Discussion Paper

Mapping the Global Partnership for Development

Bangladesh:

Riding the Waves of Globalization

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POVERTY REDUCTION

MAPPING THE GLOBAL PARTNERSHIP FOR DEVELOPMENT

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Aim of the Initiative

A country's development prospects depend in large part on its climate and physical geography, its resource endowments, the policy choices it makes, and its institutional capacities and governance. But in a globalizing world a country's development prospects are shaped increasingly by a number of global issues such as trade, migration and climate change that are driven and governed in part by the policies and actions of players situated outside that country's borders.

If developing countries are to make faster progress towards the Millennium Development Goals and sustainable human development more broadly, they need to respond effectively to the challenges and opportunities that globalization presents. And developed countries need to ensure — in line with their commitments to build a global partnership for development — that their policies on a range of global issues, including those that go beyond ODA, are coherent and supportive of development.

The aim of the Mapping the Global Partnership for Development initiative is to explore the ways in which a range of global issues impact on poverty in particular country contexts. A country-level mapping will capture information about the global issues that matter for a particular country and about how those issues play out in their specific context. Each mapping will consider a number of issues 'in the round' and their inter-linkages, mirroring the challenge faced by policy makers in all countries.

Country-level mappings aim to stimulate discussion on two broad questions:

- How might particular developing countries respond to the global issues that matter for them, including through their participation in regional and multilateral institutions and processes?
- What can developed countries do to support developing countries in responding to those issues, as well as making their own policies on a particular global issue more 'development friendly'?

The primary audience is intended to be national stakeholders, both in government and outside. Government policy makers might use the mapping to inform decisions about what policies to put in place to respond to the global issues that matter for their country. Civil society organizations might use the mapping to inform their domestic and international policy advocacy.

Policy makers in developed countries might also use the mapping to inform their bilateral relations with, and the support they provide to, a particular developing country. And once a number of country-level mappings have been completed, the evidence generated might be used to inform policy discussions in developed countries and at the global level on what would constitute 'development friendly' policy in relation to a number of global issues.

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Summary

It has long been widely believed that a country's development prospects depend in large part on its climate and physical geography, resource endowments, policy choices, institutional capacities and governance; and that two contesting paradigms — command economy and capitalistic economy — were the primary options through which countries can achieve development. This belief was radically altered with two incidents: The fall of the Berlin Wall in 1989, which decisively established Western Liberal Capitalism as the only paradigm for economic growth and development, and the establishment of the World Trade Organization (WTO) in 1995, which, through various multilateral trade agreements, liberalized international trade.

These changes have had two major implications for developing countries. First, the policy choices of a country become limited by the need to shape its policies in accordance with global rules. For example, the developed countries of today have protected some sectors of their economies at various times though tariffs or quotas, for example. The infant industry argument for protection holds that new industries in developing countries should be protected by policies that allow them to mature and compete successfully against established rivals. This strategy has been used by Germany, the United States, Japan, South Korea and Taiwan at various times and this strategy has worked successfully. However, under current trading rules, no country is allowed to engage in this practice. A developing country must face strong competition from developed economies to successfully proceed in any industrial sectors.

The second implication for developing countries is the rapid pace of change in trading relations, technology, and other countries' positions and global shocks; today a country must be nimble, preparing its policies with consideration of the policies of other countries, and reshaping its course from time to time to reap maximum benefits and safeguard its interests. For example, the economic growth and development of Bangladesh over the past 15 years was highly driven by international trade, migration, foreign direct investment and also to some degree by foreign aid and grants — which are all global issues. That means domestic policies regarding these issues must strongly complement the policies and actions of players situated outside the country.

In other words, developed countries can — and do — play a major role in the development of developing countries by providing (or not) supportive policies, and by allowing countries more policy space to form intelligent, insightful and flexible policies. The challenge is to ensure that such efforts are responsive to national needs. When developed countries provide support to a particular developing country, they need information about the global issues that matter to people in the country and insight into how these issues play out in the context of that country. They also need information about the challenges faced by policy-makers in the developing country as well as in their own countries.

This paper helps in this respect by presenting the global issues that are important for Bangladesh in reducing its poverty and achieving its development goals. By documenting concrete evidence, it will help policy-makers in developed countries initiate informed policy discussions both at the country and global levels, thereby moving towards a global commitment to undertake 'development friendly' policies towards Bangladesh. This study will also help to inform decisions about what policies to put in place to respond to the global issues that matter for Bangladesh. The underlying objectives of the study are to:

- Support domestic policy makers as they seek to respond to the external context on different policy issues;
- Contribute to policy coherence and policies more supportive of development at the international level.

The research for this document is based on a secondary literature review incorporating extensive quantitative and qualitative analysis in the areas of trade, foreign aid, debt, migration, investment and the environment. An initial workshop with national stakeholders was held in the form of roundtable discussion. Long interviews were conducted with some key stakeholders.

Introduction: The Bangladesh Country Context

The Peoples' Republic of Bangladesh covers an area of 147,570 sq km (56,977 sq mi) in the north-east corner of South Asia. It sits on the largest active delta in the world, where three rivers — the Brahmaputra, Ganges and Mehgna — and their countless tributaries meet. The alluvial soil deposited by these rivers has created some of the most fertile plains in the world. Less than 10 percent of the total landmass is hilly. As a consequence, cultivating crops (especially rice and jute) has been the chief economic activity since ancient times.

Situated on the Tropic of Cancer, Bangladesh's climate is tropical, with a mild winter from October to March, a hot humid summer from March to June, and a highly humid monsoon with heavy rainfall from June to October. Due to heavy rainfall, the rivers overflow their banks nearly every year, creating floods and erosion. The floods wipe out vast amounts of crops and livestock, and damage infrastructure such as homes, roads, schools and hospitals. Riverbank erosion also completely destroys homes, roads and other infrastructure each year, leaving significant populations homeless and landless. As a consequence, a large number of people find themselves in poverty when flood and riverbank erosion strikes. Thus poverty in Bangladesh has increased over the time and has remained a constant event throughout its history.

The Centre for Policy Dialogue (2004) reports on the impact of floods:

"… disseminated records of the last 400 years indicate floods are natural annual disasters causing untold loss of life and properties [agriculture, housing, industry and transportation infrastructure]. The loss caused by floods in Bangladesh in a normal year is about US$175 million; but in extreme cases, the damage may exceed US$2 billion.... In terms of GNP-loss, the 1998 and 2004 floods in Bangladesh caused a damage of US$2.8 billion and US$ 2.2 billion, about 7 percent of its GNP." (Source: Alphen et al., 2006)

The cost of total damage in the flood of 2004 was estimated to be 12.81 percent of current GDP, while in 1998 the total damage was estimated to be 4.66 percent of current GDP. (Source: Chowdhury et al., 1998)

The country has a coastline of about 580 km (360 miles) on its south, at the Bay of Bengal. It serves two important purposes: A large proportion of the population in the coastal areas is engaged in marine and brackish fisheries, and two coastal ports, Chittagong and Mongla, serve as the chief trading routes for the country. However, this coastline also comes with a price: tropical cyclones and tidal bores sporadically attack the coastal areas of Bangladesh with devastating force.

Natural resources

With the exception of natural gas, the mineral endowment of Bangladesh is meagre. Vast reserves of natural gas — both onshore and offshore in the Bay of Bengal — were discovered in Bangladesh in the mid-1990s. Total proven reserves amount to 301 billion cu m, but actual reserves may be much greater. Natural gas is the principal energy resource in Bangladesh and an important ingredient in the manufacture of nitrogenous fertilizers. Other natural resources include a coalfield in the northwest and large peat beds that underlie most of the delta. Limestone and pottery clays are found in the northeast.

Demography

The estimated population of Bangladesh (2007) is around 140 million, making Bangladesh the seventh-most populous country in the world. When analyzing this population size in relation to the land mass of the country, Bangladesh turns out to have the highest population density in the world (1,054 per sq km), excluding a handful of city states.

Introduction: The Bangladesh Country Context

Bangladesh's population growth was among the highest in the world in the 1960s and 1970s, when total population size grew from 50 to 90 million, but with the promotion of birth control in the 1980s, the growth rate significantly slowed. The total fertility declined from 6.4 children per woman in 1970 to 4.4 in 1990 and further to 2.9 in 2007. This is a huge achievement considering the low income level of the country.

Demographic Performance by Bangladesh: 1990–2007

Bangladesh has taken large strides towards achieving the demographic-related Millennium Development Goals (MDGs). The country has not only accomplished its interim goals but also outperformed most similar level low-income countries on these indicators. In its current trend, Bangladesh is set to achieve the targeted two-thirds reduction in the under-five mortality rate from 1990 levels by 2015 and thus achieve the demographic-related MDG targets.

Table 1: Rate of Progress in the demographic Indicators in Bangladesh

Indicator	2007	1990
Population growth, annual (percent)	1.7 (1990–2007)	2.5 (1970–1990)
Fertility rate, total (births per woman)	2.9	4.4
Average annual rate of reduction in fertility rate (percent)	2.5 (1990–2007)	1.9 (1970–1990)
Birth rate, crude (per 1,000 people)	25	35
Death rate, crude (per 1,000 people)	8	12
Mortality rate, Infant (under 1) (per 1,000 live births)	47	105
Under-5 Mortality rate	61	151
Average annual rate of reduction in Under-5 mortality rate (percent)	5.3 (1990–2007)	2.3 (1970–1990)
Life expectancy at birth (years)	64	54
Percent of Population urbanized	26	
Average annual growth rate of urban population (percent)	3.8 (1990–2007)	7.2 (1970–1990)

Source: United Nations Population Division, UNICEF website, www.unicef.org/infobycountry/bangladesh_bangladesh_statistics.html

Table 2: Demographic Indicators in Bangladesh in compared to other low income countries

Indicator	2007	1990
Population growth, annual (percent), 2008	1.4	1.84
Life expectancy at birth (years), 2008	66	59
Fertility rate, total (births per woman), 2007	2.4	4.0
Contraceptive prevalence (percent of women ages 15–49), 2007	56	37
Births attended by skilled health staff (percent of total), 2007	18	43
Mortality rate, under-5 (per 1,000), 2007	61	120
Immunization, measles (percent of children ages 12–23 months), 2007	88	78
Average annual growth rate of urban population (percent)	3.8 (1990–2007)	7.2 (1970–1990)

Source: World Bank, World Development Indicators 2009

Introduction: The Bangladesh Country Context

Bangladesh comprises one of the most homogeneous people in the world with 98 percent of its population comprising ethnic Bengalis. The remainder are indigenous tribal groups and Bihari migrants. The major religion practiced in Bangladesh is Islam (89.7 percent) and a sizable minority adheres to Hinduism (9.2 percent). A beautiful communal harmony among the different religions has ensured a very congenial atmosphere. That is why the United Nations has recognized the country as Moderate Muslim democratic country. This is one of the boons for the country as it does not face any ethnic or religious tensions.

Political history

The political state of Bangladesh is only 37 years old. After a nine-month long bloody liberation war with the Pakistani Military, Bangladesh obtained independence on 16 December 1971. Sheikh Mujibur Rahman (Mujib) became the first leader of independent Bangladesh. The Constitution was adopted about a year later, providing for a parliamentary democracy characterized by the separation of powers with a unicameral legislature, i.e. consisting of a single legislative chamber, a strong Prime Minister and an independent judiciary. The Constitution proclaimed a state policy of nationalism, secularism, socialism and democracy.

In mid-1974, the country was devastated by floods that destroyed much of the grain crop and led to widespread famine. At the same time, political disorder increased, and in late 1974 the government declared a national state of emergency. In early 1975, Mujib changed the constitution towards a one-party system that allowed only his party to participate in the government. He was unable to stabilize the political situation, however, and was killed in a military coup d'état on 15 August 1975. A series of bloody coups and counter-coups in the following three months culminated in the ascent to power of Major General Ziaur Rahman (Zia) who effectively ruled from November 1975 to 1981. In 1977, the fundamental principles of the constitution were modified to absolute trust and faith in the Almighty Allah, nationalism, democracy and socialism, referring to economic and social justice.[1] Martial law was lifted in 1979, following parliamentary elections in which a party that formed to support Zia, the Bangladesh Nationalist Party (BNP), gained a majority. Zia's rule ended when he was assassinated in 1981 by elements of the military.

Following a brief interim rule under the elected President Justice Abdus Sattar, Lt. General Hossain Mohammad Ershad assumed power in a military coup in March 1982 and ruled until December 1990, when he resigned in the face of mounting opposition. By then, Bangladesh had been under military rule for 16 out of almost 20 years of its existence. During these periods of military rule, the Parliament was dissolved, the Constitution suspended, martial law declared and political activities banned.[2]

Since then, Bangladesh has returned to a parliamentary democracy where the President holds largely a ceremonial post and real power is held by the Prime Minister, who is head of government. The legislature is a 300-seat body. Zia's widow, Khaleda Zia, led the BNP to parliamentary victory at the general election in 1991 and became Prime Minister for a five-year term. In the next election in 1996, the Awami League (AL), headed by Sheikh Hasina, one of Mujib's surviving daughters, won the majority in parliamentary elections and ruled the country for next five years. In 2001, the Bangladesh nationalist Party (BNP) again came to power after winning a large majority in parliamentary elections. Unfortunately, the country experienced prolonged boycotts of Parliament and frequent work stoppages (hartals) by the opposition party in all three terms.

On 11 January 2007, following widespread violence regarding the election process, an army-backed caretaker government was appointed to administer the next general election. This had the active support of major donor countries. The new caretaker government started a massive drive to root out corruption from all levels of government

1 See Preamble and Article 8 of the present Constitution. The Constitution of the People's Republic of Bangladesh, adopted 4 November 1972.

2 See the annual reports of Amnesty International for this period and Torture in the Eighties, AI Index: ACT 04/01/84, pp.182 et seq.

and political parties. To this end, many notable politicians and officials, along with large numbers of lesser officials and party members, were arrested on corruption charges. The caretaker government held a fair and free election on 29 December 2008. Sheikh Hasina led the AL to a landslide victory and got the mandate to run the country as Prime Minister for the next five years.

Economic progress

In 1972, the per capita income of Bangladesh was US$190, making it one of the five poorest countries in the world. Henry Kissinger, then Secretary of State of the US, termed Bangladesh as a bottomless basket for aid programmes. The situation was so desperate that Faaland and Parkison (1976) wrote about Bangladesh, "one could hardly see an improvement of the economic condition of the country against the odds of poor level of infrastructure, education and constant threat of natural calamities." They even described Bangladesh as "a test case for development", implying that if economic development were possible in Bangladesh against the backdrop of such hopeless conditions, it should be possible everywhere else on the planet.

Economic growth performance of Bangladesh

According to the World Bank's 'Bangladesh: Country Assistance Strategy 2006–2009', Bangladesh has achieved steady economic growth of 4 to 5 percent annually, relatively low inflation, and fairly stable domestic debt, interest, and exchange rates. This growth coupled with impressive decline of in the population growth rate has led to tripling of annual per capita growth of GDP, from 1.6 percent in the 1980s to 4.8 percent in 2008.

When performance of Bangladesh is compared with similar low income level countries, Bangladesh outperformed these countries in terms of almost all economic and global linked indicators (Table 3).

Table 3: Performance and Outcomes for Bangladesh and Selected comparators, 2000–2008

Indicator		Bangladesh	India	Pakistan	Sri Lanka	Low-income countries	World
Economy							
GDP Growth rate	2000	5.9	4.0	4.3	6.0	3.9	4.1
	2008	6.2	7.1	6.0	6.0	6.4	2.0
GNI per capita, PPP (US$)	2000	820	1500	1690	2660	834	6885
	2008	1440	2960	2700	4460	1407	10357
Inflation, GDP deflator (annual %)	2000	1.9	3.5	24.9	7.3	6.1	4.7
	2008	8.0	7.3	13.4	16.3	9.6	8.1
Agriculture, value added (% of GDP)	2000	26	23	26	20	32	4
	2008	19	18	20	13	25	..
Industry, value added (% of GDP)	2000	25	26	23	27	24	29
	2008	29	29	27	29	29	..
Services, etc., value added (% of GDP)	2000	49	50	51	53	44	67
	2008	52	53	53	57	46	..

Source: World Bank, Development Indicators 2009

Table 3: Performance and Outcomes for Bangladesh and Selected comparators, 2000–2008 (contd.)

Indicator		Bangladesh	India	Pakistan	Sri Lanka	Low-income countries	World
Global Links							
Merchandise trade (% of GDP)	2000	32.4	20.4	26.9	77.2	50.8	41.1
	2008	49.7	38.7	37.3	55.0	75.4	52.8
Exports of goods and services (% of GDP)	2000	14	13	13	39	25	24
	2008	19	24	12	25	34	..
Imports of goods and services (% of GDP)	2000	19	14	15	50	32	25
	2008	28	30	22	38	45	..
Workers' remittances and compensation of employees, received (current US$) (millions)	2000	1968	12890	1075	1166	5654	131519
	2008	8985	51974	7032	2947	30757	433087
Foreign direct investment, net inflows (BoP, current US$) (millions)	2000	280	3584	308	173	4325	1518702
	2007	653	22950	5333	603	19975	2139338
Official development assistance and official aid (current US$) (millions)	2000	1172	1463	700	276	15029	57878
	2007	1502	1298	2212	589	35238	105056

Source: World Bank, Development Indicators 2009

Bangladesh has made impressive economic progress despite repeated natural disasters and external shocks. At this time of this report in 2009, per capita income now stands around US$309. That represents an increase of 62 percent in last 35 years, though total population size has more than doubled during the same time period, from 75 million in 1972 to more than 150 million in 2007. This progress has been achieved through greater agriculture production; huge increases in exports; massive investment in domestic infrastructure as well as education, health and other services; and a huge inflow of remittances by exporting manpower to other countries. Thus the country managed to reduce poverty from 58.8 percent of the total population in 1991/92 to around 40.0 percent in 2005 (HIES, 2005).

Most development economists and experts concur that these achievements are tremendous, remarkable and worth mentioning, considering the low income context, adverse initial conditions, high population density, vulnerability to disaster and low stock of natural resources.

However, this enormous progress has come with a cost: Rising inequality. Between 2000 and 2005, the income ratio of highest and lowest five percent increased from 30.5 times (2000) to 35.0 times (2005) (CPD 2007). This has amplified the income Gini coefficient from 0.45 to 0.47. A closer look into the urban and rural income Gini coefficients reveals that inequality is escalating more rapidly in rural areas than in urban areas. According to Bhattacharya and Khan (2007), income from non-farm enterprises and remittances are the major sources of inequality in rural areas. This issue has already got attention of economists and policymakers and there is an urgency to address it.

Social progress

Bangladesh has advanced tremendously in almost all social indicators as measured by the UNDP Human Development Report and also in terms of the goals and targets of the Millennium Development Goals. According to the 2007 UNDP

Human Development Report, Bangladesh is ranked as 140, within a medium human development group of countries, among 177 countries with a Human Development Index (HDI) score of 0.547.[3]

Bangladesh has made great strides in achieving the MDGs (see Table 4), as noted in *Millennium Development Goals: Mid-term Bangladesh Progress Report* (2007):

- Bangladesh achieved Goal 3 (gender parity in primary and secondary schooling) in 2005;
- Bangladesh is on track to achieve Goal 1 (halving the proportion of population below national poverty line and minimum level of energy consumption), as well as Goal 2 (achieving universal primary school enrolment), and Goal 4 (reducing the under-five child mortality and the infant mortality rate). The country is also on schedule for some of the Goal 6 targets (containing the spread of communicable diseases like HIV/AIDS, malaria and tuberculosis), and also those of Goal 7 (reducing the proportion of population without safe drinking water and reforestation);
- Bangladesh is, however, behind schedule on Goal 1 (share of poorest quintile in national income/ consumption), Goal 2 (completion of primary schooling), Goal 3 (gender parity in tertiary education), Goal 5 (reducing maternal mortality), and some of the targets for Goals 6 and 7.

Table 4: MDG achievement of Bangladesh up to 2007

	Targets	Current Status
Goal 1	Reduce proportion of people below US$1 per day (PPP) from 58.8% in 1991 to 29.4% by 2015	40% (2005)
	Reduce proportion of people in extreme poverty from 28% in 1991 to 14% by 2015	19.5% (2005)
Goal 2	Increase net enrolment rate from 73.7% in 1992 to 100% by 2015	87.2% (2005)
	Reduce primary school dropout rates from 38% in 1994 to 0% by 2015	28% (2005)
Goal 3	Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015	Girls to boys ratio: (2005): Primary – 53:47, Secondary – 50:50, Tertiary – 36:64 (2005)
Goal 4	Reduce under five mortality rate from 151 deaths per thousand live births in 1990 to 50 by 2015	62 (2006)
Goal 5	Reduce maternal mortality from 574 deaths per 100,000 live births in 1990 to 143 by 2015	290 (2006)
	Increase the proportion of births attended by skilled birth personnel to 50% by 2010	20% (2006)
	Reduce TFR (Total Fertility Rate) to 2.2 by 2010	3.3 (2001)
	Reduce maternal malnutrition to less than 20% by 2015	45% (2000)
	Increase the median age of girls at first marriage to 20 years	18 years (2002)
	Eliminate violence against women	Proportion of maternal deaths caused by violence is now 14% (2002) which is planned to eliminate – 0% by 2015

Source: 1. Mid-Term Bangladesh Progress Report 2007, and 2. Bangladesh Progress Report 2005

3 HDI was calculated by using: a. Life expectancy at birth (years) – 63.1, b. Adult literacy rate (percent ages 15 and older) – 47.5, c. Combined primary, secondary and tertiary gross enrollment ratio (percent) – 56.0, and d. GDP per capita (PPP US$) – 2,053. Source: 2007 Human Development Report, UNDP.

Table 4: MDG achievement of Bangladesh up to 2007 (contd.)

	Targets	Current Status
Goal 6	Have halted by 2015 and begun to reverse the spread of HIV/AIDS	Contraception use rate: increased to 58% (2004) from 40% (1991)
	Reduce by 50% the incidence of cases and the number of deaths from malaria by 2015	Malaria prevalence: dropped from 42 cases per thousand (2001) to 34 (2005)
	Detect 70% and cure 80% of detected cases	Tuberculosis: Detection: 71% (2005) Cure: 91% (2005)
Goal 7	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Forest area: reached 12.8% (2006) from 9.0% (1990). On track but will reverse if sea level start to rise
	Ensure that 100% of urban and 96.5% of rural population have access to safe water by 2015	Urban: 99.9% (2006), Rural: 78.6% (2006) – Not on track due to arsenic contamination
	Ensure that 100% of urban and rural population have access to improved sanitation by 2010	Urban: 88% (2007) Rural: 85% (2007)
Goal 8	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system	Developed countries so far failed to perform their responsibility to address the problem of unfair trade and financial system and providing 0.7% of their GDP as development assistance.
	Work with developed countries to increase the proportion of goods and services admitted free of duties	
	Deal comprehensively with the debt problems in order to make debt sustainable in the long term	Debt service as percentage of exports of goods and services – dropped from 20.9% (1990) to 8.8% (2005)
	Develop and implement strategies for decent and productive work for youth	Youth unemployment: increased to 13% (2003) from 3% (1990)
	In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in Bangladesh	Data not available. WHO estimates poor still widely lack access to essential drugs.
	In co-operation with the private sector, make available the benefits of new technologies, especially information and communication	Telecommunication subscriber: increased to 14% (2005) from 0.2% (1990)

Source: 1. Mid-Term Bangladesh Progress Report 2007, and 2. Bangladesh Progress Report 2005

Economic structure

Rice and jute cultivation were the chief economic activities in early Bangladesh. Throughout the 1970s, jute was the major export earner for Bangladesh. Unfortunately the demand for jute fell dramatically in the world market at the beginning of 1980s as countries started to adopt the newly introduced plastic packaging, which is substantially cheaper, as an alternative to jute for packaging. This was a big blow for the economy. Farmers now had to shift into other cash crops, but most of the lands are not suitable for cultivating these crops. Also, the farmers lacked knowledge on the cultivation techniques of other cash crops. This forced a large number of rural agriculture labourer and share-croppers to remain idle. Jute processing industries had been the largest industrial employer in the country. When the export demand diminished, many factories closed, which rendered a large number of labourers unemployed.

This shock was the beginning of diversifying the economy of Bangladesh. The 1980s saw a series of changes. The first priority was to establish a transportation infrastructure to link all the bazaars and markets of the country. The next step was to improve the productivity of the agriculture sector and therefore several chemical fertilizer industries were established through public investment. Government also heavily invested in capital-intensive industries like steel, cement, chemical, glass, etc., where it was thought that the private sector was not able to invest such a large amount. At the same time, government reformed some policies in selected sectors to facilitate the private sector to enter into business. This increased the manufacturing sector's contribution to the economy.

The 1990s saw major economic reforms by opening up almost all sectors to private enterprise. New policies were devised to foster private investment. Simultaneously, the country started to withdraw from many industrial sectors either by selling those industries to private actors or by closing them down. Interestingly, many of these policy reforms were initially forced by the World Bank and International Monetary Fund (IMF) as aid conditionality. At the same time, the government started to liberalize the tariff regime to facilitate the import-export trade. Through these policy changes, private investment soon outstripped public investment in the economy and thus the primary driver of economic growth is now largely dependent on the private sector. The 2000s continued to enact similar reforms in the remaining sectors by focusing on the private sector as the chief driver of growth.

Table 5: Major economic reforms in Bangladesh

1. Agricultural policy	
Liberalization of input markets	Deregulation of input prices
Curtailing the role of government agency in input distribution	Reduction of subsidies on agricultural inputs
Liberalization of output markets with producers price incentive	Liberalization of import of agricultural inputs
Gradual elimination of distribution of food at subsidized price	Price stabilization through procurement policy
Liberalization of import of food grain	
2. Trade and industrial policy	
Rationalization and simplification of the tariff structure	Reduction of maximum tariff rates
Elimination of quantitative restrictions on imports	Simplification of industrial regulations
3. Privatization and public enterprise reforms	
Denationalization	Reduction of excess labour in SOEs
Improve operational performance of public utilities	Rationalization of jute mills
Privatization of selected public manufacturing and commercial enterprises	
4. Fiscal policy reform	
Expand the base of the value-added tax	Reform personal and company direct taxes
Adjust prices for public goods and services with cost	Strengthen the tax administration
Limit the growth of current expenditures as percent of nominal GDP	Reduce subsidies and administrative costs
Reduce the operating deficit of Bangladesh railway.	Improve project aid utilization
5. Financial sector reform	
Implement reforms aimed at a market-oriented system of monetary management.	Strengthen commercial bank loan recovery programs
Privatization of NCB and allowing banking in the private sector	Interest rate liberalization

Source: IDESS, 2002

As these market-friendly policies in different sectors started to take effect, the economy underwent a structural transformation towards industrial manufacturing (see Table 6).

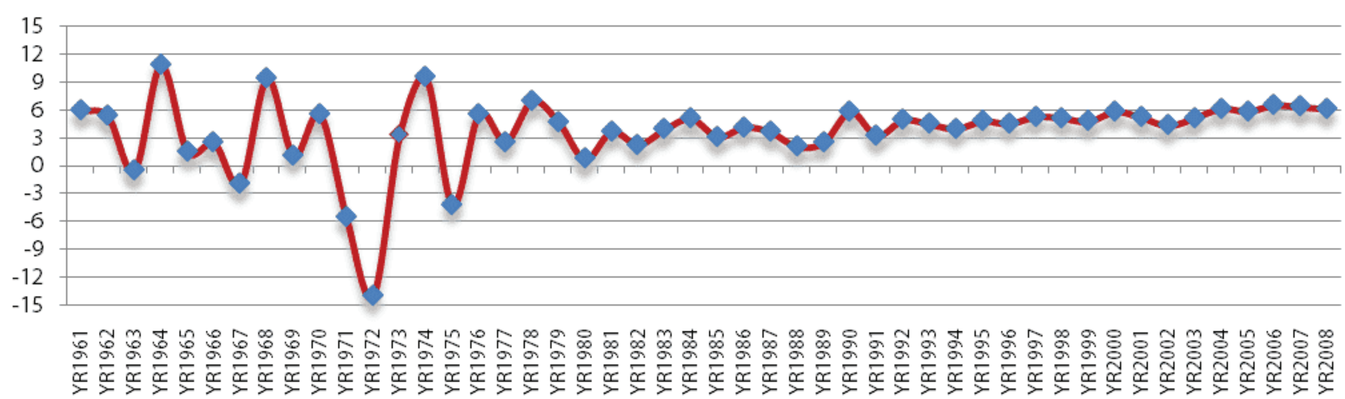
Table 6: Share (in percent) of broad sectors in the GDP of Bangladesh (at constant prices)

Sector	1980/81	1990/91	2000/01	2006/07	2007/08	2008/09
Agriculture	33.07	29.23	25.03	21.11	20.83	20.60
Industry	17.31	21.01	26.20	29.77	29.70	29.73
Service	49.62	49.73	48.77	49.12	49.47	49.67

Source: Bangladesh Economic Review, 2009

As of 2006/07, Total Gross Domestic Product (GDP) of Bangladesh was US$67.8 billion at current market price and Gross National Income (GNI) was US$73.1 billion. The difference between GDP and GNI is attributed to the remittances sent by overseas workers and migrants of Bangladeshi nationality. In 2006/07, the country received US$6.0 billion in remittances. Huge remittance levels have played a big role in stimulating the domestic economy as recipient families spend much of it on daily consumption. GDP over the last one and a half decades has achieved more than 5 percent growth consecutively (Figure 1).

Figure 1: Real GDP growth rate (1961–2008)



Source: World Bank, Word Development Indicators 2009

The next section takes a brief look into the three broad sectors of the Bangladesh economy: agriculture, industry and services.

- In 2006/07, the broad **agriculture sector** contributed about 21.11 percent to the GDP of Bangladesh. This broad sector is comprised of four sub-sectors: crops and horticulture, animal farming, forest and related services, and fishery. These contributions to total GDP stand at around 11.72 percent, 2.9 percent, 1.76 percent and 4.73 percent respectively.
- The broad **industry sector** which accounts for 29.77 percent of GDP at constant prices in FY 2006/07 is composed of the following sub-sectors: mining and quarrying, manufacturing, electricity, gas and water supply, and construction. Contributions of these sub-sectors to total GDP stand at around 1.19 percent, 17.79 percent, 1.63 percent and 9.16 percent respectively.

- The share of broad **services sector** was 49.12 percent to the total GDP in 2006/07. It consists of the collective outputs of the wholesale and retail trade; hotel and restaurant; transport, storage and communication; financial intermediations; real estate, renting and business activities; public administration and defence; education; health and social work, and community, social and personal services activities. The contributions of these sub-sectors to total GDP were 14.17 percent, 0.7 percent, 10.21 percent, 1.73 percent, 7.65 percent, 2.75 percent, 2.54 percent, 2.29 percent and 7.09 percent respectively.

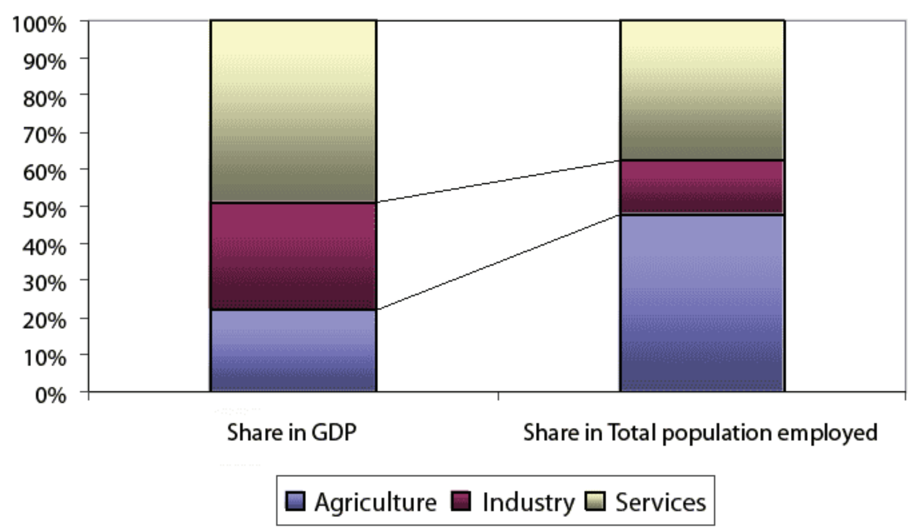
Table 7: Average annual growth (in percent) of three broad sectors from 1984 to 2009 (at constant prices)

Sector	1984–1994	1994–2004	2004–2007	2007–2009
Agriculture	2.2	3.8	3.4	4.12
Industry	6.0	6.8	9.2	6.4
Service	3.7	5.1	6.6	6.47

Source: Bangladesh Economic review, 2008, 2009 & World Bank, World Development Indicators, 2009

According to the Bangladesh Labour Force Survey 2005/06, there were 49.5 million (35.3 percent of total population) economically active people in Bangladesh. Of them 4.2 percent are unemployed and 24.5 percent are under employed. Among the employed, the highest number (48.01 percent) was engaged in the agriculture sector, followed by 37.49 percent in the services sector and 14.5 percent in the industry sector. This implies that though the contribution of the agriculture sector in GDP has diminished in terms of value, it remains a very important sector for the Bangladesh economy as it is the largest employing sector. On the other hand, for creating new jobs, Bangladesh has to provide more emphasis on the industry and services sectors as there is very little scope to create employment in agriculture sector. As more people are entering the employment market each year than the previous year (because of its pyramid-shaped population dynamic), the country is facing a major challenge to create jobs.

Figure 2: Relation among three broad sectors in terms of share in GDP and share in total employment (2005/06)



Source: World Bank, Word Development Indicators 2009

External sectors

The two major important external sectors of the economy are remittances and exports.

In 2007/08, Bangladesh received US$7.9 billion as remittances which is 32.39 percent more over the previous year. Since the 2000s, remittances have been growing at an average rate of over 20 percent annually. Remittances not only enhance domestic economic activity in Bangladesh but also play a crucial role in financing the export-import imbalance. In 2000/01, remittances as percent of GDP and exports stood at 4.01 percent and 29.10 percent respectively, and increased to 8.82 percent and 56.09 percent respectively in 2007/08. The country is now more dependent on remittances for GDP growth and maintaining the value of local currency than any time in its recent history.

The export earnings of Bangladesh were US$14.1 billion in 2007/08. Exports have been growing at a rate of over 15 percent annually for the last five years. Ready-made garments (both woven garments and knitwear) are the major exporting products with around 75 percent contribution to the total export earnings. The next three major export goods are frozen food, leather and footwear, and jute goods with 4.2 percent, 3.4 percent and 2.6 percent contribution in export earnings respectively. The uninterrupted performance of ready-made garments is a big concern for the Bangladesh economy, as it is the largest industrial employer with more than 2 million people directly employed in the sector and another 2 million indirectly employed in its supporting industries. This sector has made an enormous contribution in employment creation, poverty reduction, and women's empowerment (as 70 percent of employees are women). Therefore, the country is very concerned with the performance of this sector in current global financial crisis. The social, political and economic stability of the country also largely depends on this sector.

Global Issues: Linkages to Bangladesh's Economic Progress

An initial workshop[4] was organized on 14 March 2009 jointly by Shamunnay, UNDP Dhaka and the government's Planning Commission to explore and rank the most important global issues influencing Bangladesh. The purpose of the workshop was to draw on in-country expertise to help identify the global issues that are most likely to be relevant, as well as the hypothetical links that run from these issues to the potential impacts on the country, and on poor people within the country. The participants of the workshop identified and ranked the following global issues affecting development in Bangladesh:

1. International Trade
2. Migration and Remittances
3. Foreign Aid
4. Foreign Direct Investment (FDI)
5. Environment Issues

International trade

For over two decades, the active policy of trade liberalization in Bangladesh has been an integral part of the broader objectives of higher economic growth, poverty reduction and expansion of the market economy in the country. However, it is important to note that most of these policies have been implemented under the structural adjustment programmes prescribed by the World Bank and the IMF. In this regard, a brief examination of policy reforms will yield a clearer understanding of the evolution and future trends in international trade.

Trade policy reforms

According to Raihan (2007), in Bangladesh three broad regimes of trade policy reforms can be defined: From 1971 to 1980, the regime of restricted trade; from 1980 to 1991, the regime of moderate trade liberalization; and from 1991 onwards, the regime of rapid trade liberalization. During the first regime, trade, industrial and other associated policies were targeted at developing an inward-looking economy. The broad objective of the policy regime was to develop a public-sector oriented economy, with the major emphasis placed on the leading and dominating role of the state. The expansion of the private sector was limited and restricted. In contrast, the second policy regime was characterized by moderate reforms in all major aspects of the economic policies and programmes. The restrictions on trade were relaxed and different industrial policies were put in place to move the inward-looking economy towards an outward-looking one. Significant privatization took place during this period.

During the third policy regime, the speed of reform intensified. The trade regime became significantly more open compared to the previous two regimes, while industrial and other policies continued to uphold the broad objective of private sector development. On the import front, considerable rationalization of tariff rates was made in the form of lowering high tariff rates, reducing the number of rates, and compressing tariff bands. The number of tariff rates was reduced from eight in 1993 to five in 2003, and the maximum tariff rate was brought down from 350 percent to 32.5 percent during the same time. This resulted in a sharp drop in the simple average tariff rate; while in 1989 the average tariff rate stood at 114 percent, the rate dropped to only 15.6 percent in 2004. (Raihan, 2007) On the export front, several policy reforms were implemented which include trade, exchange rate, monetary and fiscal policy incentives to increase the effective

4 The workshop was attended by 40 participants representing the government, private sector, civil society groups, the media and key donors. Dr. Selim Jahan, UN Assistant Secretary General & Director, Bureau of Development Policy, UNDP New York, and Dr. Selim Raihan,Associate Professor, Department of Economics, University of Dhaka, delivered the background presentations in the global and Bangladesh context, respectively. Presided over by the pre-eminent economist of the country Dr. Atiur Rahman, Lt. Col. Muhammad Faruk Khan, psc (Ret'd. Commerce Minister, Bangladesh) was also present in the workshop as the Chief Guest.

assistance to exports. These reforms have provided exporters with unrestricted and duty-free access to imported inputs, financial incentives in the form of easy access to credit and credit subsidies, and various forms of fiscal incentives, such as rebates on income taxes, concessionary duties on imported capital machinery and cash incentives on export value.

As these reform and liberalization measures were being pursued, the economy became open to international trade. On the one hand, this led to surges in imports into Bangladesh. The import penetration ratio (share of total import of GDP) which in 1991 was 13 percent rose to 27.58 percent in 2008. On the other hand, easy access to imported inputs and machineries as well as significant fiscal incentives provided to exporters significantly promoted the export of Bangladeshi goods. The export-GDP ratio (ratio of total export to GDP) rose to 19.4 percent in 2008 while this fluctuated between only 6 percent and 8 percent from 1997 to 1990. Table 8 presents the trend of merchandise trade (percent of GDP) from 1991 to 2008.

Table 8: Average annual growth (in percent) of merchandise trade in Bangladesh (1980–2004)

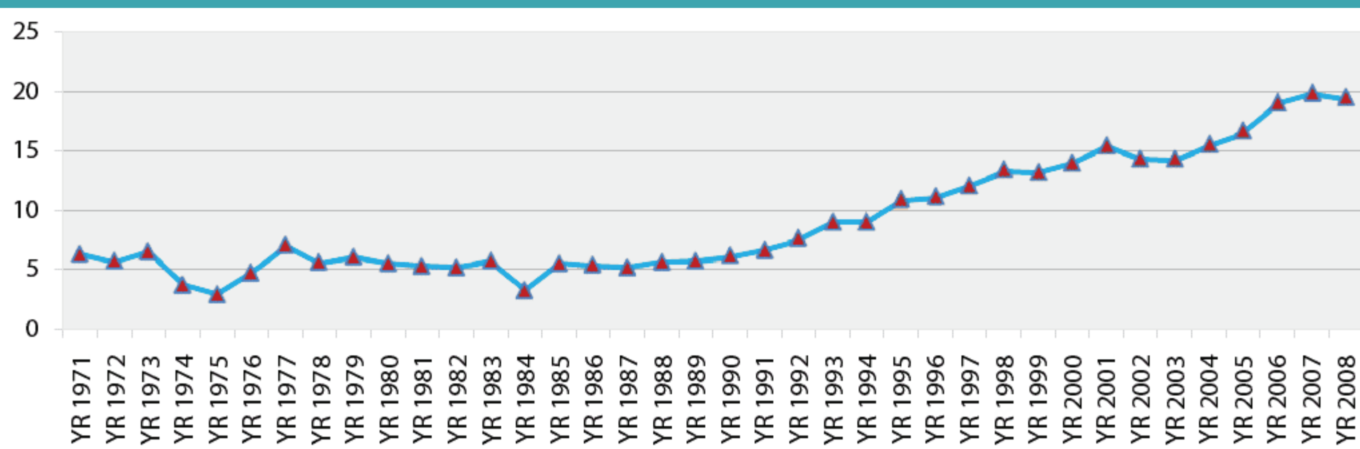
Years	Merchandise trade (% of trade)
1991–1995	20.75
1996–2000	29.52
2001–2005	34.22
2006–2008	46.67

Source: World Bank, World Development Indicators 2009

Total exports

Export growth in the last one and half decades has been tremendous in the context of Bangladesh. While in 1990 total export value was only US$2.1 billion, in 2005 the export value crossed the US$10 billion mark and reached US$14.1 billion in 2008. In the last 5 years, average annual export growth was over 14 percent. Looking closely at Figure 3 reveals that only in 2002 was export growth negative. This is due to the Twin Towers attack in United States on 11 September 2001 which substantially reduced exports to the United States market in 2002. However, exports to the United States recovered in 2003.

Figure 3: Export-GDP ratio: Since independence (1971–2008)



Source: World Bank, World Development Indicators 2009

This high growth increased the export-GDP ratio of the Bangladesh economy to 19.4 in 2008. Even after experiencing such accelerated export growth, exports remained extremely small relative to the size of its population. In 2006, per capita exports were around US$100.79.

Export composition

Over the last three years (2005/06 to 2007/08), the top five export commodities were ready-made garments (woven garments and knitwear), frozen food, jute goods, leather goods (leather and footwear) and engineering products; their share to total exports was 75.83 percent, 3.78 percent, 2.26 percent, 3.22 percent and 1.56 percent respectively in 2007/08. The top five commodities in total account for 86.65 percent of total trade. This finding reveals that the export basket of Bangladesh is too narrowly-based and the readymade garments sector is accounting for the bulk of export earnings. This is one of the biggest vulnerabilities of Bangladesh's export environment.

Table 9: Top 5 export commodities from 2005/06 to 2007/08

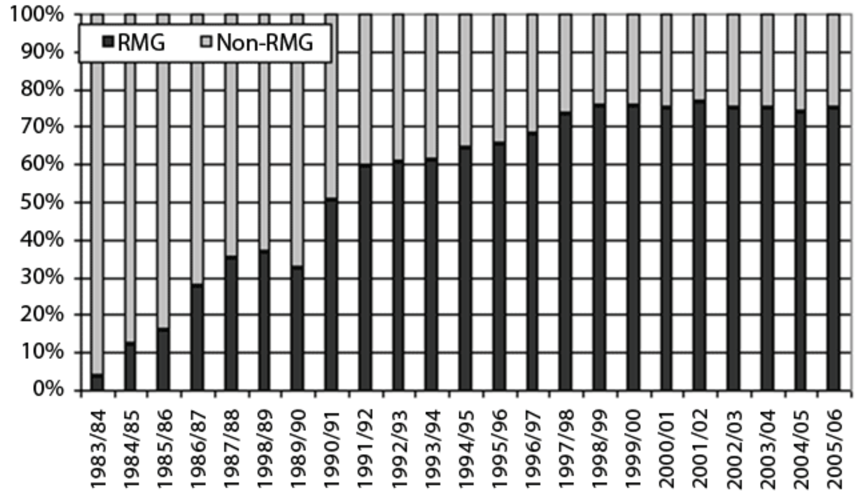
Commodities	2007/08			2006/07			2005/06		
	Export (Mln US$)	% of Total Export	Growth rate (%)	Export (Mln US$)	% of Total Export	Growth rate (%)	Export (Mln US$)	% of Total Export	Growth rate (%)
Readymade garments									
– Woven garments	5167.28	36.62	10.94	4657.63	38.25	14.05	4083.82	38.80	13.50
– Knitwear	5532.52	39.21	21.50	4553.60	37.39	19.30	3816.98	36.26	35.38
Frozen food	534.07	3.78	3.64	515.32	4.23	12.24	459.11	4.36	9.12
Jute goods	318.34	2.26	-0.76	320.78	2.63	-11.15	361.03	3.43	17.43
Leather goods									
– Leather	284..41	2.02	6.89	266.08	2.18	3.42	257.27	2.44	16.45
– Footwear	169.60	1.20	24.76	135.94	1.12	42.44	95.44	0.91	9.01
Engineering products	219.68	1.56	-7.27	236.91	1.95	18.95	111.02	1.05	30.58

Source: Bangladesh Economic Review, 2008

Various studies have shown that the initial growth of the readymade garments sector was significantly facilitated by access to the United States and European Union markets. Under the EU GSP scheme, Bangladesh possessed unconstrained access to European Union markets, where many of its competitors' exports had been constrained by quotas. Similarly, in the United States market, Bangladesh was allocated a sizable quota, while its competitors' exports were limited by relatively small quotas. When the quota was phased out in January 2005, there were serious concerns about the future of the readymade garments sector in Bangladesh. However, in the next two years, readymade garments exports continued their earlier growth rate which proves the sector has attained international-level competitiveness.

Another important aspect of the export sector's performance is the present dependence on the importation of fabric. In the 1990's, Bangladesh imported about 85 percent of the fabric required in the readymade garments sector, which incurred costs of about 75 percent of the export earnings (Dowlah, 1999). Local value-addition in woven readymade garments was only 30 percent while the comparable figure for knit readymade garments was 50 percent (Bayes et al., 1995). Therefore between 1991 and 2000 total domestic value-added in exports as percentage of GDP has risen only modestly, from 4.4 percent to 7.1 percent (Razzaque et al., 2003). The impressive performance of exports is overshadowed by the readymade garments sector's continued overwhelming dependence on imported raw materials and intermediate outputs.

Figure 4: The rise of readymade garments as share of total export, from 1983/84 to 2005/06



Source: World Bank, Word Development Indicators 2009

Export destination

The major countries to which Bangladesh exports goods are: the United States, Germany, the United Kingdom, France, Italy, Belgium, Netherlands, Canada and Japan. The United States is the largest export market for Bangladesh with 28.79 percent of total exports. The second and third positions are held by Germany and the United Kingdom which constitute 16.76 percent and 9.96 percent respectively. The top five destination countries in total hold around 64 percent of total exports of Bangladesh. The principle items exported to these countries are readymade garments, frozen foods and leather goods.

Tariff peaks faced by Bangladesh's exports

Bangladesh receives duty-free quota-free access to the European Union (under an Enterprise Bargaining Agreement), Canadian and Japanese markets. However, to qualify as a beneficiary of duty-free quota-free privilege, the exported commodity needs to attain the minimum local value-addition level as specified by those countries. Unfortunately the United States, the largest destination of Bangladesh exports, does not offer any such privileges. Rather the United States maintains high tariff rates on readymade garments products. Statistics show that more than 100 of Bangladesh's export items face a tariff rate greater than 15 percent in entering the United States market.

A study by CPD (2009) revealed that because of the high tariff rates imposed on readymade garments and very low tariff rates on manufactured and engineering products, Bangladesh has paid more duty in the United States market than have France and the United Kingdom though they have exported around 7 and 16 times more than Bangladesh (see Table 10). This is also the case with Cambodia, which like Bangladesh, is a Least Developed Country, and also exports similar readymade garments products to United States.

Table 10: Duty paid by the UK, France, Bangladesh and Cambodia in US market

	Import (in Mln US$)		Duty Paid (in Mln US$)		Average Duty (%)	
	2007	2008	2007	2008	2007	2008
UK	58,069	59,572	412	399	0.71	0.67
France	42,107	44,226	378	391	0.90	0.88
Bangladesh	3,630	3,979	522	573	14.40	14.42
Cambodia	2,600	2,544	418	407	16.11	16.01

Source: CPD, 2009

Non-tariff barriers faced by Bangladesh's exports

Of the top five export commodities, three commodities face various non-tariff barriers: ready-made garments, frozen foods, leather (leather and footwear). The non-tariff barriers include rules-of-origin, sanitary and phyto-sanitary standards in the European Union, Canada and other markets (see Table 11). Another important non-tariff barrier is the packaging, labelling and marking requirements which vary from country to country. As the Small and medium Sized Enterprises (SMEs) of Bangladesh lack adequate knowledge and skill in this regard, many of their first export consignments were rejected. This is a critical barrier where aid for trade can be an effective tool. An alternative suggestion would be for developed countries to adopt a separate provision regarding these regulations for LDCs, where regulations will apply progressively in tandem with the growth and maturity of trade in that sector.

Table 11: Non-tariff barriers faced in EU market

Products	Non-tariff barriers
Readymade garment	Rules of origin and certification arrangements
Frozen food (fish & shrimp)	Technical regulations (SPS & TBT), testing problems
Leather goods	Formalities (inspection certification), certification arrangements
Cambodia	2,600

Source: CPD, 2009

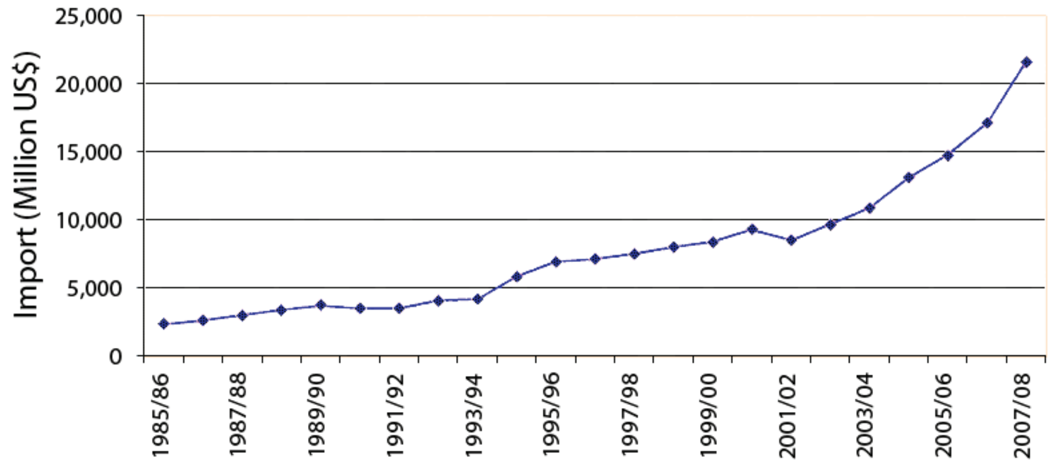
Total imports

Three factors are widely attributed to a sustained and large growth in imports in Bangladesh. First, readymade garments, the largest export sector, is heavily dependent on imported cotton, yarn, machineries and fabrics. Tremendous growth in readymade garments exports has fuelled import trade in these categories. Second, Bangladesh is poor in terms of land (in relation to population size) and mineral resources so it has had to increase imports of food grains and edible oil as well as petroleum products, scrap iron, cement clinkers and fertilizer as demand increased in the domestic market with economic growth. Third, the country has been actively promoting industrialization as a means of economic growth, job creation and poverty reduction. Investment in the manufacturing sector has been increasing fast every year, which has created a sustained increase of capital machinery importation.

The growth of imports, in terms of value, is presented in Figure 5. In 2006/07, Bangladesh imported US$17,175 million worth of goods and services which stood at 23.9 percent of the GDP and per capita imports, in terms of value, was around US$120.3.

Total imports in 2007/08 were 27.56 percent higher than the previous year, 2006/07. Analysis of imports reveals that in 2007/08, the following commodities contributed to the overall growth of imports payments: rice (397.09 percent), fertiliser (99.17 percent), edible oil (74.06 percent), oil seeds (70.32 percent), crude petroleum (55.64 percent), cotton (36.61 percent), wheat (35.13 percent), clinker (34.46 percent), and yarn (22.7 percent).

Figure 5: Yearly imports of Bangladesh (1985–2008)



Source: Bangladesh Economic Review, 2008

Import composition

In the last six years (2002/03 to 2007/08), the top 5 import categories were capital machinery, petroleum (petroleum products and crude petroleum), raw material of readymade garments (cotton and yarn), edible oil (edible oil and oil seeds), and food grain (wheat and rice). The next three largest import categories are iron and steel, fertilizer and clinker. The top five import categories, in total, account for just above 40 percent of total import value.

Table 12: Top 5 Import Commodities from 2002/03 to 2007/08 (Import in million US$)

Commodities	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
Capital Machinery	1415	1544	1539	1211	786	568
Petroleum products	1549	1557	1400	1252	770	620
Crude petroleum	741	476	604	350	252	267
Cotton	1123	822	742	666	583	393
Yarn	436	356	510	393	323	270
Edible oil	981	564	473	440	471	364
Oil seeds	131	77	90	86	73	64
Wheat	553	409	301	312	287	211
Rice	860	173	117	262	144	198

Source: Bangladesh Economic Review, 2008

Import sources

China and India have been the two largest import sources for Bangladesh since 2003. From 2004/05 to 2007/08, the two countries contributed 31.8 percent of total imports. China became the largest import source by overtaking India in 2007/08. The next three largest sources, with market share, are Singapore (6.2 percent), Hong Kong (4.3 percent) and Japan (4.2 percent). Hong Kong overtook Japan in 2006/07 and is fast approaching Singapore. However, Singapore and Hong Kong work as trading platforms for the import of Chinese and ASEAN goods in Bangladesh, so if they are disregarded, the next two major import sources are Taiwan (3.1 percent) and South Korea (3.3 percent). The United States holds the 8th position with 2.3 percent market share and is the only developed country among the first ten import sources for Bangladesh.

Implication of tariff and subsidy reductions on Bangladesh's imports

Among the major commodities imported by Bangladesh, agricultural commodities enjoy the most significant domestic protection and support in their respective countries. Any significant tariff and domestic support reduction in those countries, as presently being discussed under current WTO negotiations, will mainly affect the import price of agricultural goods. A CPD Study (2009) estimated that current WTO draft changes will raise the average prices of global agricultural commodities by 4.84 percent. By estimating the price changes of each commodity, the study also finds that implementation of the WTO draft will increase the food import bill of Bangladesh by US$117 million (rice, US$17 million; wheat, US$27 million; refined sugar, US$16 million, vegetable oil, US$16 million; and concentrated milk, US$29 million). However, the study had not included cotton in its estimation which will surely augment the import bill. Steel and iron are the other products of concern where China now provides around 30 percent domestic support; any decrease in that support will surely increase the import bill.

Impact on employment

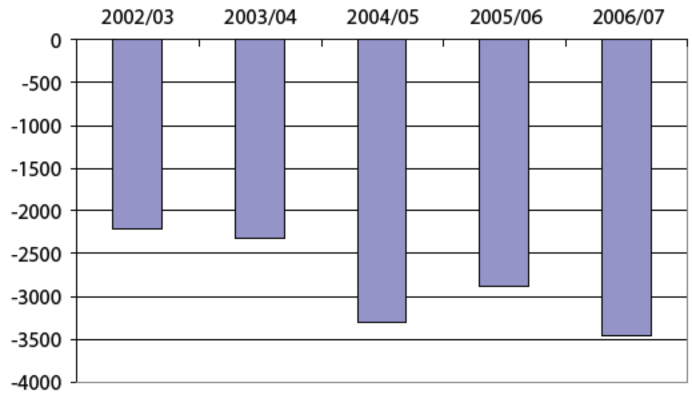
At the initial phase (1991–1995) of third policy reforms (1991 onwards), manufacturing employment decreased as many import substituting industries, for example the sugar, edible oil, paper, cloth mill and transport equipment industries, had faced negative growth and subsequent factory closures. From the beginning of 1996, trends indicate an increase in manufacturing employment. The number of workers employed in the readymade garments sector has increased nearly tenfold during last 15 years (from 1985/86 to 2001/02) (Ahmed and Sattar, 2004). The number of readymade garments factories and the number of workers employed by the sector still continue to increase even after the expiry of the Multi Fibre Agreement (MFA). Trade liberalization has induced growth in some import substitution industries, for example yarn, pharmaceuticals, cement, tobacco, chemical fertilizer, iron and steel and metal products. A CPD and ILO joint study (2009) found that during this period, growth in employment has been relatively higher in the export-oriented sectors. Growth of new employment was higher in labour-intensive sectors than in non-labour intensive sectors.

According to the Bangladesh Labour Force Survey (2005/06), total employment in the manufacturing sector was 5.2 million in 2005, an increase of 1.5 million from 1999. However, manufacturing employment's contribution to total employment in this time period increased to only 10.1 percent in 2005 from 9.5 percent in 1999. So the manufacturing sector has failed to absorb the growing labour force in Bangladesh.

Trade balance

In the 1970s and 1980s, Bangladesh imported around twice and sometimes 3 times as much as it exported. This improved with economic liberalization and some serious reforms to attract export-oriented investments. In 2006/07, the negative trade balance (importing more goods than exporting), stood at around 20 percent of total exports. However, in dollar terms, the deficit has increased tremendously in recent years. Trade balance recorded a deficit of US$3,458 million during 2006/07 compared to the deficit of US$2,889 million during 2005/06.

Figure 6: Trade balance of Bangladesh: from 2002/03 to 2006/07 (in million US$)



Source: Bangladesh Economic Review, 2008

Some major factors that contribute in the trade balance are petroleum price, prices of agricultural commodities, exchange rate, inflation rate, and the borders between India and Bangladesh (the chief black market trade route).

Migration and remittances

Bangladesh is the fifth highest remittance-earning country in the world. About 1.7 million workers left Bangladesh in search of jobs during 2007 and 2008, and about five million Bangladeshis are currently working abroad, mainly in Kuwait, Malaysia, Saudi Arabia, and the United Arab Emirates. However, it is predicted that the number of workers going abroad will be significantly lower in 2009 and 2010 with Malaysia, Saudi Arabia, Singapore and United Arab Emirates already struggling with slow economic growth and a decline in demand for construction and other services.

Bangladesh is a huge labour surplus country with large deficits in employment opportunity and a low wage rate. Labour migration has become an important avenue for escaping poverty for many households in Bangladesh. In Bangladesh, labour migration carries high costs and risks as the family has to spend a large amount of money, mostly by selling agricultural lands or taking credit from local moneylenders, to obtain overseas job contracts. Yet each year, increasing numbers of Bangladeshis are migrating to the Middle East and South-East Asian countries in search of better-paying work.

Current migration patterns from Bangladesh are of two types: Labour migration to Middle East countries and South East Asian countries with job contracts of limited time duration, and voluntary migration to industrialized countries, mainly in the United States, United Kingdom, Canada, Australia and European countries, as long term or permanent migrants. There is a major difference between these two migration patterns regarding sending remittances to Bangladesh. Labour migrants send money to family almost in every month, while voluntary migrants send money when required by the family or in times of buying any property in Bangladesh. So, the contribution of labour migrants holds the bulk part in the total remittances.

Size of labour migration

According to the Bureau of Manpower, Employment and Training (BMET), during 1976 to 2008, an overall 6.3 million people have moved from Bangladesh under the labour migration category. Table 13 demonstrates that in the first phase of this period, 723,900 people (51,700 people per year) moved to various Middle Eastern countries. In the second phase (when opportunities in Malaysia and Singapore were opened), from 1990 to 2000, the rate of temporary migration jumped to 205,000 people per year. In that period, 2.3 million people moved from Bangladesh.

From 2001 to 2008, the third phase of labour migration with job opportunities opening in Korea, Eastern European countries, Italy and again in Malaysia (after a three-year embargo), the yearly migration rate doubled from the previous decade to 410,000 people per year. The country in this last eight-year period has sent 3.3 million people abroad — more than the total labour migrants sent in its earlier entire period (1976 to 2000).

Table 13: The three phases of labour migration from Bangladesh: 1976 to 2008

Period	Professional	Skilled	Semi-skilled	Less-Skilled	Total Temporary Migrants	Temporary Migrants per Year
1976–1989	38,516	257,255	77,589	350,526	723,886	51,706
1990–2000	87,530	728,083	430,361	1,012,798	2,258,772	205,342
2001–2008	53,864	959,625	499,299	1,770,463	3,283,251	410,406

Source: Statistical Reports, Bureau of Manpower, Employment and Training (BMET), 2009, www.bmet.org.bd

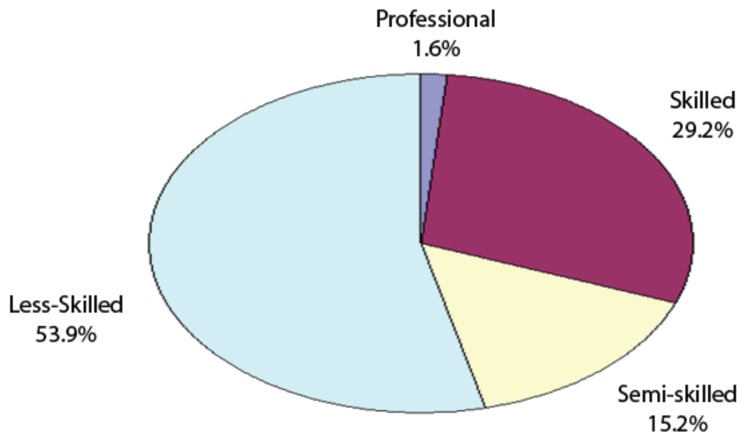
Skills of labour migrants

As shown in Table 13 and Figure 7, from 2001 to 2008, less-skilled and semi-skilled people hold the largest share (about 70 percent) of total labour migration. These migrants have less than 10 years of schooling with almost no ability to communicate in English or the language of destination country, and no certified training on any specific trade. Accordingly they are mostly employed in the lower paying jobs, with common employers including hotel, shop, construction, farming, low-skilled manufacturing, driving, cleaning and maintenance. One key problem with less-skilled and semi-skilled category labourers is that host governments send them back to Bangladesh as soon as they lose their jobs. However, in April 2009, after repeated requests to the government of Bangladesh, Saudi Arabia (the largest employer of less-skilled and semi-skilled labour migrants of Bangladesh) agreed to introduce a three-month temporary stay permit 'to search for new jobs' for these workers.

The next-most important category, skilled labourers, includes approximately 29 percent of labour migrants. They have training in several engineering trades, like welding, metal works, refrigeration, electrical works, plumbing, and in most cases were employed in domestic industries before migration. This enables them to get a better salary (about twice than semi-skilled category migrants) and a longer-term job contract with employment in manufacturing and service sectors like shipbuilding, construction, heavy machineries, or industrial manufacturing.

Finally, the professional category, which holds only 1.6 percent of the labour migrants, includes engineers, doctors, accountants, pharmacists, agriculturists, and teachers. They earn around five times to eight times than the semi-skilled and unskilled category workers. In most countries, they are permitted to live with their families and enjoy the benefit of free schooling for children. In the case of job loss, most countries' laws permit them to stay for a while and search for new jobs.

Figure 7: Different skill categories of labour migrants 2001–2008



Source: Statistical Reports, Bureau of Manpower, Employment and Training (BMET), 2009, www.bmet.org.bd

Since 2002, the government has been putting more emphasis on the semi-skilled category and discouraging people to migrate under the less-skilled category. In this respect, 16 technical training institutes were established throughout the country where training and certification courses are provided on various engineering, industrial skills and home service areas.

Duration of stay

All labour migrants, with a few exceptions in the professional category, start with two to three years of initial contract. The renewal period varies on the nature of job and also the physical ability of the worker. It is found that on average less-skilled and semi-skilled workers are employed for about eight to ten years in the those countries before returning to Bangladesh. Skilled workers stay on average more than 15 years. Therefore, at any year, the number of Bangladeshis working abroad will be always significantly less than the total cumulative number of people that moved before that year. However, there is no indicator which calculates the number of temporarily employed people in a given year.

Major destinations of migrant labourers

In terms of the overall number of people employed, the major destinations are Saudi Arabia, United Arab Emirates, Kuwait, Oman, Malaysia and Singapore. In addition to that, some new countries — South Korea, Libya, Qatar, Bahrain, Italy and Eastern European countries — have started to recruit labour migrants in the semi-skilled and skilled categories.

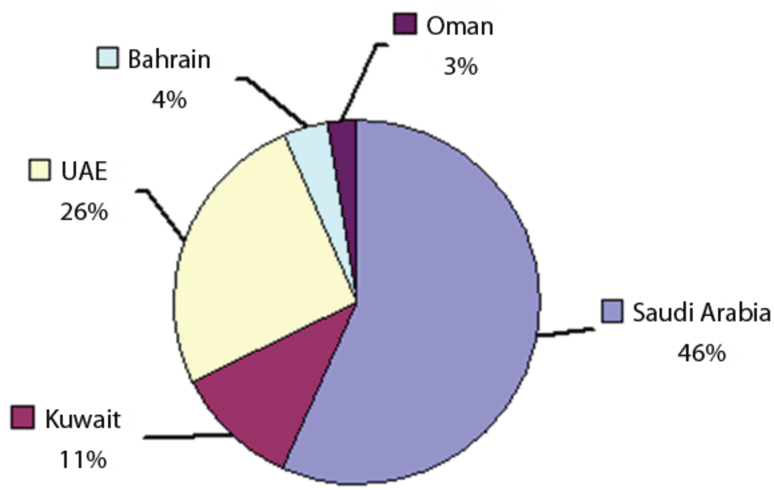
As a region, the Middle East (i.e. Bahrain, Kuwait, Oman, Saudi Arabia, United Arab Emirates) has recruited over 77 percent of total Bangladeshi labour migrants in the 2001 to 2008 period (see Table 14). In terms of growth in market share, this figure is less than the 1990 to 2000 period when the share was around 83 percent. However, in absolute numbers, labour migrants increased more than 35 percent in the period of 2001 to 2008 than its earlier period (1990 to 2000). Therefore, the decrease in total labour migrant share in the Middle East actually reveals that some new frontiers have opened up for Bangladeshi labour migrants.

Table 14: Share of temporary Bangladeshi workers by destination country (as percentage)

Period	Middle East	Libya	Malaysia	Singapore	Italy	Others
1976–1989	84.9	4.3	-	0.5	-	10.3
1990–2000	83.1	0.7	11.2	3.7	-	1.3
2001–2008	77.4	0.4	13.2	4.7	0.64 (20,853)	3.66

Source: Statistical Reports, Bureau of Manpower, Employment and Training (BMET), 2009 , www.bmet.org.bd

Figure 8: Country-wise share of Bangladeshi labour migrants among the Middle East Countries: 2001 to 2008



Source: Statistical Reports, Bureau of Manpower, Employment and Training (BMET), 2009, www.bmet.org.bd

The next two largest employers are Malaysia and Singapore holding 13.2 percent and 4.7 percent share respectively. Table 14 also shows that Italy for the first time has recruited 20,853 people from Bangladesh (0.64 percent) in the period of 2001–2008. Other new recruiters are Japan, Poland, Romania, Russia, South Korea and the United Kingdom. This is bringing a fundamental change. They hire skilled labourers, provide much higher salaries and also offer permanent residentship after long term employment. So, many private training institutes have been developed in the last two years to train interested labour migrants in necessary skills.

Voluntary migration

The largest reason for voluntary migration is higher education opportunity. The next category includes skilled professionals who go abroad in search of more remunerative and secure jobs. Additionally, a considerable number of Bangladeshis have landed in various countries of Europe through illegal means in the last two decades.

Information on the extent, composition and destination countries of voluntary migration is not available from the government of Bangladesh. However, several studies that have tried to capture the extent of voluntary migration conclude that the total number of Bangladeshi living abroad stands around 1.1 million with the United Kingdom, United States, Italy, Canada, Japan and Australia as the major destinations (see Table 14).

Table 14: Number of Bangladeshi immigrants in industrialized countries

Country	Number of Bangladeshi immigrants
UK	500,000
USA	500,000
Italy	70,000
Canada	35,000
Japan	22,000
Australia	15,000
Greece	11,000
Spain	7,000
Germany	5,000
South Africa	4,000
France	3,500
Netherlands	2,500
Belgium	2,000
Switzerland	1,400
Total	**1,178,400**

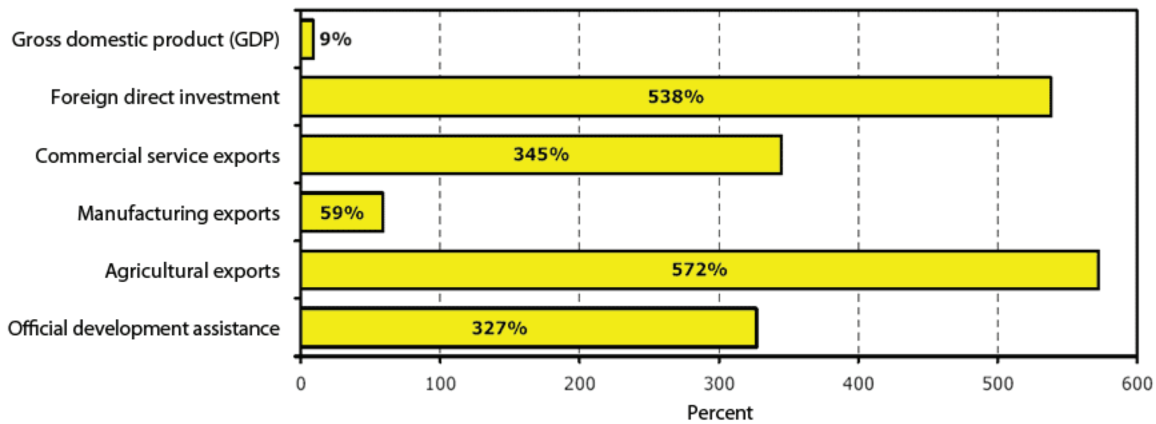
Source: The main source of this information was educated guesses made by Government officials of Bangladeshi Embassies who have first hand experience with the immigrant community, reported at Siddiqui, Tasneem (2004), 'Institutionalising Diaspora linkage the Emigrant Bangladeshis in UK and USA'

Remittances

Remittances are the second major source of economic inflows for Bangladesh after trade. Formal remittances stood at US$6.0 billion in the 2006/07 financial year which is equivalent to 8.8 percent of GDP. However, an important aspect of remittance flows in Bangladesh is that informal channels also bring a significant amount of remittances which are not registered with the banks or any government authority, rendering it difficult to measure these flows. Several studies have tried to estimate the amount of remittance flows through these channels and concluded that these channels bring almost as much remittances as formal remittances. Therefore, if informal channels are included, total remittances reach around US$12 billion, or around 16 percent of GDP.

Even as early as 2000, most remittances (about 70 percent) arrived in Bangladesh through informal channels. Since 2001, the government has taken various steps towards promoting formal channels, for example through increased foreign exchange houses, ensuring quick disbursement to the remittance beneficiary, full exemption of income tax on remittances transferred through banking channels, introduction of various bonds for remittance earners, massive publicity campaign promoting the use of formal channels, etc. In the same time period, the number of labour migrants leaving Bangladesh also increased substantially, giving remittances through formal banking channels a major boost. The endeavours to bring more remittances into formal channels remain ongoing.

Figure 9: Remittance inflows as a share of GDP and selected financial flows (2005 data)



Source: Migration Policy Institute, 2009, www.migrationinformation.org/datahub/remittances/Bangladesh.pdf

Table 16 shows that official remittance flows in 2007/08 has reached around 3.16 times more than 2001/02 remittance flows. In any measure, this is an enormous increase. In percentage terms, official remittance flows increased on average 26.83 percent each year during the last six years.

Table 16: Remittance flows in Bangladesh: 2001/02 to 2007/08

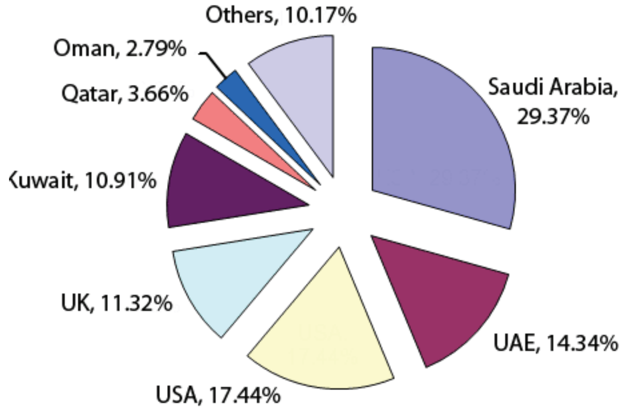
Financial year	Million US$	Growth (%)
2001/02	2,503	32.8
2002/03	3,060	22.2
2003/04	3,372	10.2
2004/05	3,848	14.1
2005/06	4,801	24.8
2006/07	5,978	24.5
2007/08	7,915	32.39

Source: Bangladesh Economic Review, 2008

Major remittance sources

As with the number of labour migrants, the Middle East is the largest source of remittances. In terms of a single country, in 2006/07 Saudi Arabia accounted for 29 percent of total official remittances, followed by the United States, United Kingdom, United Arab Emirates and Kuwait with around 16 percent, 15 percent, 13.5 percent and 11 percent respectively (Figure 10). As a region, official remittances from Middle East countries was over 62 percent.

Figure 10: Country-wise official remittances earned by Bangladesh in 2006/07



Source: Statistical Reports, Bureau of Manpower, Employment and Training (BMET), 2009, www.bmet.org.bd

Before 2000/01, Kuwait was the second highest source of remittances. In 2001/02, the United States overtook Kuwait as the second highest remittances source. In 2005/06, the United Kingdom overtook Kuwait as the third largest source of remittances for Bangladesh. However, remittances from Kuwait steadily increased from US$247 million in 2000/01 to US$680 million in 2006/07, an increase of 2.7 times. In FY 2007/08 the highest (29.37 percent) level of remittances came from Saudi Arabia (29.37 percent), followed by the United States (17.44 percent), United Arab Emirates (14.34 percent), United Kingdom (11.32 percent) and Kuwait (10.91 percent). In those six years, growth in remittances from the United States and United Kingdom, the major hosts of voluntary migration, was higher than the total official remittance growth in those years. This hints that voluntary migration's share in official remittances is increasing over the time.

Macroeconomic benefits of remittances

The money earned through remittances is spent in the domestic economy creating demand for goods and services. Thus, it is one of the key components of sustaining the GDP growth. Figure 11 shows that the total amount of official remittances as a percentage of GDP has increased over time and has facilitated GDP growth and employment creation in the domestic economy. In 2001/02, official remittances stood at 5.3 percent of GDP which in 2007/08 increased to 10.02 percent of GDP.

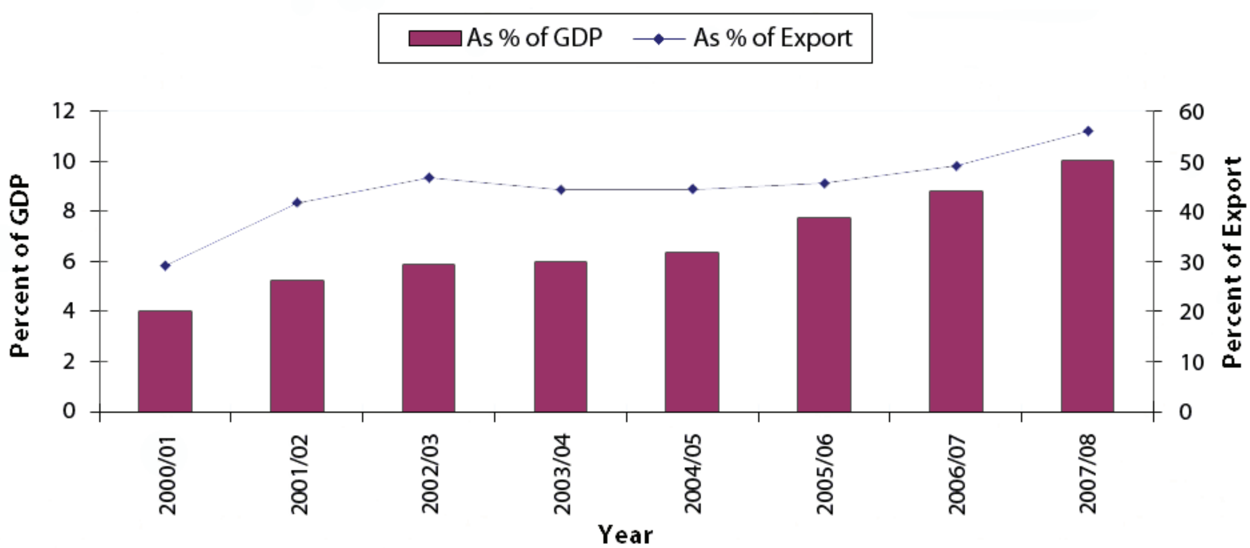
Remittances also play a critical role in providing foreign currency and financing the trade deficit of Bangladesh. In 2000/01, official remittances as a percent of total exports stood at 29.10 percent which increased to 56.09 percent of total exports in 2007/08. This indicates that official remittance flows increased at a much faster rate than exports. As total exports contain the cost of imported raw materials and capital machineries, many economists argued that if net export receipt is calculated, it will be no more than official remittance flows.

Table 17: Remittances as a percentage of GDP and exports: 2000/01 to 2007/08

Years	As percent of GDP	As percent of export
2000/01	4.01	29.10
2001/02	5.26	41.78
2002/03	5.90	46.76
2003/04	5.98	44.35
2004/05	6.37	44.47
2005/06	7.75	45.62
2006/07	8.83	49.09
2007/08	10.02	56.09

Source: Bangladesh Economic Review, 2008

Figure 11: Remittance as percentage of GDP and Export: 2000/01 to 2007/08



Source: Bangladesh Economic Review, 2008

The remarkable increase in remittances caused the rise of foreign currency reserves even though Bangladesh recorded large trade deficits. This on the one hand stabled the Taka-US Dollar exchange rate and on the other hand enabled the import of capital machinery in large quantities. In fact, FDI is not the major source of foreign currency for Bangladesh. Since 2001, FDI as percentage of official remittances has never crossed 15 percent. Because of large official remittances, Bangladesh is the only country in South Asia where the value of Taka (local currency) increased against all the major currencies during the current financial crisis.

Table 18: Balance of payments of Bangladesh against official remittances: 2002/03 to 2007/08 (in US$ million)

Period	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Trade Balance	-2215	-2315	-3297	-2889	-3458	-5541
Services	-691	-874	-870	-1023	-1255	-1525
Loan servicing, interest payment and profit taking by foreign companies	-358	-374	-680	-702	-905	-1005
Total	-3264	-3563	-4847	-4614	-5618	-8071
Remittances	3062	3372	3848	4802	5979	7915

Source: Bangladesh Economic Review, 2008

Benefits of remittances at the household level

Remittances can effectively and within the shortest possible time pull a family out of poverty. The poverty profile of labour migrants clearly shows that most of them are poor and from rural areas. On average, a less-skilled or semi-skilled labour migrant increases the income of a rural area household by at least 2.5 times (Bruyn, 2005). The spending nature of these remittances widely depends on the educational profile of that household. Regular spending includes food, clothing, health care and children's education. Agricultural land purchase and home construction are the two chief investment preferences with savings of remittances.

Table 19: Patterns of remittance utilization by labour migrants (of rural area) in Bangladesh

	Purposes	Remittances used (percent)
Regular Spending	Food and Clothes	20.45
	Medical Treatment	3.22
	Child Education	2.75
	Repayment of loan and release of mortgage land (for migration)	12.54
Occasional Spending	Social ceremonies	9.07
	Furniture	0.69
	Gift/donation to relatives and community activities	1.95
	Sending family members abroad	7.19
Investment	Land purchase	12.2
	Home Construction and repair	15.02
	Taking mortgage of land	1.99
	Investment in business	4.76
Savings	Savings/fixed deposit	3.07
	Insurance	0.33
Others		4.77

Source: Siddiqui, 2003

Donor's initiatives in increasing remittance flows through formal channels

Research by the World Bank, UNDP and bilateral development organizations have identified that remittance flows through formal channels can be significantly increased by improving the performance of formal institutions in timely remittance delivery, increasing presence in rural areas and reducing the cost of remittance sending. In 2006 DFID initiated the Remittance and Payments Partnership (RPP) project with Bangladesh Bank and Ministry of Finance. Under this project, a US$11 million fund was created which provides grant support to banks and micro-finance institutions to improve service quality and increase their presence in rural areas.

The project enabled many local banks and international financial institutions engaged in remittance transfers, like Western Union, to build partnerships with rural microfinance institutions. These partnerships enable timely delivery of remittances and also create opportunities for offering other financial services to remittance receiving families. For example, National Credit and Commerce Bank Ltd. and Thengamara Mohila Sobuj Sangha (TMSS), a leading microfinance NGO in north-west Bangladesh, formed an alliance to receive a grant from this project. The partnership enabled the National Credit and Commerce Bank Ltd. to deliver remittances in a timely manner using around 250 rural branches of TMSS in migrant-heavy areas. With the grant from this project, the bank has been investing US$1.2 million to install electronic point of sale (POS) technology in all its branches and those 250 remote branches of TMSS. The bank also started erecting automated teller machines (ATM) in some of these TMSS branches and now issues debit cards to remittance receivers so they can manage accounts and draw cash when needed.

The project received wide attention from private banks and micro-credit based organizations resulting in the submission of 90 grant applications. The project disbursed grants amounting US$4.2 million in 2007 and US$3.5 million in 2008 to around 20 projects. The partnerships facilitated by the project were able to attract large amount of remittances through these channels. Recently this got the attention of Western Union, one of the largest international remittance transfer institutions, which established a partnership with Asha, one of the largest micro-credit NGOs in Bangladesh, to deliver remittances in rural areas.

The project is now in the process of developing cell-phone banking technologies to significantly lower the cost of sending and delivering remittances, especially in more remote parts of the country.

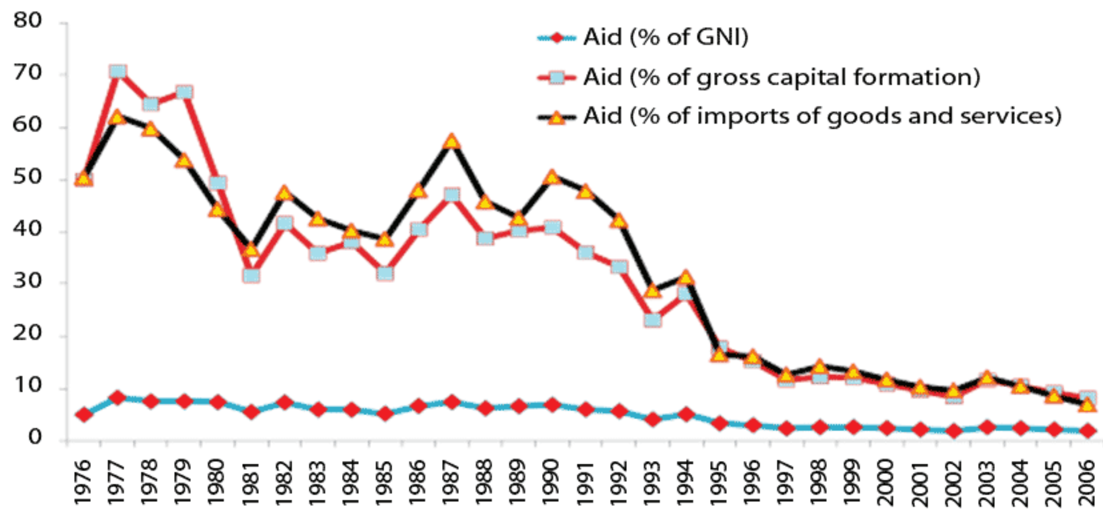
Foreign aid

In the 24 years from 1972 to 2006, Bangladesh received a total of nearly US$44.8 billion of foreign aid, of which 44.7 percent was grants and 55.3 percent was loans. From 1972 to 1990, foreign aid was a major component to finance the trade imbalance, to fill the gap of budget financing, to ensure food security (food aid) and the chief source of infrastructure development programmes of the country. During this period, the ratio of grants in total foreign aid was around 70 percent and food aid was a major component of foreign aid.

The return of democracy in 1990 was a key factor in the changing the pattern of foreign aid. In the next decade, foreign aid was mostly used in liberalizing the domestic market by reducing tariff regimes and privatizing the state-owned industries. These goals were achieved through attaching specific stringent criteria of reform (by World Bank, IMF and ADB) for disbursing future aid. For example, the IMF provided foreign aid, in the form of loans, under a structural adjustment program which asked the government to bring specific reforms in macroeconomic management. Whenever the government delayed enacting the reforms, other multilateral organizations threatened to stop disbursing their aid or to delay ongoing projects.

Since 2000, Bangladesh has found itself with a strong export sector and an appreciably large flow of official remittances which has significantly reduced the demand for foreign aid to finance the trade deficit and balance of payments. In the same period, the Millennium Development Summit declared eight goals for all countries to be achieved by 2015. In working towards these goals, the focus of foreign aid shifted into: (i) social development areas like education, health, sanitation, poverty reduction, and human rights, (ii) governance areas, and (iii) improvement of the private sector investment climate. Pursuing this new trend of foreign aid, the Bangladesh government in 2005 prepared a country strategy paper 'Unlocking the Potential: The Poverty Reduction Strategy' for reducing poverty, increasing employment and nutrition, and attaining a better quality of life for its citizens. The IMF and World Bank assisted in preparing the strategy paper. Almost all the donors have realigned their development projects and aids as per the suggestions provided in this paper. Bangladesh now gets most of its foreign aid under the project aid category.

Figure 12: Foreign Aid as percentage of GNI, gross capital formation and total import: 1976 to 2006



Source: World Development Indicators, 2007

Figure 12 demonstrates that foreign aid as percentage of GNI has decreased to around 3.5 percent in 2006 from around 10 percent in 1980. The reduction of foreign aid's size as a percentage of imports of goods and services and gross capital formation was more drastic. CPD commonly refers to this, saying. "Bangladesh emerged as a trade-dependent country from an aid-dependent country."

Aid for trade

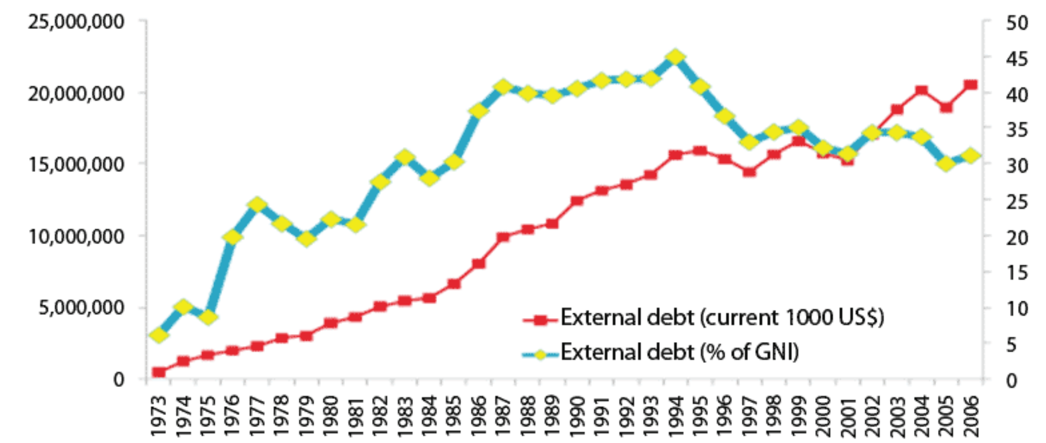
Aid for trade is defined broadly to include all assistance geared towards the improvement and enhancement of trade in developing countries. It generally covers six areas: trade policy and regulations, trade development, trade-related infrastructure, productive capacity building, trade-related adjustment, and other trade-related needs. The regional distribution of aid for trade highlights that Asia receives more than 51 percent of aid for trade. Africa comes second at 30 percent.

According to the OECD Creditor Reporting System, Bangladesh received US$598.2 million as aid for trade from 2000 to 2003. This increased to US$656 million from 2004 to 2007 with a strong focus on diversifying the export sector. In the first period, various government departments and business organizations were the major partners in the aid for trade projects. This changed in the second period with business organizations, business consulting firms and NGOs emerging as key implementers.

External debt

External debt as percentage of GNI has decreased from around 45 percent in 1994 to 31 percent in 2006. However, in absolute terms, total external debt is still increasing albeit at a slower rate. Figure 13 shows that total external debt did not increase in the 1994 to 2001 period as the then-government borrowed from domestic sources to finance the budget while earlier governments used to take loans from multilateral organizations. This practice of domestic borrowing has fundamentally changed the demand of foreign aid. In the 2002 to 2004 period, total external debt increased again as the country borrowed heavily from multilateral organizations to finance social development projects such as education, food, clean water and health care.

Figure 13: Total external debt and external debt as percentage of GNI: 1976 to 2006



Source: World Development Indicators, 2007.

HIPC Initiative

In September 1999, the World Bank and IMF decided that poor countries needed to produce a comprehensive plan for poverty reduction and increased economic growth that would be coherent with their macro-economic framework, in order to obtain future concessional lending and eligibility for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Starting in 2000, for the next three years, Bangladesh prepared a national poverty reduction strategy with extensive consultation with national stakeholders as well as local World Bank and IMF officials. Bangladesh submitted the Interim Poverty Reduction Strategy Paper (IPRSP) to the World Bank and IMF in March 2003. As a result, on 19 June 2003, the World Bank approved an 'interest free' loan of US$536 million of which US$300 million was earmarked for implementing the first phase of IPRSP and US$236 was designated for infrastructure development. The next day, the IMF approved a US$490 million concessional loan to support the economic reform programme for the 2003–2006 period. Both approvals came after the World Bank-IMF board meetings that formally endorsed Bangladesh's IPRSP on 17 and 18 May 2003.

One criteria of this new policy instrument was to update the poverty reduction strategy plan every three years. Bangladesh reviewed the IPRSP over the next two years and prepared a Poverty Reduction Strategy Paper (PRSP) entitled *Unlocking the Potential: National Strategy for Accelerated Poverty Reduction* on 30 October 2005. However, on 23

April 2006, Bangladesh was considered ineligible to enter into the HIPC Initiative. Reasons for excluding Bangladesh are mentioned in the background report entitled *Heavily Indebted Poor Countries (HIPC) Initiative — Listing of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at End-2004*.

The comment made in this report regarding Bangladesh's ineligibility was that 'staffs could not conclude firmly on their potential eligibility because of inadequate data'. The report explains that Bangladesh's debt ratio (including NPV of bilateral debts) declined from 158 to 146 within September 2005 to April 2006 due to US$1.5 billion debt relief provided by the government of Japan, which decreased Bangladesh's debt ratio below the HIPC threshold (of an NPV debt-to-export threshold of 150%). A second reason for ineligibility was the unavailability of complete information on loans and guaranteed loans provided by China which made calculations difficult. These two reasons were challenged. It was argued that Japan provided the debt relief so that Bangladesh could invest more in social safety net programmes and human development programmes, and China provided direct or indirect supports in infrastructure development that are crucial for increasing economic growth. These explanations do not conflict with any of the conditions set by IMF and World Bank. Over the next two years, Bangladesh tried several times to re-enter the HIPC initiative.

As a result of its exclusion from the HIPC Initiative, the debt servicing cost for Bangladesh has been increasing at a steady rate (presented in the next section).

Debt servicing

As the total external debt continues to climb for Bangladesh, there is an upward tendency in total debt servicing. According to Ministry of Finance, in 2002/03 Bangladesh paid US$608 million (of which interest payments were US$156 million) to reimburse debts. This reimbursement increased to US$770 million (of which interest payments were US$184 million) in the 2007/08 financial year. However, as a percentage of export earnings, reimbursement payments have declined from around 20 percent in early 1990s to around 5 percent in 2007/08.

Table 20: Debt Servicing by Bangladesh: 2002/03 to 2007/08 (in US$ million)

Period	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Payments	608	588	619	678	722	770
– of which official interest payment	156	165	185	176	182	184
Payments as percentage of total export	9.3	7.7	7.2	6.4	5.9	5.5

Source: ERD, Ministry of Finance, Bangladesh Economic Review 2008

Aid effectiveness

Aid effectiveness has always been a concern for Bangladesh for two primary reasons: an inefficient and corrupt bureaucratic system, and the fragmented endeavours of donors. However, Khatun (2009) mentioned three key reasons for aid-ineffectiveness in the case of Bangladesh. First, the donor-recipient relationship is very asymmetric where Bangladesh has little say or choose. Even the reforms made in the aid system to improve effectiveness were imposed by donors with very few inputs from Bangladesh. Second, the level of participation of civil society and social organizations in the planning of projects and aid disbursements is low. This is a failure from both the donors' and recipient's perspective. And, third, aid effectiveness is closely associated with development effectiveness, which is ignored in many instances.

To overcome these deficiencies, in 1988 donor organizations working in Bangladesh decided to form an umbrella group, known as Local Consultative Group (LCG), to discuss various aid-related issues. This was essential, as a large number of donors are present in Bangladesh and engage in a large number of sectors with a substantial amount of assistance. Twelve years after its inception, the LCG was formally adopted in May 2000 by the largest 32 donors (including World Bank, IMF and ADB). A new LCG executive committee was created to jointly steer the group and engage with the Government of Bangladesh and other stakeholders. The new LCG on 27 November 2002 decided to create a Multi-Donor Fund (MDF) through which donors will now fund some specific analyses of development issues/problems collectively rather than in a fragmented manner. The idea was not only to more efficiently invest resources in planning but also to align the development projects between themselves. For the first time, a process has been developed for shared funding that in some cases is resulting in large multi-donor projects.

LCG now has 20 sub-groups on various sectors and thematic areas:

- 10 sectoral sub-groups address agriculture and rural development, water management, water supply and sanitation, education, health and population, energy, transport, urban sector, rural infrastructure, and finance;
- Nine thematic sub-groups address poverty, women's advancement and gender equality, governance, NGOs, private sector development, environment, project implementation issues, macroeconomic developments and technical assistance, and disasters and emergency response;
- One region-specific sub-group addresses development issues in the Chittagong Hill Tracts.

The mandates of each of the sub-groups vary widely, with some focusing more on technical or working-level collaboration, and others focusing on more strategic or policy-related issues. The degree of government participation in the LCG sub-groups also varies from group to group, some with joint chairmanship of government entities and others remaining largely donors only, with government and other stakeholders (e.g. civil society organizations, private sector, the media) participating only on specific topics. In most cases, these LCG sub-groups enable strengthening collaboration and partnership among the donor projects and improvement of project quality.

However, the idea of making the LGC's Multi Donor Fund a true shared-funding window through which all donors will channel their aid funds remains a significant challenge as the donors each have their different mandates and objectives. In 2008, Bangladesh took another step to increase aid effectiveness. The government signed a statement of intent with 15 donors to develop a Joint Cooperation Strategy. Under this agreement, a joint working group was formally established under the LCG. The government also agreed to participate in several aid effectiveness events including the Parish Evaluation 2010 and the High-Level Meeting on Aid Effectiveness in South Korea 2011.

Foreign direct investment

As a capital-poor country, Bangladesh has always formed policies that are favourable to foreign direct investment (FDI). However, infrastructure bottlenecks, unavailability of skilled labour, political unrest and bureaucratic procedural hazards have resulted into poor FDIs flow into the country.

Over the last decade, FDI as share of GDP varied between 1.4 percent in 1998/99 and 0.5 percent in 2004/05. In 2005/06, the share increased to 1.3 percent due mostly to the large inflow of FDI in the telecommunications sector. On the other hand, as a ratio of gross investment, FDI varied between a low of 1.2 percent in 2004/05 to a high of 3.2 percent in 1998/99. Thus given its low share in GDP and gross investment, it does not have a significant impact on various sectors as well as on important macroeconomic indicators of the Bangladesh economy (Hossain, 2008).

FDI flows

Table 21 presents the volume of FDI flows in Bangladesh since 1998/99. Over the 1998 to 2007 period, aggregate FDI inflows were US$5.5 billion of which new capital was 54 percent, reinvested earnings held nearly 30 percent and the rest comprised intra-company loans. On the other hand, profit repatriation over the same 10 year period was US$2.7 billion while investment liquidation in the same period was a mere US$30.6 million which strongly indicates that FDIs are happy with the profit margin and business environment.

Table 21: FDI inflows and associated outward foreign currency flows: 1998 to 2007 (in US$ million)

Period	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Total FDI Inflows	603	594	383	564	394	379	284	804	745	760	5,510
– Equity	349	396	153	372	230	164	111	361	447	403	2,986
– Reinvested earnings	181	121	81	81	85	165	161	294	199	266	1,634
– Intra-company loan	73	77	149	111	79	50	12	149	99	91	890
Dividend/Profit repatriation	40	83	149	175	195	355	338	418	396	569	2,718
Investment liquidation	0.1	2.9	0.5	0.5	2.6	2.2	10.5	3.3	3.5	4.5	30.6

Source: ERD, Ministry of Finance, Bangladesh Economic Review 2008.

Table 22: Policies towards attracting FDI in Bangladesh

In Bangladesh, Foreign Direct Investment is allowed in every sector of the economy except in five industries reserved for the public sector such as defence equipment, nuclear energy, forest plantation, security printing and railways. Current policies for providing generous incentives to FDI are:

- Tax holiday from 5 to 10 years depending on location of industries
- 15 year's tax holiday for private power generation companies
- Facilities for repatriation of invested capital, profit and dividend
- Exemption of tax on interest on foreign loans
- Tax exemption on royalties, technical know-how and technical assistance fees
- Avoidance of double taxation on the basis of bilateral agreement
- Six months multiple entry visa for the investors
- Taka, the nation's currency, is convertible for international payments in the current account
- Re-investment of repatriable dividends treated as new investment
- Working capital loans and term loans from local commercial banks are allowed for FDI industries
- No limitation pertaining to equity participation (i.e. up to 100 percent foreign investment is allowed)

FDI distribution among sectors

The three broad sectors where FDI came to Bangladesh are infrastructure, manufacturing and services. The shares of these sectors in total FDI inflows during 1998 to 2007 were 46 percent infrastructure, 27 percent manufacturing and 27 percent services.

In the infrastructure sector, the major FDI recipients are (i) oil and gas – US$1,241,000, (ii) telecommunications – US$965 million, and (iii) power – US$581 million. In the manufacturing group, four industrial sectors have attracted FDI: (i) textiles – US$903 million, (ii) cement – US$253 million, (iii) fertilizer – US$142 million, and (iv) chemical and pharmaceuticals – US$76 million. Finally, FDI inflows under the third group, the service sector, was concentrated on trade and commerce service with US$909 million and another US$440 million to other service segments such as shipping, air travel, etc.

Impacts of FDI

For Bangladesh, the two most-desired impacts from FDI are employment generation and tax flows into government exchequer.

FDI is situated in both domestic tariff areas and export processing zones. The Foreign Investors Forum in Bangladesh (FICCI) conducted a study in 2004 to estimate the size of employment by FDI companies in the domestic tariff area. According to this survey, about 130,000 people are employed in these firms. On the other hand, government figure shows that FDI has employed around 140,000 people in the export processing zones. So, in aggregate all foreign companies have employed 270,000 jobs which accounts for less than 1.5 percent of total manufacturing employment.

Regarding government tax revenue, it has been estimated that FDIs are paying around US$13.2 million annually in the exchequer (SUPRO, 2005). The reason for such a low amount is the excessively generous incentives packages offered to these investments.

FDI in South Asia

As a region, South Asian countries until now have largely failed to attract sufficient FDI in compared to South-East Asian countries. Even the aggregate FDI flow in South Asia is lower than the aggregate FDI received by Singapore. However, Table 23 shows that FDI inflows in South Asia picked up since 2000 and reached US$22.3 billion in 2006.

Table 23: FDI inflows (in billion US$)

	1995	2000	2004	2005	2006
Asia	81.1	145.7	170.0	208.7	259.4
– South Asia	2.9	3.1	7.6	9.9	22.3

Source: UNCTAD, World Investment Report, 2007

Country-by-country analyses of FDI receipts in South Asia shows that India and Pakistan are jointly receiving around 90 percent of the FDI. Bangladesh is a distant third (around 6 percent) closely followed by Sri Lanka.

Table 24: FDI inflows by country and their share with respect to FDI flow in South Asia

	FDI Inflows (in million US$)			Share of FDI as percent of Total inflows to South Asia		
	2003	2004	2005	2003	2004	2005
Afghanistan	2	1	1	0.0	0.0	0.0
Bangladesh	350	460	692	6.1	6.3	7.1
Bhutan	1	1	1	0.0	0.0	0.0
India	4585	5474	6598	80.0	74.9	67.6
Maldives	14	15	14	0.2	0.2	0.1
Nepal	15	10	5	0.3	0.1	0.1
Pakistan	534	1118	2183	9.3	15.3	22.4
Sri Lanka	229	233	272	4.0	3.2	2.8

Source: UNCTAD, World Investment Report, extracted from Khan, 2007

Environment issues

Environmental pollution

With the increased production of goods and services, the environment in Bangladesh will be directly and indirectly affected by the use of chemicals, fuels, synthetic products, and the large production of by-products. In the industrial sector of Bangladesh, readymade garments and leather industries, the two major export sectors, are the major polluters of water and thus soil. Various efforts by the government in promoting installation of effluent treatment plants in these industries have failed.

However, the leather industries, which are situated in a cluster, plan to install a joint effluent treatment plant by 2011 as the European Union will not import any leather goods from those industries which do not have effluent treatment plants after 2011. This is one example about how developed countries can play critical role in preserving the environment of developing countries. Similar initiatives by developed countries for the readymade garments sector can also reduce the water and soil pollution in Bangladesh.

Environmental pollution has large implications for Bangladesh for two particular reasons. First, as Bangladesh is an extremely high population density country, any pollution however small will affect large numbers of the population. Second, the agricultural sector is still the largest employer in the country, so any pollution to agricultural land and water will result in less income for a large number of people and subsequent job losses over the long run.

The government has started to implement a range of new policies to improve pollution control in Bangladesh, including making compulsory the use of catalytic converters, oxidation catalyst and diesel particulate filter in the petrol, diesel and gas driven vehicles, encouraging the introduction of environment-friendly block bricks, making compulsory the use of installing chimnies of 120 feet high in traditional brick fields, and taking action against illegal encroachment of water bodies. The government, with the help of Japan and the Netherlands, has already established the necessary infrastructure to manage urban solid waste and bio-medical waste. However, the country lacks the technology to control heavy metal and toxic chemical pollution—an area where developed countries can help.

Land degradation

The soils of Bangladesh in general are very fertile and productive. However, land degradation is occurring in the form of excessive chemical-fertilizer based cropping (data on fertilizer use indicates that it has increased from 18 kg/ha/yr in 1973 to 108 kg/ha/yr in 1994 (Ullah 2001)), salinity intrusion in the coastal belt due to shrimp farming in brackish water, and top soil loss through erosion. Very recently, excessive use of pesticides has also emerged as a great concern for the water bodies and also the health of farmers. Karim et al. (2001) has estimated the cost of land degradation resulting from productivity loss due to water erosion, soil fertility decline (top soil) and salinity intrusion is equivalent of US$870 million per year and loss from nutrient depletion is US$670 million per year. The productivity loss per year accounts for 4.33 percent of GDP (of 1997) and nutrient loss accounts for 3.37 percent of GDP (of 1997). In total, Karim et al. (2001) have estimated the cost of degradation as approximately 7.7 percent of GDP (of 1997).

River bank erosion

River bank erosion is a perennial problem of the country. According to the Bangladesh Water Development Board (BWDB), about 1200 km of river banks are actively eroding and more than 500 km face severe erosion with loss of agriculture land, house, roads and trees. It is estimated that river erosion annually affects about 100,000 people living on the river banks. It is one of the key sources of poverty in Bangladesh as they lose homestead and agricultural land. Efforts to control bank erosion have only been carried out on the major rivers as the cost involved for undertaking appropriate measures is huge — ranging from US$10 million to US$30 million per km — and can only be affordable with international financial assistance.

Loss of wetlands

In Bangladesh, wetlands are the chief sources of fish. Wetlands also function as retention areas that control floods, recharge ground water, and work as irrigation water sources. The wetlands are depleting for two reasons: (i) it is filled up to erect a house, industry or other infrastructure, and (ii) embankments and controlled sluice gates are increasingly erected to convert wetlands into agricultural cropping fields and also controlling floods during rainy season. Government data shows that from 1987 to 2000, the country lost around 2.7 million hectares of wetland.

Some of the impacts the country is now experiencing due to loss of wetlands are:

- Serious reduction in fish habitat, fish population and diversity;
- Extinction and reduction of wildlife including birds, reptiles and mammals;
- Increase in the recurrence of flash-floods;
- Loss of natural water reservoirs and of their resultant benefits;
- Degeneration of wetland-based ecosystems and occupations.

Climate change and vulnerability

Increased flooding, both in terms of extent and frequency, associated with sea level rise, greater monsoon precipitation and increased glacial melt: Sea level rise will directly result in increased coastal flooding, which will increase the incidence of storm surges. It will also increase river flooding as the high sea level will cause more backing up of the large rivers. This may increase siltation and further reduction of river depth. As a consequence river bank erosion and flash floods will increase.

Increased vulnerability to cyclone and storm surges: The Intergovernmental Panel on Climate Change (IPCC) observed that the intensity of storm surges and coastal flooding is increasing as these events are positively correlated with sea surface temperature. The IPCC also estimates a 20 percent increase in the associated rainfall that would contribute to flooding. In November 2007, for example, tropical cyclone Sidr, hit Bangladesh with up to 240 km per hour wind speed killing around four thousand people and millions of cows, goats and chickens. This was noted as an unusual occurrence given the intensity and timing of the storm, particularly given that it occurred in the same year after two recurrent floods. Then, in May 2009, Bangladesh was hit again by cyclone Aila with an immense coastal surge. Some 200 people died and millions lost their homes. If this continues to happen, a large number of people will migrate from the southern coastal area to inland cities.

Increased salinity intrusion is going to exacerbate with the sea level rise: Salinity is increasing in the coastal areas of Bangladesh. This already prohibits large areas from rice cultivation and reduces yield in other areas. The government is trying to develop new rice varieties that will grow in saline land. However, the result as of present is not satisfactory. Bangladesh is already a net food importer country and felt severe hardship during recent food price increase in 2008.

Sea level rise will make millions homeless and landless in Bangladesh: IPCC estimates that a third of Bangladesh's coastline could be flooded if the sea rises to one meter in next 50 years, forcing over 22 million Bangladeshi to leave their home and agricultural land and move to inland cities.

Climate change mitigation fund: Scientists have portrayed Bangladesh as the country most vulnerable to global climate change. The government has prepared an action plan to mitigate the impacts and safe migration of affected people. The plan requires US$500 million in the next four years and another US$5 billion in next 10 years. The government allocated US$43 million to this fund in the 2008 budget and asked international assistance to finance the remaining amount. However to the present time, donors have committed only about US$150 million.

Linkages Among External Sectors

Linkages between export and remittance

One of the key macroeconomic determinants of economic growth of Bangladesh is the growth in exports, which means low economic growth happens when export growth stagnates or declines. On the other hand, the World Bank (2008) found that low economic growth is one of the key determinants in increasing the size of remittance inflows. The reason is that during an economic downturn in the recipient economy, migrants usually send more money to their families to cushion the declining income effects. Bangladesh is shown here as an example that strongly conforms to this trend. These two macroeconomic trends thus show that there is an inverse relationship between the growth in exports and growth in remittances.

The relationship between economic growth and remittances in the long run can be seen from the South Korean experience. Until the mid-1980s, South Korea was one of the major labour-sending countries with some two million temporary migrant labourers in various countries. Like Bangladesh, Middle East countries were the major destinations of these temporary migrants and they usually found employment in the construction sector. The scenario reversed in early 1990s, when South Korea's unemployment rate declined to around 2.5 percent due to astounding economic growth of 9.2 percent between 1982 and 1987 and 12.5 percent from 1986 to 1988. Exports were the major driver of this high economic growth. This resulted in a huge wage explosion that almost nullified the incentive to go abroad for employment. As a result, the number of Koreans going abroad for temporary employment declined by 72 percent in 1990 in comparison to 1982. Another effect of high economic growth that is prevalent in most countries is that population growth declines with an increase in income. This double effect and continuous high economic growth in the next decade created a shortage of workers, and most Koreans returned to the country.

This hints that if current export growth is enhanced substantially for about next two decades in Bangladesh, the country will achieve around 7 percent to 8 percent economic growth, which in the long term may create enough job opportunities for its people and thus yield a decline in temporary migration and remittances.

Linkages among exports, remittances and foreign aid

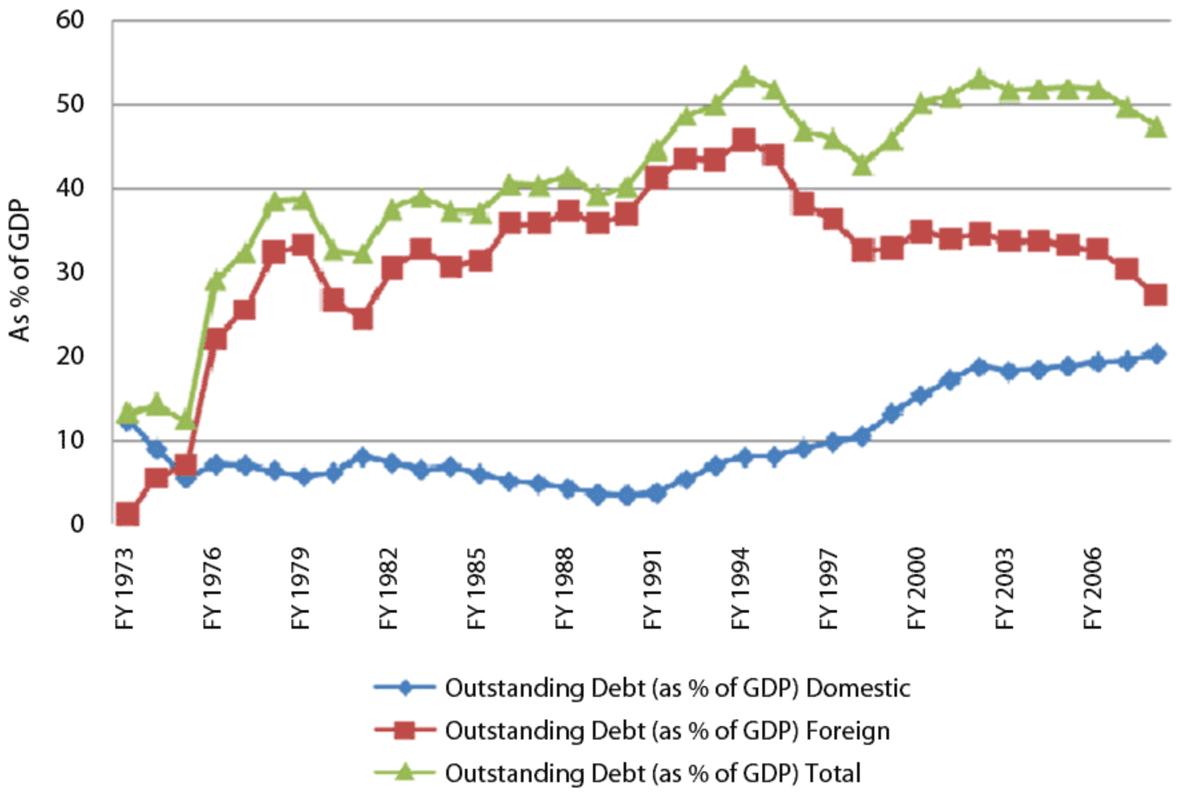
Since 1990, the trade deficit as a percentage of GDP in Bangladesh declined due to a sustained increase in exports. On the other hand, the growth in remittance inflows was even bigger in this period. As a result, Bangladesh's dependency on foreign institutions for import financing decreased substantially. The country now holds around US$7 billion equivalent foreign currency reserve for emergency imports.

This newly accrued wealth through trade and remittances also changed the structure of national budget deficit financing. This is shown in Figure 14. Total debt as a percent of GDP rose continuously until 1993/94 (when it reached a peak of 53.5 percent) mostly due to heavy borrowing from foreign and multilateral institutions in the form of soft loans. In the next four years the total debt-GDP ratio decreased to 42.8 percent as the country started borrowing from domestic sources and paid back a large portion of foreign loans.

The debt-GDP ratio again increased to on average around 50 percent within next three years as the country spent huge resources in infrastructure development and the social safety net program. However, this increase was entirely financed by domestic borrowing. Due to this fact, foreign debt as percentage of GDP decreased to around 26 percent in 2007/08 from around 45 percent in 1993/94. And, domestic debt as percentage of GDP increased to around 20 percent of GDP in 2007/08 from a small 3 percent in 1990.

Since 2005, the government has initiated many reforms in the area of domestic debt management. One such effort was developing a primary market for buying and selling government bonds of varying maturity to fund the budget deficiency as well as erecting large infrastructures. Thus the foreign assistance as percentage of GDP is shrinking as more domestic resources are available.

Figure 14: Changing pattern of national debt: FY73-FY06



Source: Appendix 2.6, Bangladesh Economy: Recent Macroeconomic Trend, Ministry of Finance, Bangladesh, 2009, www.mof.gov.bd/en/budget/rw/appendices.pdf.

Linkages between FDI and export

In Bangladesh, the size of FDI is small in comparison to most countries, and major FDI flows came to Bangladesh to serve domestic demand rather than to utilize the country as a base of low-cost exports. Only about 30 percent of FDI is invested in textiles, leather, or other sectors destined for export. One key reason behind this trend is that the government usually desires FDI to be invested in high-capital-intensive and technology-based sectors like telecommunications, power generation, oil and gas, fertilizer etc. High cost infrastructure projects (i.e. underground railway, tunnel under the Karnaphuli river) have recently been included in the wish list of foreign investment by the government. It can be said that there is little direct relation between FDI growth and export growth. However, the role of FDI needs to be seen with a wider view, as it helps build the energy and communications infrastructure of the country — which are the pre-conditions of increased investment in export-oriented sectors.

Conclusion and Recommendations

Global partnership in the development of Bangladesh

Building foundations with foreign aid

Bangladesh started its journey on the world map on 16 December 1971 as one of the 'largest poorest' countries in the world. Its road and rail infrastructures were in havoc because of the liberation war and the country immediately faced a post-war famine situation. The United States was the first country to rush in with emergency food aid and also with the funding for reconstruction and infrastructure rehabilitation. The United Kingdom soon joined with the efforts of the United States and helped build several large bridges throughout the country. The relief and rehabilitation program got a further boost when Scandinavian countries entered in these efforts. Japan participated in these endeavours in 1974 and soon, in the early 1980s, overtook all other countries in terms of financial assistance.

After the initial emergency situation was tackled, the emphasis of these countries in Bangladesh evolved into economic development focused activities. The United States led this new approach by their program in three broad sectors: improved soil fertility, food security, and increased off-farm employment. As the government of Bangladesh had been hospitable to foreign assistance, some richer smaller countries like Germany, Canada, Switzerland, the Netherlands, Australia, and others joined in the socio-economic development efforts. The largest of the donors, Japan, vigorously provided financial and technical assistance in almost all major infrastructure built in the country and numerous human resource development initiatives. The World Bank, Asian Development Bank (ADB) and UNDP were the next agencies who came with huge funds and lent the country aid in infrastructure, agriculture, social development (education, health, nutrition, population), and private sector development projects. Thus from 1972 to the early 1990s, foreign assistance was virtually the sole major source of economic development and growth in the country.

At the end of 1980s and early 1990s, the World Bank and IMF played key roles in liberalizing the country's economy, privatizing the large state-owned enterprises and shutting down the loss-making industries. These reforms were implemented with remarkable speed, without considering the ground realities and inherent problems of the country. They were the same global prescription provided to other developing countries in Latin America, Africa and Asia. The reforms resulted in the closure of many state-owned industries, privatization of many parts of the economy, loss of massive employment, increased food prices (withdrawal of agricultural subsidies) and threats to the food security of poor, increased import dependency with loss of employment, increased price for utilities, and shrunken investment opportunities. As a consequence, the mass of economists, social scientists and many policymakers become antagonistic to the activities of these multilateral organizations.

With these new changes in the economy, donors again shifted their approach to the still ongoing private-sector led development scheme with most support going to trade facilitation, SME development, private sector enablement, and enhancement of the business environment. In this period, donors also stepped into sensitive issues like governance, corruption, human rights, law and justice, etc. in the name of improving the business environment. Thus involvement of donors in this phase has become a contentious issue.

The perception regarding foreign aid also changed in this period as most aid is provided as loans rather than grants. In 2006, total loans received under foreign assistance reached to 30.3 percent of GDP which demanded a large amount of foreign currency for debt servicing. The government has accordingly reduced its borrowing from multilateral agencies and increased its borrowing from domestic sources. As a result, the share of loans under foreign assistance in relation to GDP decreased to 24.7 percent in 2009. The government in its 2009 budget has planned to further reduce its size to 21.5 percent of GDP by 2012.

Conclusion and Recommendations

From an aid-dependent to trade-dependent economy

Economic history says that all successful economies of the world grow by either enhancing their domestic consumption or by diversifying their base of exports; therefore the right path for Bangladesh would be to embrace the export-oriented industrialization growth path, as domestic demand was too small. However, because of the then-ruling party's orientation with the socialistic ideology, Bangladesh undertook import-substituting industrial policy for economic development. As in many other developing countries, this did not work. Exports remained depressed, while imports continued to increase. As a result, both the balance of trade deficit and the current account deficit as a proportion of GDP almost doubled from 1973/74 to 1980/81 (Hossain et al., 1998). As a result, the dependence on foreign aid to meet its demand for foreign currencies increased.

An important event in international trade took place in this period. In 1974, the developed countries agreed to follow a Multi-Fibre Agreement (MFA) in international textile and clothing trade which created opportunities for poor countries to join in this trade with guaranteed quotas. Reaz Garments Ltd. was the first company to exploit this opportunity in 1978 by exporting 10,000 men's shirts worth 13 million French Francs to a Paris-based firm. Soon another eight export-oriented garment manufacturing industries, all of which were private companies, were opened in the country. Bangladesh also got its first equity joint-venture by a foreign company with a private Bangladeshi company in this sector in 1980 when Youngones Corporation of Korea partnered with Tremix Ltd. to open three new factories named Youngones Bangladesh Ltd.

The number of garment manufacturing units increased to 47 in 1982 and reached to 587 in 1985. From only a few million in export earnings in 1978, the country exported around US$0.9 billion worth of garments in 1983/84. This is one of the few cases where even though the domestic trade and industrial policies were not trade-friendly, the favourable international trade policy with guaranteed market share was the key factor in building a large export-oriented sector in some developing countries. At this stage, Bangladesh realized that with some policy support, the export earnings from garments can be increased many fold. Back-to-back L/C systems, and export performance benefit scheme and a cash compensatory scheme were introduced in the mid- to late-1980s to support the export-oriented industries.

Then in the 1990s Bangladesh embraced an export-led growth strategy and brought major reforms in industrial, export, import and foreign investment policies. About the same time, the European Union started to provide generalized system of preference (GSP) facilities to many sectors including garments of Bangladesh. Later Canada and Japan also introduced GSP facilities for Bangladesh. These preferential market access options gave a remarkable boost in exports and investment in backward-linkage industries and thus helped the country gain a solid footing in the international textile and clothing trade. As a result, after the MFA was phased out in 2005, the garment industry was able to continue its export growth. Now, there are 4490 garment manufacturing units in the country with around 2.2 million directly in employment. The garment sector earned US$9.4 billion in 2007, which is around 75 percent of the total export earnings. Its contribution to GDP was 13 percent.

The GSP scheme provided by the European Union, Canada and Japan also facilitated export growth in other sectors, mainly leather goods and processed leather, frozen fisheries, processed food and light engineering products. In 2009, the country for the first time exported ocean-going medium-sized ships (2900 DWT) to Denmark, opening a new horizon in the export sector. Soon more Danish companies, German companies and also the Mozambique office of the World Bank rushed in with more orders. This again proved that sincere support by developed countries can immensely help in the industrialization of developing countries.

This grand export performance and also a substantial rise in remittances substantially reduced the demand for foreign aid. In the last five years Bangladesh has experienced a positive balance of payments, and in June 2009, the foreign exchange reserves reached to US$7 billion, which is equivalent to around six months' import value.

Table 25: Ship building — The new promising sector in export and mass employment

Bangladesh, a riverine country, has an indigenous small ship building industry to meet local needs. Each year they build hundreds of passenger ferries, launches, small oil tankers, cargo ships and barges. The Danish Embassy to Bangladesh sees this as a potential sector for export. The challenge was to design ships of international quality, fitting the ship yards with modern equipment and obtaining international quality accreditation on work quality. For Bangladeshi shipyards, this was not an easy task.

To live up to the potential, in September 2005 the Danish Embassy successfully persuaded Danish ship consortium CS & Partners to invest US$20 million for constructing two multipurpose oceangoing vehicles (each with 2,900 DWT) at a local shipyard named Ananda Shipyard and Slipways Ltd. The CS & Partners provided the design, technical, engineering and logistical support to the local shipyard in the construction of these two ships. The ships were completed by April 2008 and immediately sold to Stella Maris Shipping of Denmark. The high quality of the work and lower construction cost immediately caught the attention of many ship buyers throughout the world. As a result, Ananda Shipyard has so far received orders to build 20 more ships with a worth of US$150 million to be delivered within 2011. The buyers include a German shipping line (two vessels), the World Bank office in Mozambique (six ferries) and CS&Partners (12 vessels).

Observing the success, CS & Partners decided to work with other local shipyards as well. They put in an order for five oceangoing vessels with a value of US$65 million to Western Marine Shipyard Ltd. This encouraged other large local shipyards to upgrade their infrastructure to meet the international standards that shipping companies were looking for. Agents of shipping standardization companies also expressed their satisfaction after inspecting the facilities. This resulted in a sudden increase of orders: Western Marine gained an additional order of 13 vessels (12 multipurpose vessels for Germany and one floating reception vessel and pontoon barge for Finland), whilst High speed Shipbuilding and Engineering received an order from Hollander Scholtens (HS) Groningen to build eight oceangoing vessels.

Never was ship building considered as a potential export industry in the past, yet now most experts are hoping that within a short period of time the country can become a new premier destination for companies seeking construction of small ocean-going vessels (25,000 DWT). The total market size of this segment is US$400 billion and if 5 percent of this market can be captured by Bangladesh within five to eight years, total export volume would reach to around US$20 billion and create around 200,000 jobs.

Source: 1. The Daily Star (3 February, 2008), 2. AsiaPulse news (14 May, 2008), 3. The website of Danish Embassy in Bangladesh

The future of Bangladesh — becoming a middle-income country by 2020

According to the World Bank (2007), Bangladesh could become a middle-income country (defined by the International Development Association as one with per capita gross national income (GNI) of $875): (i) by 2023 if the average per-capita GDP growth holds at the 3.5 percent level of the last 10 years (assuming GNI growth equals GDP growth) or (ii) by 2016, if average GDP growth reaches a challenging but not impossible 7.5 percent.

Bangladesh aspires to become a middle income country by 2020. The country has achieved much-improved economic fundamentals in last 37 years. The poverty rate declined from an estimated 70 percent in 1971 to 58 percent in 1992 and to 40 percent in 2005. However, to advance further from here will require many important steps by the government, including developing sound economic and social policies, nurturing the entrepreneurship culture, investing in human resource development, facilitating the private sector, investing in infrastructure, increasing productivity in the agriculture sector and above all improving governance, which is a critical weakness for Bangladesh.

Global actions in achieving 'middle-income' target

Bhattacharya and Deb (2006) in their paper 'Bangladesh 2020: An Analysis of Growth Prospects and External Sector Behaviour' have made projections, based on the past experiences and in the context of the changing global trading regime, about the required level of exports, imports, remittances, foreign aid and foreign investment for Bangladesh to attain the 'middle-income' target. The calculation was prepared with three probable growth scenarios — a consistent GDP growth at the rate of 4 percent, 6 percent and 8 percent up to year 2020 and considering the following assumptions:

- ***Assumption 1:*** Taking into account the global aid climate as well as domestic absorptive capacity for the period up to 2020, real flows of foreign aid had been assumed to be US$1 billion annually.
- ***Assumption 2:*** Elasticity of GDP with respect to exports, imports and remittances will be the same as was in Bangladesh during the FY1991-FY2001.
- ***Assumption 3:*** Since Bangladesh has no significant and consistent experience of FDI flows, elasticity of GDP with respect to FDI may be similar to that of South-East Asian countries in the mid-1980s and mid-1990s.

The estimations are presented in Table 26 which shows that the more Bangladesh can integrate with world economy through increased trade as well as higher remittances and substantial FDI, the more the GDP will grow and sustain that level of growth.

Table 26: Required exports, imports, remittances and FDI growth rate to achieve 'middle-income' target

	Sustained GDP Growth Rate up to 2020		
	4% per annum	6% per annum	8% per annum
Per annum export growth rate	10.42%	15.63%	20.83%
Per annum import growth rate	8.79%	13.19%	17.58%
Per annum remittance growth rate	7.35%	11.30%	15.07%
Per annum FDI growth rate	10.78%	16.17%	21.56%

Source: Bhattacharya and Deb, 2006

Unquestionably this high level of growth in the external sectors can be achieved by Bangladesh with the active support of global partners. In the following, some suggestions are provided for global partners that can significantly improve the external sectors of the economy and create opportunity for the 60 million poor of Bangladesh to rise out of poverty.

Suggested actions for global partners

Exports:

1. Broaden the basket of exports by providing meaningful market access by relaxing rules-of-origins in the sectors where Bangladesh has competitive advantage;
2. Provide technical assistance to Bangladeshi entrepreneurs to enter into new export sectors and thus diversify the export base (the ship building case can be an ideal example). Other promising sectors include pharmaceutical, furniture, light-engineering, jewelleries, electronics, software and business services, etc.;
3. Support the export-oriented industries in increasing the productivity and thus achieving higher competitiveness;
4. Either eliminate non-tariff barriers in agriculture exports, or work with the agricultural exporters to build their capacity to achieve the desired standards in production and processing;
5. Enhance the current SME development programs by focusing on their export capability and linking them with the foreign companies;
6. Support reform of industrial and trade facilitation policies of Bangladesh so that it can take advantage of the opportunities offered by various developed countries under their GSP schemes;
7. Provide financial and technical support in building necessary infrastructures like deep sea port, inland container terminals, railway, power, etc.;
8. Embrace a quota-free, tariff-free regime in the WTO for LDCs and also persuade the leading developing countries to open their markets for LDCs.

Imports:

The higher import trend indicates that Bangladesh will continue to depend to a large extent on the import of capital items and intermediate goods.

1. Facilitate linkages with capital goods producers that will help the sectors to be more productive and assist in increasing productivity as well as new product development;
2. Assist domestic entrepreneurs to enter into new sectors that entail processing of imported raw materials leading to local value addition. Some suggested sectors are automobile assembling, metal works, electronics, electrical goods (generators, pumps, etc.), chemicals, paper and processed foods;
3. Relax the rules-of-origin in market access in way that enhances the local value addition on imported intermediate goods;
4. Introduce new capital and intermediate goods and build the capability of the domestic industry to use those in a way that enhances productivity. An example can be the successful introduction of a wood seasoning machine by a development project to improve the quality as well as productivity of the furniture industry. Other potential sectors include construction, metal works, light and glass industries, energy conservation, solar energy, transportation and telecommunication.

Conclusion and Recommendations

Remittances:

The current population structure of developed countries requires a continuous import of skilled and semi-skilled labour to sustain the economic growth of those countries.

1. Assist domestic education and training institutes so that they can produce human resources with the necessary skills required by the importing countries;
2. Invest in human resource development, especially in the highly skilled sectors;
3. Embrace a predictable and fair hiring system of migrant labourers, providing special access to people from least developed countries;
4. Educate people regarding the process of obtaining labour permits or temporary migration, as lack of information in this regard hinders many people from exploiting this opportunity;
5. Assist in the efforts of Bangladesh to increase remittance flows through banking channels;
6. It is now established that the effects of climate change are true and it may displace as many as 22 million people who will lose their home and agricultural lands. As Bangladesh is already an extremely high population density country, many international and domestic experts are urging this problem can only be tackled by the developed countries by providing migrating opportunities to these people.

FDI:

1. Facilitate investment in new sectors to broaden the export basket;
2. Persuade investors to invest in the backward and forward linkage industries in both the export and domestic sector;
3. Provide policy support to Bangladesh in promoting FDI;
4. Enable FDI in large infrastructural projects like a deep sea port, power, air travel and hotels;
5. Initiate FDI in the service sector both for export and domestic economic activities.

Some recent issues:

1. The EU recently expressed that they are going to reduce the value addition criteria for LDCs from currently two steps to one step to avail the GSP facility under the EBA (Everything but Arms) scheme. It may help other LDCs but it will be a severe blow to the spinning, knitting and textile industries of Bangladesh, which employ around 500,000 people.
2. After repeated efforts of about five years by the government and trading bodies, a bill was introduced in the US Senate on May 2009 to provide GSP facilities to the LDCs of Asia, including Bangladesh, in the textile and apparel trade. As other LDCs get GSP facilities in the US market under various trade agreements, Bangladesh has been failing to increase its market share in the United States. Therefore, this bill will be one of the crucial determinants whether Bangladesh can reach 'middle-income' country status by 2020.

Conclusion and Recommendations

Domestic endeavours in achieving middle-income target

To achieve the middle-income target and increase performance of external sectors, Bangladesh needs to place emphasis on two broad issues: raising the total factor productivity (TFP), i.e. the efficiency with which resources are used in production, (from current per annum growth rate of 0.4 percent to 2.0 percent) and encouraging private investment (from current rate of 25 percent to 31 percent) (World Bank, 2007). For enhancing TFP, it is important to undertake massive programs to improve human capital as well as making the production process more efficient by introducing more capital resources and discarding inefficient practices. Regarding increasing private investment, the demographic trends is conducive, as the share of working-age population is increasing which tends to raise the household savings rate. Increase in savings will also depend on the growth of remittances and the efficiency of the financial system. Attracting more FDI will be also a key factor in filling the gaps in investment rate.

Another critical issue is to sustain the effort of improving the business climate and improve the quality of government programs by improving governance. In a survey to 1001 firms in Bangladesh by the World Bank and Bangladesh Enterprise Institute (2003), around 60 percent of firms expressed corruption as the major constraint in business operations, followed by the lack of stable and adequate supplies of electricity. Many studies have estimated that if governance can be improved to the desired level, the country's GDP may increase by around 1 percent per year. However, governance is a fundamental structure of society, politics and economy where many interest groups interact and thus introducing change can be slower and requires a long-term approach.

Improving labour skills

A key comparative advantage of Bangladesh is the cheapest labour, which is not only because of the abundance of labour but also due to their low-skills. East Asian economies have demonstrated that abundant labour only translates into global competitiveness when the labourers attain high skill and thus foster productivity.

1. Improve the quality of education at both primary and secondary level and remove the urban-rural disparity in quality. Greater emphasis on market needs is a must while focusing on quality;
2. Improve the quality and market relevance of the vocational education and training. The key reason is that the government has so far not sought suggestion from the private sector regarding their needs. A partnership between the government and private sector bodies can effectively improve this scenario;
3. Support private sector bodies through policies and financial support so they can initiate training courses to get trained labour. One such effort began in 2008 where the readymade garments exporters trading body set up four training centres in the poverty pockets of the country to provide one month hands-on training with readymade garments machineries. This improved the productivity of readymade garments factories and ensured better starting wages for the labourers. Such efforts need to be promoted in other areas and sectors, and require further planning to improve the training equal to the vocational certificate courses;
4. Modernize tertiary level education focusing on market needs of both domestic and expatriate workers. Because of the constraint of lack of tertiary level education opportunities, a large number of managers in Bangladesh are still sourced from India and Sri Lanka.

Addressing infrastructure bottlenecks

1. Immediately increase the reliable electric power supply through both public and private investment. The major hindrance for this factor does not lie with the favourable environment of private investment,

however; rather it is about bureaucratic inefficiency, corruption and political nagging in awarding power station contracts;

2. Reduce the leakage and increase the efficiency of power distribution sector (electricity and gas) which are entirely government-owned. The government has recently formed the energy regulatory commission to initiate reforms in this sector. However, at the present time their achievement has been very little;

3. Foster the port service, which will reduce time, cost and harassment. This requires both modernizing the port infrastructures and machineries as well as streamlining the operational mechanism at ports. There has been some mechanization of port facilities over last few years; however, the service has not improved much due to persistent problems in operational mechanisms. It is more of a governance bottleneck than a technical one, as the ports are owned and operated by the government;

4. Increase the routes and number of railway container services as well as the inland container depots. The service at depots also needs to be streamlined. Attracting private investment in this sector can be an option that has been adopted by many Asian countries. A recent proposal by a domestic private company to establish a water-transport based inland container depot shows their interest as well as readiness about this development;

5. Build urban transport facilities, as the majority industries are situated within and besides the two principal cities — Dhaka and Chittagong. The traffic jams and erratic access roads to these industries have become emergency hurdles for the country. To this regard, the government has recently in its 2009 budget declared to adopt public-private partnership in erecting an elevated expressway and access roads.

Improve the functioning of trade, industrial and investment policies

1. Enable a more favourable environment for FDI. Interestingly the policies are favourable for FDI but the enforcement and consistency varies. Attracting FDI also requires actions to reach out to investors. The government also needs to promote the idea of large portfolio FDI among the large domestic companies, a strategy which has been tremendously successful in the case of India;

2. Remove the remaining anti-export bias by further liberalizing tariff rates and trade policies. However, the country needs to strengthen the tax administration in collecting income taxes and VATs before enacting deep changes that may hinder the amount of government resources;

3. Improve the efficiency of duty-drawback system and cash subsidies by ensuring quick payments to the industries. As these are paid with two to three years lag time, the industries have to bear the financial cost, borrowing from banks to fill the gap. Bribing is also rampant in getting the money. The government immediately needs to make the process speedy as most of this money is spent on increasing the production capacity at industries;

4. Enable creative changes in policy to accommodate opportunities offered by regional trading agreements like SAFTA and also recent GSP schemes by China and other big developing economies for the LDCs. In this regard, effective investment promotion and protection agreements in some targeted sectors with those countries can be a good option to ensure investment;

5. Promote the 'Made in Bangladesh' brand by providing financial and policy support to private sector bodies. Though it was thought of as the job of Bangladeshi embassies throughout the world, recent endeavours by the private sector bodies have proved that they can do it more effectively.

Strengthening the financial system

1. Increase the share of official remittance flows by improving the remittance disbursement service by banks and raising the awareness of people about its benefits in macroeconomic management. The private banking sector has already established business linkages with foreign banks to simplify the remittance sending and receiving process. They also maintain the confidentiality of recipients which was big concern with government-owned banks. However, as the private banks operate only in cities, improving the service quality and confidentiality of government-owned banks (they have branches at rural levels) are musts to increase further flows of remittances through official channel;

2. Decrease bad debt at government-owned banks. Also improve the efficiency and professionalism at these banks. This can be done either by rationalizing the current management system or by selling the banks to the private sector;

3. Strengthen regulatory and supervisory institutions and frameworks for financial, capital and insurance markets. Develop new monitoring tools to assess the long-term viability of financial institutions in the light of learning from the ongoing financial crisis. Strengthen the Securities and Exchange Commission rules to protect the small shareholders and build confidence in this new institution. Recently, the government has updated the regulatory framework for insurance companies in align with modern practices.

Improving governance — a core weakness of the country

The four key intervention areas to improve governance are: Improving bureaucratic efficiency and capability; reduce corruption at all levels of government transactions as well as in service delivery; improve the regulatory environment by simplifying the laws; and finally, improve the performance of judicial system. There are also other aspects of governance that need to be improved but these four require immediate attention as they largely affect the investment and business climate.

Impact of global recession on Bangladesh[5]

The export and remittance growth rate has slowed in the latest fiscal year 2008/09 due to the global economic downturn which shows that Bangladesh has largely escaped the first round effects of global financial crisis. The World Bank estimated 2008/09 GDP growth rate to 5.5 percent, which is impressive in any accounts and is better than any country in South Asia. However, there are some recent signs that deepening recession in developed markets and economic slowdowns in the Middle East are beginning to threaten Bangladeshi exports and remittances.

Impact on exports

During the first eight months of 2008/09 (from July 2008 to February 2009), Bangladesh exported in total US$10.3 billion. Compared to the same period last year, total export volume increased by 13.6 percent while average prices rose by 2.3 percent. This has been achieved due to strong export growth in readymade garments sector, both in knitwear (23.1 percent) and woven (19.3 percent). However, exports in other sectors have declined considerably: Leather goods (-33.1 percent), jute goods (-18.1 percent), raw jute (-19.8 percent), pharmaceutical products (15.5 percent) and frozen food items (11 percent).

5 Based on World Bank, 'Bangladesh: Semi-Annual Economic Update', April 12, 2009.

A closer look into the quarterly export figure shows that between the two quarters, second quarter of 2008/09 and the first quarter of 2008/09, readymade garments export declined by 20 percent from US$3.4 billion to US$2.7 billion, while non-readymade garments (non-RMG) export have fallen by 33 percent to US$683 million from US$1.0 billion. This indicates future drops in exports.

Concerns in the readymade garments sector

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) reported a slowdown in export orders for woven garments since September 2008. In February, BGMEA reported a decline in export orders of 17.6 percent after recording a decline in export orders of 5.5 percent in January and 7.7 percent in December 2008. Readymade garments export orders grew by a miniscule 0.1 percent in March 2009, compared with 22 percent growth in March 2008. BKMEA, the apex body in knitwear garments, has also reported slowing of orders since September 2008 and growth turned negative during December 2008 to March 2009. Given the time lag between orders and shipments of about 4 months for woven garments, a slowdown in growth of exports or even a decline may become evident in Q4 of FY09. There is also evidence that buyers are renegotiating prices and delaying orders.

Concerns in non-RMG sector

The non-RMG sector has reported a downward trend in demand as well as significant fall in prices. Frozen shrimp has experienced steep decline in price from US$5 per kg to US$3.7 per kg. Profit margins for vegetable exporters (exporting mostly to the United Kingdom) have eroded due to the sharp depreciation of the UK pound vis-à-vis the US dollar. The Jute Mills Association and Jute Spinners Association have reduced their production by 25 to 30 percent due to the slump in external demand for raw jute and jute goods. Anticipated retrenchment of around 50,000 workers is predicted in the jute sector by the end of 2009, if demand conditions do not improve. The emerging shipbuilding sector has also been adversely affected as both price and demand for ships have declined.

Impact on remittances

Official remittance inflows increased by 24.4 percent in the first nine months of 2008/09 compared to the same period last year. However, the number of migrants returning home due to job losses is increasing. In March 2009 alone, more than 4500 workers returned home due to having been laid off. Record high remittance inflows in January 2009 and even higher inflows in March 2009 suggests that this may be due to terminal returnees repatriating their savings. There also has been a marked slowdown in the outflow of migrant workers; about a 25 percent decline in first nine months of 2008/09 from 407,000 to 342,000. However, net migration flow is still positive from 4.7 million in February 2008 to 5.4 million in February 2009.

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Annex 1

The Outline of the Research Methodology

i) Secondary literature review and study tools development.

Secondary literature was collected and reviewed to develop a general idea on 'global partnership for development' in the context of Bangladesh. During this phase, the tools for data collection and interviews with key informants were designed.

ii) Organized and facilitated an initial workshop with national stakeholders.

A day-long initial workshop was organized on 14 March 2009 to explore and rank the most important global issues influencing Bangladesh. Representatives from government, private sector, civil society groups, the media and key donors were invited to the workshop to help identify the global issues that are most likely to have an impact on the country and poor people within the country. The guideline mentioned in the Terms of Reference was followed while organizing the initial workshop.

iii) Data collection.

Quantitative data and perspectives were collected in line with the templates prepared for the project as mentioned in ToR incorporating data base and reports in Bangladesh from agencies such as Bangladesh Bureau of Statistics, Bangladesh Bank and other published document sources.

iv) Short narratives on key global issues.

Short narratives for key global issues were provided. The narratives were based on collected data combined with the perspectives of important stakeholders gathered in the initial workshop.

v) Long interviews with key stakeholders.

Long interviews were conducted with key stakeholders in government and associated agencies, development partners and others. The aim was to 'tease out' possible policy implications and options for domestic stakeholders in Bangladesh and for international policy makers.

Annex 2

Governance in Bangladesh: A mixed record

Governance in a country refers broadly to the exercise of power through the country's economic, social and political institutions. These include the processes by which governments are selected, held accountable, monitored and replaced; the capacity of the governments to formulate and implement policies and manage resources efficiently; and the respect of citizens for the institutions that govern social and economic interactions among them. Good governance is underpinned by a system of checks and balances embedded in an accountability framework that is based in the rule of law and in transparent transactions and exchanges of information.

The World Bank Institute has developed a set of indicators aimed at capturing these broad dimensions of governance. These perceptions-based indicators, which cover some 209 countries, have been used since 1998 to measure performance in six main dimensions of governance: *voice and accountability, political stability, government effectiveness, regulatory quality, rule of law*, and *control of corruption*.

Bangladesh scored poorly on all six indicators for 2004. For *control of corruption* Bangladesh's percentile ranking was 10.3; for *political stability*, 11.7; for *regulatory quality*, 13.3; and for *rule of law*, 22.2. Bangladesh did somewhat better on *government effectiveness* (26.4) and *voice and accountability* (28.6). Bangladesh's performance compares poorly with that of other low-income countries on *political stability, regulatory quality* and *control of corruption*, while it outperforms other low-income countries on *voice and accountability* and *rule of law*.

Source: World Bank (2006), Bangladesh: Country Assistance Strategy 2006–2009.

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