

BOOK REVIEW

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Bangladesh's Framework for Economic Growth



Title: Numbers and Narratives in Bangladesh's Economic Development

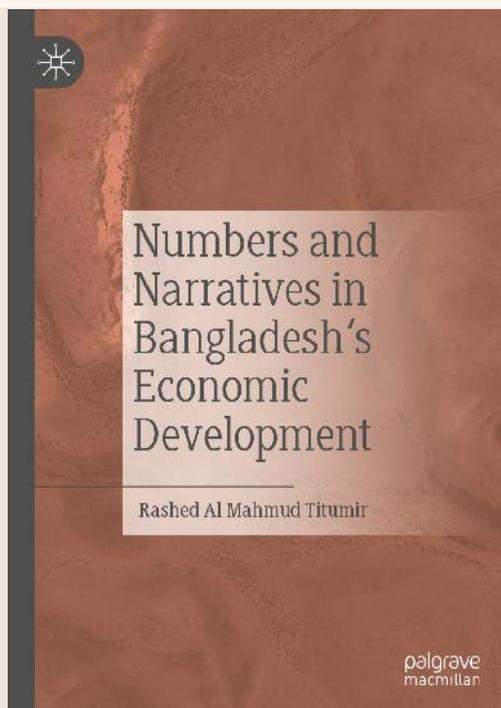
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Ever since the emergence of Bangladesh, her impressive record of economic development has defied all predictions of gloom and doom. Rashed Al Mahmud Titumir, a professor at University of Dhaka, has applied a novel approach to analyse the past, construct the present narratives and test these for stability, transformability and sustainability conditions to assess the achievability of the vision to be a developed economy by 2041. The specification of these conditions may not be exhaustive, but these do point towards the desired direction of a growing economy.

The book is divided into eight chapters, each followed by references, and has an extensive index. Chapter 1 focuses on economic growth, describing it as consumption-led due to the shifts in labour force and migration. Saving and investment were stagnant. Growth was jobless, with increasing informal employment, and inconsistent with social sector development. Agriculture is the subject matter of Chapter 2. Food insecurity persists, there is little structural change and productivity has been declining. The country has been described as a manufacturing miracle. Chapter 3 tells the real story. The discussion includes production capacity, market diversification, technological catch-up and, curiously, a havoc in the manufacturing Industry. Chapter 4 brings out deterioration in quality and soundness of the financial sector. Chapter 5 points out the low skill formation and Innovation in the education sector. In Chapter 6, the health sector is shown as suffering from low public spending and unequal outcomes in key indicators. Chapter 7 reveals that high growth has reduced poverty slowly, but inequality has continued to increase. Despite some improvement, gender disparities are still prevalent. All chapters analyse the impact of the Covid-19 pandemic and the associated governance failures. Taking cues from *Why Nations Fail*, the concluding Chapter 8 looks at institutions, political settlement and economic outcomes to explain the political economy of growth.

The author delves deep into the parameters of the stability conditions of present growth to stay in the middle-income category, transformative conditions to achieve the East Asian level and, finally, the sustainability conditions for making it to the OECD family. Investigating the interaction between economics and politics, something that has not been done at any serious level in the case of Bangladesh, the author fills an important gap in the literature on growth in developing economies. Is Bangladesh an exception to the rule that development is not possible without good governance? Has economic development precedence over political inclusion? The author finds that these propositions are grounded neither in theory nor in empirics.

The book, thus, investigates the numbers and narratives by analysing the necessary and sufficient conditions of development. The necessary conditions entail an incisive inquiry into the factors of economic growth—land, labour, capital and technology, while the sufficient conditions are captured by laying bare the state of play in terms of political settlement.

How did Bangladesh economy emerge from a backward province of Pakistan and the proverbial basket case after independence? The story of rapid growth in Bangladesh is not a story of high rates of saving and investment, which were mainly stagnant, but of high and accelerated rate of consumption. The known driver was the readymade garments manufacture and exports. In the wake of the relocation opportunities created by the Multi Fibre Agreement (MFA) at the international level, new factories were established by investors. They were also able to entice skilled workers and managers to profit from transferred technology and the abundant supply of cheap and captive local labour. It was the rising consumption of the local labour, not the original investment, that drove the high growth.

In the words of the author: *“Two events were particularly important in shifting the labour dynamics in the country. First, the readymade garments sector sprung up in the 1980s and was built upon the abundance of labour. The sector did not require high level of skills and hence tapped into the unskilled and semi-skilled labour force. Second, overseas employment opportunities in the Middle Eastern countries opened at the same time. This sector also relied on unskilled and semi-skilled workers. This worked in favour of the large number of unskilled workers in the agricultural sector in rural areas who migrated to urban areas and abroad for employment. The structural transformation in the economy began at that stage and only accelerated in the following decades. Readymade garments sector also had a long-lasting impact on female employment. This sector also caused migration of unemployed females from rural areas to cities. The shift from the low waged agricultural sector to the higherwaged industries and the overseas employment resulted in an increase of private consumption. The outcome of this increased consumption was a sharp reduction in poverty, especially in rural parts of the country.”* High economic growth has been accompanied by significant improvements in social indicators. Interestingly, the outcome is due more to out of pocket expenditure than public investment. Great strides have been made in literacy, infant mortality and life expectancy. Notably, women live longer than men. Skill formation has, however been painfully slow.

Figure 1

Figure 1 lays out author’s framework of growth proposed for the Bangladesh economy. Greater utilisation of labour, rising consumption, improved social indicators and increased development spending ushered in a long period of stable economic growth since 1975. It did not, however, translate into improved standard of living. The author identifies four challenges here: lack of skilled workforce, stagnant investment, declining capacity of government spending and the latest entrant, the COVID-19 shocks and waves. Overcoming these challenges requires the fulfilment of transformative conditions. Increased level of skills in the workforce, higher level of productivity and increased real wages are the obvious ones. The most important condition is that of functioning institutions. Only then will result transformational economic growth with a higher living standard. A major challenge faced by the transformational growth is the lack of public provisioning of social goods. But the most serious challenge to transformation is posed by the authoritarian clientelism and neopatrimonialism.

The country had its share of military and hybrid regimes during 1975-1990. This period is characterised as authoritarian clientelism. It bred an intermediate class, consisting of “rich and middle farmers, urban petty bourgeoisies and educated middle classes, having a greater degree of organisational ability resulting from their better education and greater wealth.” It wielded the power to extract rents from the state by aligning with an authoritarian regime. This class exploited the large bulk of the opportunities post-MFA. Most of the owners of readymade garments factories were retired bureaucrats and military officers. Under the democratic political settlement during 1990-2007, the clientelism continued though it became somewhat competitive and therefore more pro-growth. Some of the highest levels of growth in the readymade garments sector were witnessed during this period. As the government deregulated, subsidised and allowed tax holidays, the sector really took off to be next only to China. By 2017, exports touched \$28 billion, absorbing 4 million workers, mostly women.

It will not be possible to transform this quantitative achievement into inclusive development unless political settlement puts to an end the reproduction of neopatrimonial political activists bending institutions ad infinitum towards rent seeking. According to the author, “The clientelist resource-dependent networks, for perpetuating their objective of accumulation of wealth and power, are symbiotically connected at a vertical layer (local, regional, and national) and are intrinsically interlinked at the horizontal level with business, administration, law-enforcing agencies and the judicial system. The ever-increasing hunger for accretion of economic rents wants an exclusive political system to spread all over the horizontal and vertical levels, creating a culture of occupying a position—from member of parliament down to the chairman of the Union Parishad—uncontested or without any competition from opposition political parties. The process of fear and exclusivity has created a sense of low business confidence, which has resulted in depressed investment demand, leading to a reduction in job creation. The economic rents also fly out from the country as exhibited through increased capital flight from Bangladesh.” Export success, it must be remembered is not the direct result of competitiveness. As a least developed country, Bangladesh enjoys duty free access under the GSP facility in the European Union. This is likely to end by 2024. The subsequent graduation to GSP plus status will disturb the conditions of stable growth. Again, recent years have seen a deceleration in the rate of poverty reduction. The elasticity with respect to growth has declined. This may be the result of the rigidity of the distribution of income as well as wealth.

So the necessary conditions to reach Bangladesh’s vision of a developed economy by 2041 are not in sight. For growth to be sustainable, another set of conditions must be met. New drivers have to be operationalised. These include sustainable resource management and human-nature relationship. The expected outcome is sustained economic growth and living in harmony with nature. On this road, the challenges to be faced up to are government policies, norms and values, global warming and climate change.

The author’s view of the political economy of Bangladesh bears repeating: “The political process in Bangladesh has evolved in a particular direction, corresponding to the characteristics of political activists and the incentive-structure to reproduce the political system. The particular form of materialist incentives of primitive accumulation of resources through use of power and coercion has led to a system of clientelist political networks in Bangladesh.” The system has generated growth, but mainly for the non-labour player and, therefore, not sustainable.

The book is an important addition to the literature on development studies in general and political economy of South Asia in particular. It contains useful leads and insights on the process of growth in less developed economies and provides interesting guidelines to construct a growth framework. Its main takeaway is that quantitative growth cannot be sustained in the long run without improving its quality. In this the role of a participatory state is crucial.