

Bangladesh: Pathways to the Future

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Bangladesh: Pathways to the Future

Coverage

- Building on the positives
- Issues of sustainability
- Growth of inequality and issues of inclusion
- Possible research agendas arising out of my presentation

1. The Positives

- i. Steady growth
- ii. Export competitiveness
- iii. Improved Human Development (HD) indicators
 - (a) Education
 - (b) Health
 - (c) Gender empowerment
- iv. Poverty reduction
- v. Macro-economic stability
- vi. Government prioritization of investment in infrastructure

2. Key drivers

- i. Global market dynamics and export growth
 - (a) Global market opportunities for labor-intensive exports
 - The Multi Fibre Arrangement (MFA) and export protectionism: the rise of the RMG sector
 - Duty free access to the EU market
 - Global competitiveness of Bangladesh's RMG export in the post-MFA period
 - (b) Exporting labor and growth of migrant remittances
- ii. Private sector as drivers of growth
 - (a) Emergence of an entrepreneurial class less dependent on state patronage and its impact on autonomy for the private sector
 - (b) Growth of private banks as sources of private sector finance
 - (c) Growth of the SME sector

- iii. Rural development
 - (a) Small farmer driven agricultural growth
 - (b) Non-farm growth
 - (c) Diversification of agriculture
 - (d) Micro-credit and its impact
- iv. Construction boom in the public and private sector
 - (a) Housing boom and growth of the private construction industry
 - (b) Infrastructure investment
- v. Investments in Human Development (HD)
 - (a) Role of the state
 - (b) NGOs
- vi. Women's empowerment
 - (a) Gender parity in primary and secondary education
 - (b) Women in the organized labour market
 - (c) Micro-finance and women in the market place
- vii. Relative insulation of I-VI from political instability and governance constraints

3. Problems of sustainability

- i. Sustaining Democracy
 - (a) Problems of confrontational politics
 - (b) Parliamentary dysfunction
 - (c) Maintaining electoral competitiveness
 - (d) Ascendance of money and muscle power in politics
 - (e) Winner take all culture
 - (f) Weakening of party organisations
- ii. Crisis in Governance
 - (a) Administrative weakness
 - Partisanisation of administration
 - Weakness of accountability
 - Weakness in building a merit-based administration
 - (b) Growth of corruption
 - Corruption and politics

- State patronage as an instrument of corruption
- Corruption in the administration and its impact on service quality and regulatory capability
- Impact of corruption and criminalization on ensuring market competitiveness

(c) Issues of transparency

- How free is the media?
- Accessibility of the public to official information and effectiveness of the Information Commission

(d) Maintaining the rule of law

- Issues of judicial independence
- Politicization and corruption in law enforcement

(e) Governance as a development constraint

- Implications of state of governance for both foreign and domestic investment
- Can pace of development be sustained if governance is weak?
- Distributive implications of malgovernance

iii. Shallowness and weaknesses in the capital market

a. Breakdown of the capital market as an instrument of financial intermediation

- Limited role of stock market in investment financing
- Small volume of initial public offerings and massive oversubscription by prospective investors
- Limited use of stock market for investment in RMG sector
- Corruption in stock market
- Stock market as a casino

b. Dependence on bank finance

- Issues of debt default
 - Costs and consequence
 - Political economy of debt default

- Leveraged investment finance and its implications for accentuating concentrations of corporate wealth
- c. Limited access to FDI
- How important is FDI for the development process?
 - Significance of political climate in attracting FDI
 - Global competitiveness of Bangladesh in attracting FDI
- d. Inadequate mobilization of small savings for investment
- What are the available financial instruments and outlets for potential investors from lower income households?
 - The scope for establishing mutual funds for small savers
- iv. Infrastructure gap
- a. Problems of financing infrastructure development
- Availability of external sources of financing
 - International financial institutions
 - Asian Infrastructure Fund
 - Private credits
 - Domestic financing
 - Public budget
 - Citizen's as a source of investment finance
- b. Dependence on Public-Private partnership
- Is private investment in PPP financed by private investors equity or borrowing and who is guarantor of their debt?
 - How much of PPP borrowing for project finance is raised from public financial institutions?
 - Who reaps the profits and is the private investor given a tax holiday?
- c. Weak state of project implementation
- Estimating the time lags and its opportunity costs
 - Costing the delays and overruns in project costs
 - What actions are taken against contractors for time lags and cost overruns?
 - How far are lags and overruns due to malfeasance in the bidding process?

- v. Sustaining export growth
 - (a) RMG sector
 - Continued dependence on RMG sector and EU/US market
 - Slow penetration of fast growing Chinese and Indian markets
 - Meeting labour standards
 - Identifying and responding to the structural challenges from which the Rana Plaza disaster originated
 - Incentivizing the labour force
 - Offering livable wages
 - Profit sharing
 - Making workers stakeholders in the enterprise by offering them a share in equity ownership
 - Issues in moving our RMG product basket upmarket
 - (b) Accelerating export diversification
 - The need to clearly identify and promote the development of these sectors
 - Attracting FDI into these new areas
 - Role of the state in the above tasks
 - (c) Continued dependence on low skilled migrant labour
 - What needs to be done to enhance the skills of our migrants?
 - Enhancing migrants rights
 - Designing institutions which graduate individualized and powerless migrants into partners in service exporting corporate entities
- vi. Need for productivity enhancement in agriculture, SME and micro-enterprises
 - a. Issues of scale and externalities
 - Do we need to move towards commercial agriculture with larger farms?
 - What can be done to extend the benefits of scale economies to small scale farms and SMEs?
 - Vertical linkages with large scale enterprises
 - Scope for collective action
 - Enhancing investment in rural infrastructure and other public goods

- b. Enhancing the share of farmers, SME entrepreneurs and artisans in the value-addition process through:
 - Extending ownership rights in agro-businesses and corporate enterprises
 - Institutional reforms to enhance VA sharing
 - c. Investment in R&D, issues of diffusion and improving extension services
- vii. Quality issues in HD
- (a) Education
 - Growing inequality in access to quality education and its social implications
 - Need to widen access to technical and tertiary education
 - Challenges of ensuring quality education at all levels
 - Insufficient investment in R&D
 - (b) Health Care
 - Issues of improving quality of public healthcare
 - Growing dependence of lower income households on private health care and its impact on income erosion
 - Universalizing access to quality healthcare
 - (c) Women's Empowerment
 - Responding to the challenge of patriarchy
 - Responding to the challenge of violence against women
 - Ensuring equality before and protection of the law
 - Building institutions for collective action to promote empowerment
 - Enhancing women's representation in electoral institutions at all levels
 - (d) Insufficiency of investment and estimating financial requirements for attaining higher standards in the HD sector
 - (e) Identifying and correcting governance challenges in the HD sector
- viii. Environmental Challenges
- (a) Responding to climate change
 - Meeting the challenge of adaptability
 - Can the financial challenge be met?

(b) Responding to challenge of environmental damage

- The technical challenges
- The governance challenges
 - Taking action against violators of environmental law
 - Addressing problems of corruption among regulators
 - Meeting the challenge of land grabbing by property developers
- Issues of political economy contributing to environmental damage and influencing the response to governance challenges for corrective action

4. Issues of inequality and inclusion

- i. Measuring inequality in all areas: Issues of reliability of data
- ii. Redesigning macro-economic policy to address issues of poverty and inequality
 - Incorporating poverty and inequality reduction into macro-economic policy objectives and assigning it as much importance as GDP growth and other traditional goals.
 - Incorporating employment creation into macro-economic targeting and relating it to specific policy interventions
- iii. Distinguishing between symptoms and sources of growing inequality
 - (a) Identifying sources
 - Inequitable access to assets
 - Unequal participation in the market
 - Unequal access to human development
 - Unjust governance
 - Gender injustice
 - Global injustice
 - (b) Addressing symptoms: Social protection and safety nets
 - Extent of coverage for intervention measures
 - Problems of correct and just targeting
 - Rights based response to human needs challenges and its implications for policymaking and governance
- iv. Addressing the limitations in the structural policy responses to poverty and inequality at the national and global level

- (a) Designing agendas for structural change based on sources identified in iii (a) above
 - (b) Addressing issues of political economy in promoting structural change
- v. Socio-political implications of growing inequality
 - (a) Emergence of an elite class and consolidation of its power and influence
 - (b) Challenges to elite power
 - Political level
 - Subaltern challenges
 - Non-traditional challenges
 - (c) Social instability and resorts to violence
- vi. The challenge of democratizing democracy
 - (a) Domination of electoral institutions by the wealthy
 - (b) Exclusionary impact from political representation and participation of subaltern classes, women and minorities
 - (c) Weakening and dysfunction of electoral institutions
 - (d) Weakening of political party organisations and delinking from grassroots
 - (e) Delinking of politics from policy concerns and trend towards using it as an instrument for pursuit of private material gain

Bangladesh Pathways is the Future: Some Research Challenges

1. Need to deepen understanding of drivers of growth through more research on:

- i. Deconstruction of sources of growth and distribution
- ii. Linkages between private investment and macro-policy stability
- iii. Distributive outcomes of the growth process
- iv. Changing political economy of society as an outcome of growth
- v. Which social forces drive growth?
 - State
 - Private corporate sector
 - Small farmers/SME entrepreneurs
 - Migrants
 - Workers
 - NGO provided micro-credit/RMG entrepreneurs/ RMG workers.
 - Any other?

2. Financing investment for growth

- i. Attempt a comparative study of the prospective role of the Asian Development Bank and the Asian Infrastructure Investment Bank in financing Bangladesh's infrastructure needs.
- ii. Research the scope for Australian FDI being channeled to Bangladesh
- iii. Research the declining role of Foreign Aid in financing Bangladesh's development
- iv. Research the sources of domestic finance for private investment as to
 - (a) Loan and equity finance
 - (b) Reinvested profits
- v. Research how far migrant remittances are being productively utilized as a source of investment finance. What can be done to optimize the use of the remittances

3. Export growth and diversification

- i. Changing competitive advantage for Bangladesh in the global market
 - (a) Scope for Bangladesh moving into market spaces vacated by China
 - (b) Explore non-traditional markets for Bangladesh's RMG exports

- (c) Can more Foreign Direct Investment (FDI) be channeled to Bangladesh in areas other than RMG to access global market opportunities for labour intensive exports?
- ii. How far can Bangladesh integrate itself into market chains which have linked other S.E. and East Asia countries to China's dynamic growth?
 - (a) Work on a comparative study in this area for Bangladesh, Vietnam, Thailand or Indonesia.
 - (b) Research scope for integrating Bangladesh suppliers into production/market chain of a major global corporate group in India, China, US, EU, Japan
 - (c) Research the distribution of gains within global value chains between Bangladesh RMG exports and global retail chains such as Walmart.
 - Take one such retail giant such as Walmarts which markets Bangladesh RMG and compare the retail unit price of a particular garment marketed in, for example, New York with the price contracted with the Bangladesh exporter.
 - Try and research the market logic of this price/cost differential between export price and final retail price in relation to the working of global market competitiveness and the rent appropriation power of the global retail chain.
- iii. Research the scope and initiatives needed for enhancing the quality of Bangladesh's labour exports.

4. Research on the dynamics of poverty reduction and income inequality

- i. How appropriate is it to differentiate between poverty and extreme poverty
 - (a) Is \$1.25 pc an acceptable poverty line as opposed to \$2,00 pc and how differentiated are the circumstances of those who fall between \$1.25 – 2.00 and those below \$1.25?
 - (b) Research on more in-depth indicators for measuring poverty in Bangladesh
- ii. Drivers of inequality
 - (a) Revisit the Household Income and Expenditure Surveys (HIES) in Bangladesh

- How far is the HIES an adequate source of information for measuring income inequality?
- How far does the HIES capture HIE of the very rich and if not what work is needed to estimate the IE of this social category?

(b) Who are the very rich?

- Sources of income
- Access to political influence
- Tax paying record
- Access to financial services and record of debt repayment
- Education of their children
- Health care for their family

(c) Scope for upward mobility of the lower income groups

- Are educational disparities driving social and economic inequalities?
- What can be done to promote access to universal quality education?

(d) Unequal access to health care

- Why is public health care of poor quality?
- What can be done to enhance the quality of public health care
- To what extent are the lower income groups turning to the private sector for health services. How does this impact on quality of care and income erosion for the lower income groups?