, as more companies move away from China to avoid U.S. tariffs and sanctions. Bangladesh is one of those alternatives with a 6.4% market share. For a nation like Bangladesh, where apparel makes up roughly 80% of exports, the economic benefits of this migration will be significant in upcoming years to sustain the economic growth and development.

The higher bank interest rate is the major challenge for the sector as Bangladesh has to pay higher duty for exporting garments to the US market. Bangladeshi exporters now pay 15.61 percent in duty tax to the US for the export of garments while China pays 3.08 percent, Vietnam pays 8.38 percent, India pays 2.29 percent, Turkey pays 3.57 percent, and Indonesia pays 6.30 percent respectively. As a developing country like Bangladesh, 15.61 percent duty tax is too high to compete with global competitors. Hence, for Bangladesh, the duty should be similar to other competitors. Another challenge is the rise in apparel exports from Pakistan to markets in the EU since January 2014, as the EU granted Pakistan the "GSP plus" status for 75 items of which 55 items are similar to Bangladeshi products destined for the same markets.

Empowering women is one of the key successes of the RMG sector. Presently, 4.4 million workers are working in this industry. Out of 4.4 million workers, 80% of them are women. Though the garments business, women enjoy unparalleled access to gainful employment and contributes to improving the overall HDI of Bangladesh.

In my view, the garment industry is the lifeline of Bangladesh's economy. It has radically changed the lives of millions of Bangladeshis over the last two decades as well as contributing significantly to economic growth at the macro level. Furthermore, it reduced poverty rates at the household level. For further socio-economic development the owners should negotiate to raise the price, not just a PRICE-TAKER rather a PRICE-GIVER from the buyers. Thus, owners can afford a standard wage compare to some other nations, e.g., China and give a minimum living standard of workers in this industry. The owners can't ignore to think about the labor, welfare as well as factory welfare. If the workers receive a standard salary, then they can find their path to make a financially better life. In this case, if Bangladesh could create a positive brand image, then the key will be on our side to negotiate over pricing and Made in Bangladesh would command the whole world.

V. OTHER POTENTIAL AREAS FOR SUSTAINABLE GROWTH

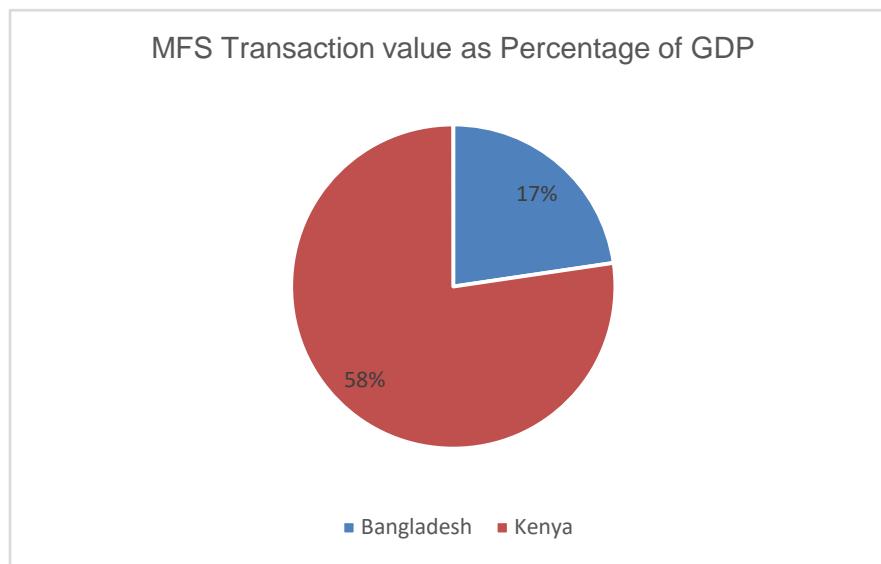
Infrastructure development for investment purpose will freely benefit to rise in the tourism industry. Along with improved law & order tourism industry could be a better option to earn a good portion of foreign currencies. As a nation, Bangladesh is small however, there are lots of diversified tourist attractive places, e.g., the longest sea-beach of the world in Bangladesh whereas to a tourist if we can promote our country positively and give them a positive message about security concern and modern facilities then we could sell

our products as well as we can sell our services. Unfortunately, government yet to take the tourism industry in a priority list. Hence foreign tourists are far away, in recent years, many people from inside Bangladesh are going to abroad for their holidays, and the rate is increasing at an alarming way. As a result, instead of injecting foreign currency; a bulk amount of foreign exchange is going outside the country's pocket which is a threat to sustainable economic growth.

Another major trump for Bangladesh and that plays an exclusive part to attain sustainable economic growth by receiving a massive amount of investment in the telecommunication industry. The investment in telecommunication started in the early 1997, and till today the total amount of investment in this sector is enormous, and indeed it has changed the socio-economic scenario of Bangladesh with a fostering way.

Today in Bangladesh, Grameenphone, the largest mobile operator has more than 50 million subscribers who are high in number, and as far as business concern many countries' total population is much lower than that figure. Grameenphone has so far invested more than BDT 243 Billion to build the network infrastructure in Bangladesh. It is one of the largest taxpayers in the country, having contributed more than BDT 355 billion in direct, and indirect taxes to the Government Exchequer over the years as well.

Mobile Financial Services (MFS) in Bangladesh has immense potential given that, a large part of the population does not have a bank account while the penetration of smartphones can lead to significant growth in mobile-based digital payments, e.g., Paytm from India and m-pesa from Kenya.



(Source: Bangladesh Bank, Communications Authority of Kenya)

Figure 9: Mobile Financial Services

The combination of the mobile network with mobile financial services is positively correlated, and it has immense potential in our economy as E-commerce is booming up and the country has been covered by the transportable network. In my view, for a sustainable growth, we need to focus on diversification of our products and services due to overcoming the recession period. In the long run, we need to discover new markets for our products not just solely for the apparel industry in the meanwhile other potential sectors as well. Similarly, with almost 50% of our workforce in the service sector, Bangladesh has the potential to become an offshore center for outsourcing, which would help to further diversify our economy. Hence, we don't need to rely on any specific country's foreign policy or threats by imposing any tariff or non-tariff barrier, e.g., GSP

facilities. It will protect our sovereignty and as a nation to make our backbone strong and brave.

VI. BANGLADESH'S PROSPECT IN SOUTH ASIA

South Asia is one the least integrated region in the world which intra-regional trade accounts for less than 5 percent of their total business. The same is also true when it comes to cross-border investment. When we compare South Asia with some other regions such as East Asia and Southeast Asia, the degrees of trade and cross-border investment among the eight-member SAARC (South Asian Association for Regional Cooperation) are much less than one would have expected given the physical proximity and the size of the economy. Countries in South Asia should embrace

policies that promote trade and investment among themselves. To encourage trade, the tariff should be low and non-tariff barriers should be removed. SAFTA (South Asian Free Trade Area) has been formed to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and

barriers and also to provide distinct preference to the Least Developed Countries (LDCs) among the SAARC nations. But unfortunately, it does not work as per people's expectation due to lack of trustworthiness among SAARC member countries.

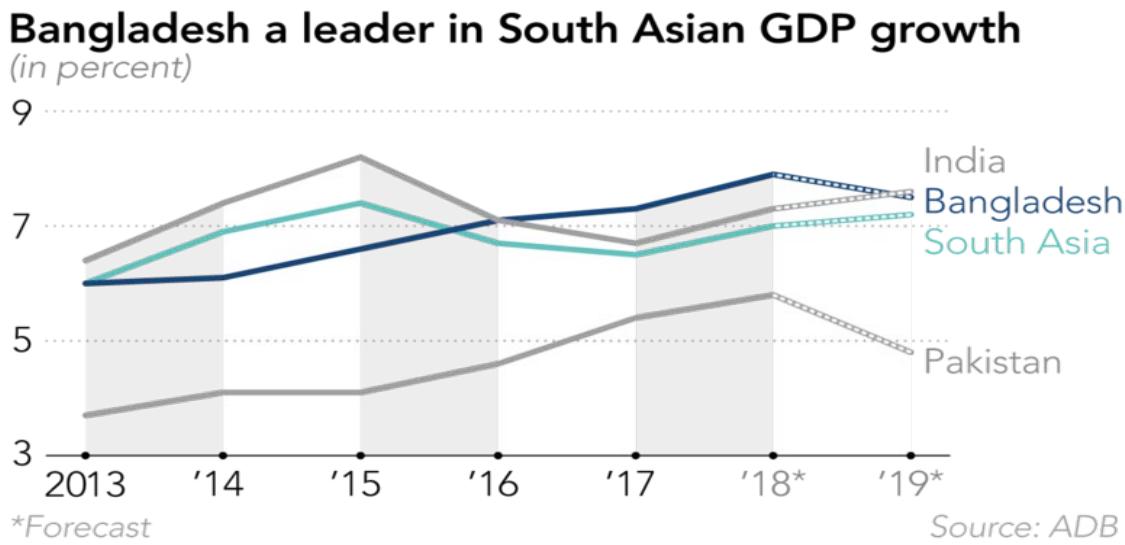


Figure 10: GDP Growth Rate in South Asia

The combined economy of SAARC is the 3rd largest in the world regarding of GDP (PPP) after the United States and China and 8th largest regarding nominal GDP. SAARC nations comprise 3% of the world's area and contain 21% (around 1.7 billion) of the world's total population but the bilateral trade between SAARC countries amounts to just a little over 1% of SAARC's GDP, which indicates as a poor performance in between SAARC countries. In contrast, in ASEAN (Association of Southeast Asian Nations) which is smaller than SAARC regarding the size of the economy but the intra-bloc trade stands at 10% of its GDP. If you look at the graph, Bangladesh's GDP growth rate is higher than South Asia's average GDP growth rate, and consequently, for the last three years (2016-2018), it was higher than India, a country which is predicting to lead the world economy after China.

In my view, I believe SAARC countries can work together in many areas, and there is much scope to work together, e.g., to make a regional transportation, trade facilitation between each other, and energy sharing. Furthermore, they can start visa-free entries to SAARC countries for ease of movement. In the meantime, they can introduce the same currency for all South Asian people for accelerating further trade and business.

VII. IMPLICATION

FTA (Free Trade Agreement) most likely to be the alternative option while Bangladesh will change from LDC's to developing countries or in other word become

middle-income countries. The subsequent result of changing the status would likely be lost the tariff and other benefits. These include duty free-quota free market access, the extension for compliance with the TRIPS agreement (The Agreement on Trade-Related Aspects of Intellectual Property Rights) and access to targeted aid and support measures. So, the government needs to take the following steps in order to strengthen the competitiveness with other countries.

Bangladesh must create additional jobs, focus on energy and transport infrastructure, make progress on improving the quality of healthcare & education, and most importantly improving governance, including to strengthen anti-corruption measures. I believe Bangladesh has the capacity of having an 8 to 9 percent GDP growth if the government can stop corruption and red tape.

We have a 4% economic growth in the 1980s, 5% growth in 1990s and 6% growth in 2000s. It is not doubtful; Bangladesh could add an extra 1% to overall economic growth by every 10-year period. At present, four fault lines in our economy those are the negative catalyst that hampers additional 1 to 2 percent of GDP growth. Four fault lines include:

1. Weak infrastructure,
2. Poor quality of general education and less vocational education,
3. Inefficient public bureaucracy and corruption
4. Weak financial sector (banking system and stock market).

We must ensure first-rate quality infrastructure, improve the quality of our education in line with international standard, prepare efficient public bureaucracy and bring necessary reforms in the financial sector for injecting efficiency. If Bangladesh would address these four fault lines by the next three years, then the capital accumulation (fresh investment in business, physical and social infrastructure and total factor productivity) will be accelerated.

Furthermore, the government needs to start wealth management in a way such that the hard-core poor people can eliminate their poverty and can participate in the mainline of the economy. As we know that, in a capitalistic society, it is difficult to reduce the gap between rich and poor however, a stopgap solution would be a different tax bracket for taxpayers. The higher earning peoples should pay higher tax and the government should spend that additional money to eliminate the gap between rich and poor in a certain extent to ensure a harmonious society where we are living.

VIII. CONCLUSION

Lastly, I would like to say, for a sustainable growth, Bangladesh needs to ensure political stability. Unless the country has a political stability, it would not possible to become the middle-income countries by the year 2021. Furthermore, the government must make sure political parties can practice their democratic rights in the same time, opposition parties should not perform any activities that impede economic growth and development vice versa. In the meantime, a political reform can be a fruitful catalyst to maintain the sustainable growth and to boost up further economic development in the progression of Golden Bangladesh.

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