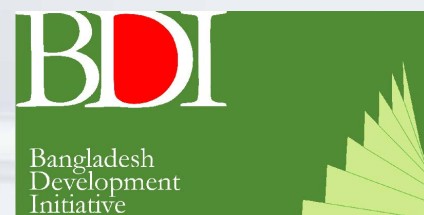


Volume 21  
Number 2  
Year 2019  
ISSN 1529-0905



Journal of  
**BANGLADESH  
STUDIES**



# Bangladesh of the Future: Prospects and Challenges

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## Abstract

At the time of its independence, some experts called Bangladesh a “test case of development.” Defying the challenge implied by this characterization, Bangladesh has attained remarkable progress in the past decades, becoming a middle-income country with significant social achievements. The nation has bright prospects over the next thirty years, favored by factors such as political stability, homogeneity of the population, compactness of settlement, demographic bonus, a dynamic entrepreneurial class, a culture that places a high premium on education, a large diaspora, and the proximity to India, China, and the ASEAN countries. However, Bangladesh also faces many challenges in realizing the full potential of these factors. The challenges include raising the efficiency of public investment, strengthening local government, achieving greater equity and social cohesion, reducing corruption, protecting the environment, and ensuring political inclusion. The young generation, imbued by patriotism, confidence, and enthusiasm should be able to carry Bangladesh to greater success.

## 1 Introduction

Bangladesh has come a long way since winning independence in 1971. At its inception, the nation experienced a duality in its circumstances and prospects. On the one hand, there were tremendous hope and aspirations. The independence was achieved through the victory in a glorious Liberation War, which generated a tidal wave of expectations, energy, and enthusiasm. On the other hand, there was the sober reality of an economy with low per capita income, a large and rapidly growing population, and an undeveloped infrastructure, further diminished from the severe damage during the war.

Soon after the Liberation, and before the process of rehabilitation and reconstruction was complete, the country was thrown into a crisis by a military coup on August 15, 1975, which changed the direction of the country, placing the administration under a military and quasi-military rule. Bangladesh took many years to restore civilian rule and reassert its political identity.

Over time, Bangladesh has made significant progress in economic growth and social progress. It has moved from the ranks of “Low Income” countries to that of “Lower Middle Income” countries, surpassing Pakistan in per capita income. Further, it has surpassed India in many health and social indicators, including life expectancy and gender parity. The country has achieved self-sufficiency in food. It has emerged as the second largest exporter (after China) of ready-made garments in the world. The country is manufacturing many household appliances,

including refrigerators and air-conditioners and is poised to manufacture cars. It is building ships and exporting them to developed countries.

Encouraged by this progress, the government has declared the goal of making Bangladesh a high-income country by 2041. Bangladesh indeed has the potential to make further progress in the coming decades. The favorable factors include: (i) political stability, (ii) homogeneity of the population, (iii) physical compactness of settlement, (iv) the emergence of a dynamic entrepreneurial class, (v) “demographic bonus”, (vi) a culture that puts high premium on education, (vii) a large diaspora, (viii) access to sea, (ix) and proximity to India, China, and the ASEAN countries.

However, Bangladesh faces many challenges in taking full advantage of these favorable factors. The challenges include: (i) raising efficiency of public investment, (ii) strengthening local government, (iii) achieving greater equity and social cohesion, (iv) protecting the environment, and (v) ensuring political inclusion. The progress the country makes in the next thirty years will depend largely on its success in meeting these challenges.

The rest of the paper is organized as follows. Section 2 briefly reviews the progress Bangladesh has made since independence. Section 3 reviews the factors favorable to Bangladesh’s growth and development in the coming decades. Section 4 discusses the challenges that Bangladesh faces in taking advantage of these favorable factors. Section 5 offers concluding remarks.

## 2 Significant achievements in economic growth and social development

At the time of its independence in 1971, some experts characterized Bangladesh as the “test case of development,” implying that if development was possible in Bangladesh, it would be possible anywhere in the world.<sup>1</sup> Former US Secretary of State, Henry Kissinger, is alleged to have described Bangladesh as a “bottomless basket” during those early years.<sup>2</sup>

However, defying these pessimistic and pejorative characterizations, Bangladesh has achieved remarkable progress since independence. From a Low-Income country, it has become a Middle-Income country. It is in the process of graduating from the UN category of Least Developed Countries (LDCs). The country’s growth rate increased to 8.13 percent in 2018-19. Its foreign currency reserves now exceed 30 billion US dollars. It has financed large infrastructure projects, such as the Padma Bridge, out of its own resources. It has a flourishing pharmaceutical industry, which now exports medicine even to the USA. The following briefly reviews the progress that Bangladesh has made.<sup>3</sup>

### *Virtuous cycle among labor-intensive export, remittances, construction, and service sector growth*

Bangladesh has done well in utilizing its ample, low-cost labor in several ways. The first is in developing a labor-intensive manufacturing industry for exports. Bangladesh is the second largest exporter (after China) of ready-made garments in the world. Its manufacturing capability has now extended to many consumer durables, such as refrigerators and motor bikes. It is about to graduate from car assembly to car manufacturing. It is building ships for export to developed countries. It is becoming a hub for producing labor-intensive electronics. Second, Bangladesh has a booming construction sector, which is labor-intensive with strong forward and backward linkages. Third, Bangladesh has succeeded in exporting labor directly for overseas employment, most notably in the Middle East. This has resulted in significant remittance earnings, which have a strong multiplier effect on the economy. The augmentation of domestic demand

by remittances helped the growth of industry, housing, and services. The remittances enable the flow of capital to small investors and entrepreneurs. The success in increasing exports and capturing remittance earnings has been the main source of Bangladesh’s significant foreign currency reserves.

### *Progress in agriculture*

Another process, which has contributed to Bangladesh’s recent economic progress, is the growth of the agriculture sector. Government policies played an important role in this regard, ensuring the supply of modern inputs such as tube-well irrigation, chemical fertilizers, and pesticides. Once a severely food-deficit country, Bangladesh is now self-sufficient in food, despite the increase in population from 75 million in 1971 to about 165 million in 2019. Government policies have also helped the expansion of farm poultry and fisheries. Bangladesh is now the second largest producer of freshwater fish in the world. The technological foundation for the agriculture sector has changed, with machines replacing muscle power in tilling, irrigating, threshing, milling, crushing, and plying of boats and carriages, etc. Thus, the process of industrialization is not limited to industry and urban areas; it has spread to rural areas and agriculture.

### *Impressive social development*

Alongside economic growth, Bangladesh has made impressive gains in the social and health sectors. The life expectancy at birth has risen from 42 years in 1971 to more than 70 years in 2019. Bangladesh has received global recognition for its success in achieving the Millennium Development Goals (MDGs), particularly in raising school enrolment rates, decreasing the gender gap in schooling, and reducing child and maternal mortality rates. Bangladesh has also achieved progress in sanitation and access to clean drinking water. Dramatic changes have occurred in tertiary education with the emergence of hundreds of new universities and other educational institutions, mostly in the private sector. Bangladesh is ahead of many developing countries in the penetration of mobile phones, internet connections, and various platform-based digital services.

<sup>1</sup> See Faaland and Parkinson (1976). See Nazrul Islam (1984) for a discussion of the views of Faaland and Parkinson and other scholars expressed during the 1970s on the prospects of Bangladesh.

<sup>2</sup> See *Financial Express*, Saturday, May 11, 2013.

<sup>3</sup> For detailed data and information, see CPD (2018), IMF (2019) and World Bank (2019a).

The growth of the ready-made garments manufacturing sector, employing roughly four million women, has played a major role in “liberating” women in Bangladesh in recent decades. Non-government organizations (NGOs), including various micro-lending agencies, played an important role in Bangladesh’s social achievements. By focusing on women, the Grameen Bank, BRAC, and other micro-financing organizations have helped women emerge from the confines of their homes and assume a more active role in the economy and society. The government’s policies to employ women in public sector jobs, including police and military, have also played a significant role.

#### *Comparison with Pakistan and India*

Bangladesh’s success in economic growth and social development becomes more prominent when compared

with Pakistan and India. Table 1 presents data on the GDP, life expectancy, gender parity, and Human Development Index (HDI) for these neighboring countries (Figures 1a, 1b, and 1c provide the same information). The graphs show that by 2017 Bangladesh surpassed Pakistan in terms of per capita GDP. Its life expectancy at birth was six years higher than that of Pakistan. Bangladesh was ranked higher than Pakistan on gender parity and the Human Development Index (HDI). These rankings are instructive since Bangladesh was economically exploited by Pakistan for several decades before it gained independence. The fact that Bangladesh successfully emerged from the damages of semi-colonial exploitation and the disruption caused by the Liberation War to overtake Pakistan in social and economic progress validates the fundamental argument for its independence movement.

**Table 1:** Comparative performance of Bangladesh, Pakistan, and India

Item	Year	Bangladesh	Pakistan	India
GDP per capita (\$)	2017	1,588	1,548	2,009
Life expectancy (year)	2016	72.49	66.48	68.56
Gender ranking	2018	48	148	108
HDI	2017	0.608	0.562	0.640

*Source:* Author, based on data from World Bank (2019b) and UNDP (2019)

Table 1 further shows that Bangladesh has done well relative to India, the largest country in South Asia and one of the fastest growing economies in the world. Bangladesh is close to India in terms of per capita GDP and has surpassed both India and Pakistan by at least four years in terms of life expectancy at birth. Bangladesh is also far ahead of India in terms of gender parity.

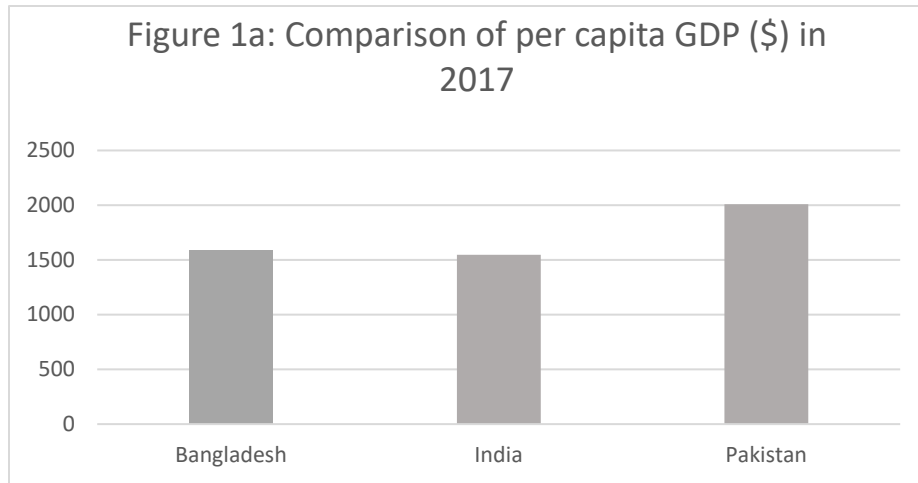
This review shows that Bangladesh has made remarkable progress in recent decades as measured by many economic and social indicators. As per the Rostow (1960) growth model, the economy of Bangladesh is now poised for take-off. However, will a take-off actually take place? Will Bangladesh soon become a modern industrial economy and society? Encouraged by recent achievements in economic growth and social development, the government of Bangladesh has set the goal of becoming a high-income nation by 2041. Can Bangladesh achieve this goal? The next sections address these questions.

### **3 Factors favorable for Bangladesh’s progress**

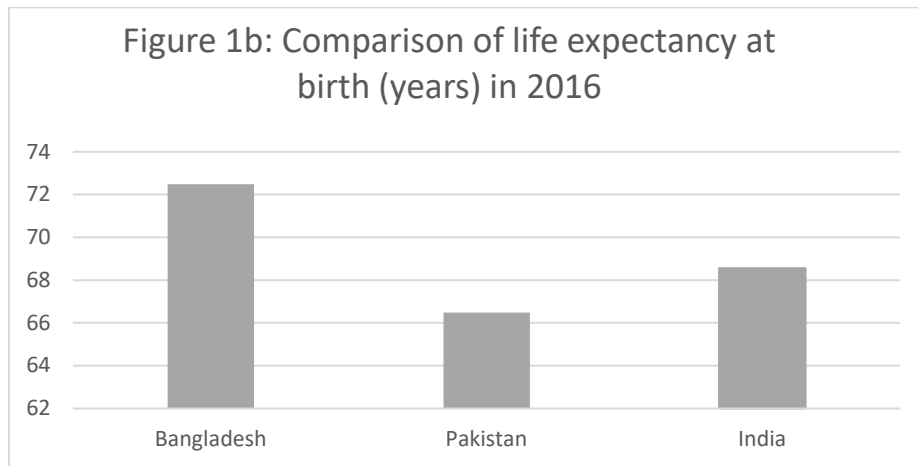
In considering answers to questions posed above, one may begin by noting that there are a number of factors that are favorable for Bangladesh’s prospects. Among these are:

- (a) Political stability
- (b) Homogeneous population
- (c) Physical compactness
- (d) Dynamic entrepreneurial class
- (e) “Demographic bonus”
- (f) Culture that puts high premium on education
- (g) Large diaspora
- (h) Access to sea
- (i) Proximity to India and China, and
- (j) Proximity to ASEAN

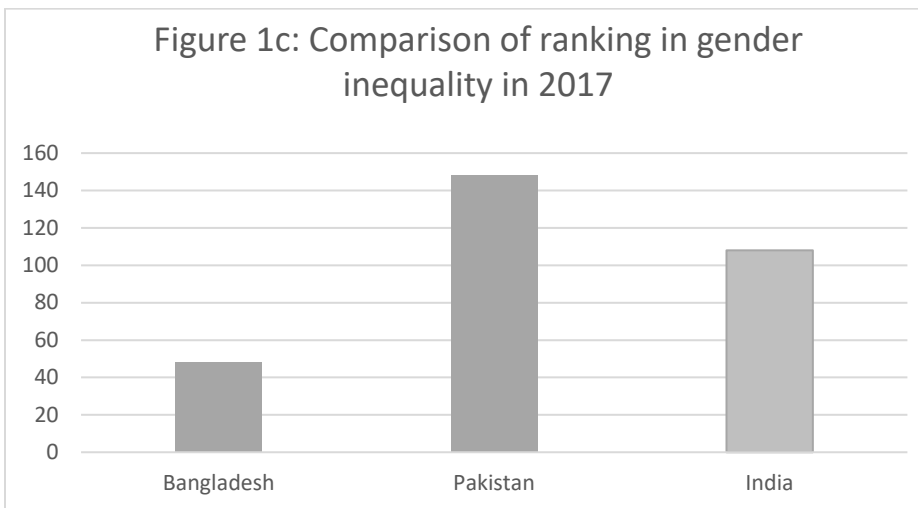
These factors are interrelated, and the above listing implies no hierarchy. To conserve space, we note below only some aspects of a few of these factors.



Source: Author, based on data in Table 1.



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*(a) Political stability*

Following independence, Bangladesh experienced violent political upheavals. Initially, political changes involved coups and counter-coups (Islam, 1981). Since the 1990s, political changes involved violent street-level agitations, including continuous general strikes, blockades, bombing, and killing of civilians. Although issues of democratic governance remain, the political situation has become relatively calm in recent years. In part, this is a result of an increased level of capital accumulation, making the capitalist class less interested in violent street agitation that hampers the functioning of capital.

*(b) Homogeneity of the population*

The second factor that favors Bangladesh is the remarkable homogeneity of its population. In this regard, Bangladesh is comparable to South Korea, Taiwan, and Japan. The bulk of the population have the same ethnicity, language, and culture. The country does not yet have an entrenched *social* division. Bangladesh's only distinct social category – comprising the Zamindars – ended with the abolition of the Zamindari system through the East Bengal State Acquisition and Tenancy Act (EBSATA) of 1950.<sup>4</sup> This does not mean that religious and ethnic diversity of the country should be belittled. The 1996 Peace Treaty signed between Bangladesh Government and the Parbatya Chattagram Jana Sanghati Samiti (PCJSS) -- the organization representing the population of the Chittagong Hill Tracts (CHT) -- has been a significant step, and this treaty should be properly implemented. Bangladesh should be able to benefit from the relative homogeneity of its population in the coming years.<sup>5</sup> It should be noted in this regard that economic inequality is increasing in Bangladesh at a rapid pace. This economic inequality may soon solidify into a *social* division unless trends in income and wealth inequality are reversed.

*(c) Physical compactness of the settlement*

Bangladesh is among the most densely populated countries in the world, with a density of 1,115 people per sq. km or 2,889 people per sq. mile in 2019.<sup>6</sup> The Bangabandhu (Jamuna) Bridge, opened in 1998, integrated North Bengal more tightly with the rest of the country. The Padma Bridge, expected to be completed by 2020, and the Payra Seaport will do the same for south Bangladesh. The enhanced physical connectivity, together with connectivity via mobile phones and the internet, and the homogeneity of the population are making Bangladesh an even more tight-knit society, where development ideas and practices can spread very quickly.<sup>7</sup> This may be called the “density dividend.”

*(d) Dynamic entrepreneurial class*

Bangladesh did not have a well-developed capitalist class before its independence. However, currently it has a dynamic entrepreneurial class. Its growth is a rather recent phenomenon, beginning largely in the 1980s. Because of the above-mentioned homogeneity of the population, the members of this class are drawn from across the society and are not limited to any specific ethnic, religious, or geographic group. There is still considerable upward mobility so that this class continues to expand through recruits from different sections of the society. As a consequence of these economic changes, the socio-cultural value system has also changed. Being engaged in entrepreneurship and business has become *socially* respectable, drawing talented youth. Because of its nascent origin, the entrepreneurial class of Bangladesh is energetic. Bangladesh can rely on this entrepreneurial class for future economic growth. However, the current incentive framework encourages rent-seeking behavior and other corrupt practices. It is important to prevent these trends and direct the talents of the entrepreneurs toward positive goals.

*(e) Demographic bonus*

Demographic bonus refers to the situation when an unusually large fraction of the population belongs to the

<sup>4</sup> See Abdullah (1976) for a discussion of EBSATA and its impact on Bangladesh's economy and society. See also Islam (2017).

<sup>5</sup> There were complaints from PCJSS that the provisions of the 1996 Treaty, particularly those related to land rights, were not implemented properly. Similarly, there were complaints from the Hindu community that their properties taken over by the State under the Enemy Act during the Pakistan period (following the 1965 War) were not properly returned to their rightful owners and their descendants.

<sup>6</sup> Bangladesh ranks 12<sup>th</sup> in terms of population density. Countries with higher density are mostly city-states or small islands.

<sup>7</sup> For example, ideas regarding cultivation of commercial crops for export have spread rapidly across the country. The same is true for poultry, fisheries, and animal farming.

working-age group as compared to those in the non-working age groups (i.e. old and very young). Bangladesh's fertility rate has declined from 6.3 births per woman in 1975 to 2.3 (close to the replacement level) in 2011. Its mortality rate has also decreased, thanks to large reductions in child mortality and a general improvement in healthcare. Large cohorts, born since Bangladesh's independence, are reaching working age, providing a demographic bonus, which the country can convert into human capital (see Rahman 2014, for details).

*(f) Culture that puts a high premium on education*

Bangladesh also has the advantage of a culture that puts a high premium on education. As in countries influenced by Confucianism, the people of Bangladesh have always appreciated learning and have seen education as the path to higher income and social status. Low income families also appreciate the importance of education. It is encouraging that people also value female education. Research has shown that the spread of female education is one of the most effective routes to social development (see, for example, Behrman, 1999 and Lincove, 2008). Education is the only pathway through which Bangladesh's huge population can succeed in a global economy, characterized by rapid technological progress.

*(g) Large diaspora*

Bangladesh's diaspora, currently about 7.5 million strong, is growing each year. A large part of this diaspora comprises Bangladeshi working in the Middle East and Southeast Asian countries.<sup>8</sup> They are also sending the bulk of the remittances. The number of Bangladeshi residing in Western developed countries is also large and growing rapidly. Previously, economists held the view that outmigration of talented citizens was a permanent loss to the country. However, increased connectivity, resulting from the revolution in communications technology, including the Internet, has enabled migrants to stay in touch and contribute to Bangladesh's development, even while residing abroad (for details see Islam, 2018). The diaspora's contribution to Bangladesh's development is, therefore, not limited to sending remittances.

*(h) Access to sea*

An important advantage of Bangladesh is its wide access to the sea. Bangladesh already has two functioning ports, and another one, at Payra, is under construction. The country is planning to construct additional ports, including deep-sea ports. Bangladesh has also constructed LNG terminals, and is planning to construct a few more. Many development economists, such as Gallup, Sachs, and Mellinger (1999), Sachs and Rappaport (2003), have emphasized the role of access to sea as a determinant of economic growth. Bangladesh's physical situation at the apex of the Bay of Bengal is an important advantage in this regard.

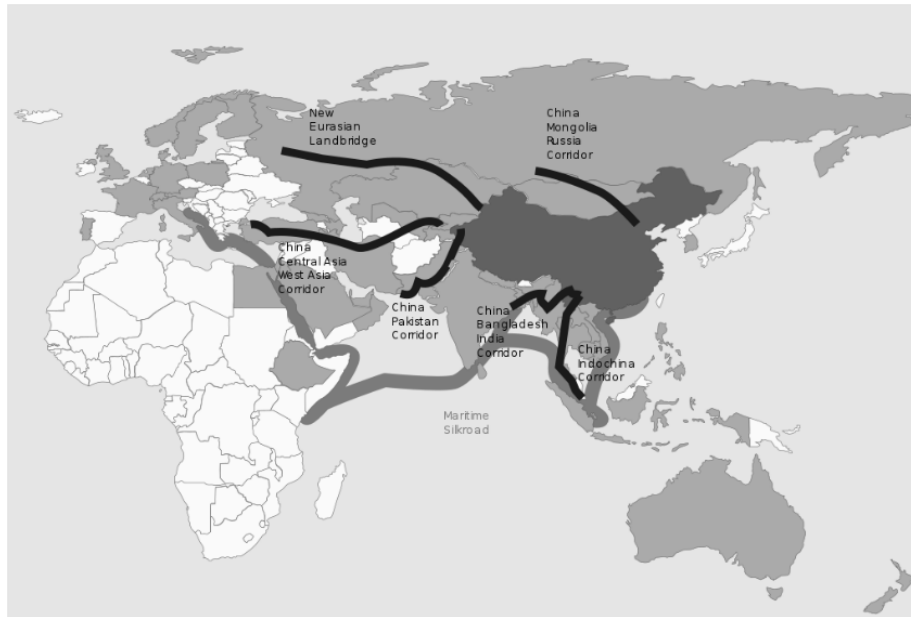
*(i) Proximity to India and China*

Growth economists, such as Chua (1993) and others, have emphasized the role of proximity to global growth centers as a determinant of growth. From this viewpoint, Bangladesh's proximity to India and China, which are among the largest and fastest growing economies of the world, is an important positive factor. With the ongoing restoration of railway and road links, which were closed following the 1965 war between India and Pakistan, the effective connectivity between Bangladesh and India is increasing. Besides, there are initiatives to establish a corridor – involving both road and railway links -- between Bangladesh, China, India, and Myanmar (Figure 2). This corridor will improve the connectivity of Bangladesh with both China and India, opening up new opportunities for trade and economic growth.

*(j) Proximity to ASEAN countries*

The proximity to ASEAN countries, many of which represent the second tier of Newly Industrializing Countries (NICs), is another favorable factor for Bangladesh. Unlike China and India, the ASEAN countries are similar to Bangladesh in terms of size and other characteristics. Psychologically, it is, therefore, easier for Bangladeshi entrepreneurs to relate to their compatriots of, say, Thailand or Malaysia. Greater exposure to ASEAN countries can instill confidence among Bangladeshi entrepreneurs for attaining what entrepreneurs in these countries have done.

<sup>8</sup> The main part of the Bangladeshi diaspora resides in the Middle East. However, large number of Bangladeshis also live in high and upper middle-income countries in the West.

**Figure 2: Kunming-Yangon-Dhaka-Kolkata corridor as part of BRI**

Source: <https://creativecommons.org/licenses/by-sa/4.0/>

## 4 Challenges to Bangladesh's progress

The factors noted in the section above hold significant positive potential for Bangladesh's growth. However, thoughtful policies are required to realize this potential. Bangladesh faces many challenges in this regard, a few of which are listed below.

- (a) Raising the efficiency of public investment
- (b) Strengthening local government
- (c) Achieving greater equity and social cohesion
- (d) Protecting the environment, and
- (e) Ensuring political inclusion

These challenges are also interrelated. The following points to some of these interrelationships.

### (a) Raising the efficiency of public investment

Raising the efficiency of public investment is a big challenge for Bangladesh. In recent years, the ratio of private investment to GDP in Bangladesh has stagnated at about 22 percent. To raise the overall investment levels, the government has been increasing public sector investment. The size of the Annual Development Plan (ADP) has expanded from several *thousand* crores Taka

in the early years of independence to several *lakh* crores Taka in recent years. Public investment in the economy now stands at roughly 8 percent of GDP.

For a developing economy like Bangladesh, public investment has considerable rationale. Public investment can help capture positive externalities and crowd-in private investment. However, for this to be true, public investment must be efficient. Otherwise, higher levels of public investment may do more harm than good. This is particularly the case when public investment is financed by budget deficits. In Bangladesh, the budget deficit often exceeds 4 percent of GDP, and the government generally borrows from the banking system to bridge the gap. As a result, banks have fewer funds to lend to private investors, crowding-out private investment. Meanwhile, borrowing from banks increases the accumulated debt and annual debt-service payments. Unless the public investment proves efficient, contributing to government revenues, this may lead to a *debt trap* (Figure 3).<sup>9</sup>

The situation in Bangladesh in this regard is not encouraging. There are widespread allegations that much of the ADP represents waste and corruption. For example, some point out that the costs of construction of roads and highways per mile in Bangladesh are substantially higher

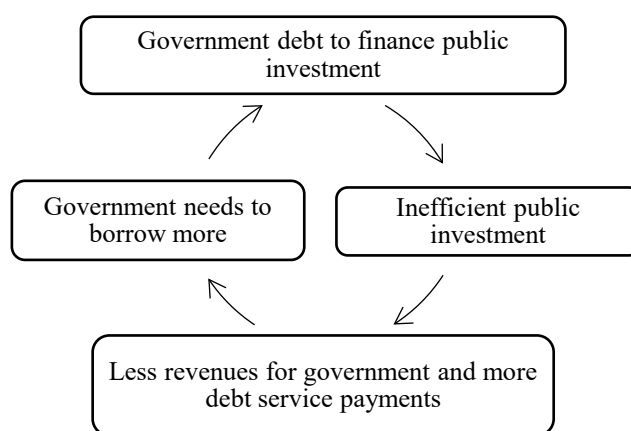
<sup>9</sup> On the other hand, if a government finances inefficient public investment through seigniorage (printing money), it risks creating inflation and undermining the macro-economic stability.



than in other countries. According to Zahid Hussain, the World Bank Chief Economist in Bangladesh, construction cost per kilometer of Dhaka-Mawa, Dhaka-Sylhet, Dhaka-Chittagong, and Dhaka-Mymensingh road was \$11.9 million, \$7 million, \$2.5 million, and \$2.5 million dollars, respectively. By comparison, the construction costs of a four-lane highway (including the cost of acquisition of land) in India ranged between \$1.1 and \$1.3 million dollars and in Europe between \$2.5 and \$3.5 million dollars.<sup>10</sup> To add insult to injury, the construction

work in Bangladesh is often shoddy, with highways becoming unusable a few years after construction. The fact that many large investment projects are implemented without adequate public scrutiny aggravates the problem. In view of the widespread corruption, it is not surprising that Bangladesh's Global Competitiveness ranking declined in 2019 to 105. Also instructive is that the ranking in terms of infrastructure in 2019 declined to an even lower level of 114 (see Schwab, 2019 for details).<sup>11</sup>

**Figure 3:** Government Debt Trap Caused by Inefficiency of Public Investment



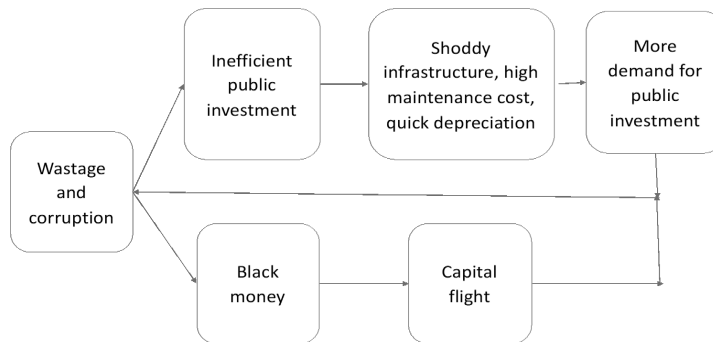
*Source:* Author

The waste and corruption in public investment are setting off several undesirable chains of consequences, leading to vicious cycles (Figure 4). On the one hand, these malpractices lead to ever-higher budgets. For example, poorly built roads deteriorate rapidly, requiring additional funds for repair and reconstruction. But corruption generates “black” money leading to capital flight. According to a recent study by Global Financial Integrity (GFI), the size of capital flight from Bangladesh is alarming (GFI, 2014; Aziz et al. 2014; A). The phenomena of “Begum Para” in Canada and “Second

Homes” in Malaysia offer vivid evidence of this capital flight. These chains of events can be self-reinforcing. For example, more demand and allocation for public investment, in the absence of supervision, lead to more waste and corruption. Similarly, greater opportunities and capital flight create additional incentives for corruption, leading to more capital flight. The waste, corruption, flight of capital, etc. have broader pernicious effects, distorting the incentive structure, undermining moral values, and disorienting the younger generation (Aziz et al. 2014; Alam et al. 1995).

<sup>10</sup> See BDnews24.com report, “Bangladesh infrastructure is World’s costliest,” available at: <https://bdnews24.com/economy/2017/06/20/bangladesh-infrastructure-is-worlds-costliest-says-world-bank>. See also *The Daily Star*, June 21, 2017, for another account of Dr. Zahid Hussain’s press conference. On cost padding of Bangladesh infrastructure projects, also see Ahmed (2012) and Sohel (2016).

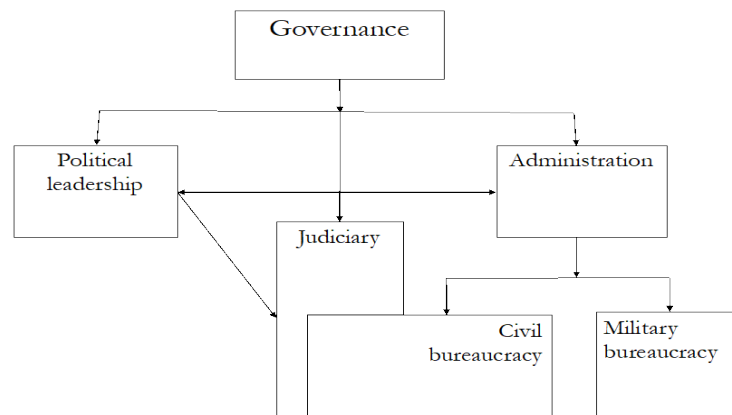
<sup>11</sup> The discussion here also points to the possibility of distinguishing among different factors influencing the efficiency of public investment. Among such factors are (i) choice of sub-optimal projects, (ii) high cost of chosen projects, and (iii) low quality of implementation. Such a disaggregation can be helpful in identifying the exact determinants and policies, which can address these. (I am grateful to a referee for pointing this out.)

**Figure 4: Inefficiency of public investment: causes and consequence**

Source: Islam (2014)

Reducing waste and corruption and raising the efficiency of public investment requires improvement of governance. However, governance has two sides: political leadership and bureaucracy (Figure 5). Unfortunately, Bangladesh has problems with both (see Islam 2016a for details). For example, the cadres of the ruling party often obstruct the selection of competent contractors to implement public investment projects. Further, they frequently harm the implementation of projects by resorting to extortion and other malpractices.

Various elements of the bureaucracy, meanwhile, play a willing role in initiating and sustaining corruption and waste. Together with political cadres, they often act as “partners in crime.” Reforms are therefore necessary to improve the quality of both political leadership and bureaucracy. The issue of political reforms is discussed later in sub-section (e). As for bureaucracy, it is necessary to initiate a comprehensive reform, involving rationalization of both its size and compensation. The steps that the government has taken so far are partial and of *ad hoc* nature.<sup>12</sup>

**Figure 5: Structure of governance**

Source: Islam (2016a, Chapter 1, p. 4)

<sup>12</sup> For example, the government has recently doubled public employees' salary following the recommendation of the Farashuddin Commission.

The judiciary has an important place in the governance structure, and the effectiveness of its role depends, largely, on the degree of its independence from political leadership and bureaucracy. In Bangladesh, a struggle is going on for an independent judiciary, with limited success however. Within the limitations, the judiciary in Bangladesh (particularly, its upper level) occasionally displays positive initiatives. However, some members of the (even upper level) judiciary are often caught in the web of corruption and malpractice. A comprehensive reform of the governance system is therefore necessary to make public investment more efficient (see Islam 2016a for suggestions on reform).

### **(b) Strengthening of local government**

One reason for widespread corruption and waste in Bangladesh is the over-centralization of administration and development activities. The local people, where these projects are implemented, remain in the dark about the physical specifications and budgets of the projects.

Ideally, local government institutions should serve as mechanisms through which the local people would play an active role in the selection and implementation of projects that serve their needs. Unfortunately, local governments are weak in Bangladesh, in part, because the civil bureaucracy does not want to dilute its authority. Another reason is the encroachment by MPs on local government affairs, often with the approval of the central government.

Going forward, Bangladesh therefore needs to rethink the appropriateness of its current geographic constituency-based election of the members of the National Parliament. This system allows MPs to assume a dual role. On the one hand, they serve as lawmakers at the national level, and, on the other hand, they strive to be the chief authority for local affairs in their respective constituencies. While in countries with strong traditions of local government, the MPs restrain themselves from meddling in local affairs; this is not the case in countries with weak traditions of local government. In Bangladesh,

the MPs have enacted self-serving laws, giving them jurisdiction over local affairs. Under the present system, it has therefore become difficult to end the meddling of MPs in the affairs of the local governments.

To end the above duality and encroachment by MPs on local affairs, it is necessary to switch from the current constituency-based system of election to the *proportional* election. Under the latter, MPs are not tied to individual constituencies and therefore can focus more on lawmaking at the national level. This switch will free up local governments to develop and perform their roles properly (see Islam 2016a, Chapter 7, for details).

Another important weakness of the local government in Bangladesh is the absence of a tier at the village level. This absence is striking because villages have always been the basic social unit in Bangladesh, and the country has a long tradition of self-governance at the village level. The absence of a village-level local government in Bangladesh is also conspicuous given that the neighboring countries, such as China and India, are both using successfully local governments at the village level.

Some initiatives were taken to introduce the village-level local government in Bangladesh (Table 2). However, these initiatives were weak and not properly carried through (see Islam 2017 for a detailed discussion). As a result, there is currently a *vacuum* in the local government structure at the village level. Villages are now like *orphans* with no effective mechanism for self-governance and representation at higher levels of government. This vacuum is proving damaging in several ways. First, it is reinforcing the *top-down* character of the current development process, along with the inefficiency of public investment, discussed above. Effective self-governance at the village level could go a long way in changing the development process into a *bottom-up* one and in reducing waste and corruption. Second, effective self-governance at the village level would have been helpful in mobilizing the labor and material resources that remain unutilized in the villages. With their mobilization, the development process could have been more self-reliant.

**Table 2: Initiatives for setting up local government at the village level in Bangladesh**

<i>Year</i>	<i>Government taking the initiative</i>	<i>Initiative</i>
1975	Bangabandhu Sheikh Mujib	<i>Samabayi Gram</i> (Villages as production cooperative)
1980	Ziaur Rahman	<i>Swanirvar Gram Sarkar</i> (Self-reliant village government)
1989	Husain Muhammad Ershad	<i>Palli Parishad</i> (Village Council)
1991	Khaleda Zia	<i>Gram Shabha</i> (Village Meeting)
1997	Sheikh Hasina	<i>Gram Parishad</i> (Village Council)
2003	Khaleda Zia	<i>Gram Sarkar</i> (Village Government)

Source: Islam (2017, p. 94)

Bangladesh declared 2020 as the “Mujib-year,” marking the centenary of Bangabandhu’s birth. In celebrating this important milestone, there is a lot of talk about fulfilling Bangabandhu’s dreams. A genuine way of doing so would be to revisit his idea of transforming Bangladesh’s villages into cooperatives. Though the international experience since 1975 has demonstrated that collective farming at low levels of technology is not effective, the general idea of transforming villages into cooperatives -- creating the mechanism for collective efforts by villagers, using the Village Fund as an instrument -- still holds considerable potency in propelling a self-reliant, bottom-up development process in Bangladesh.

The experience of China and India shows that effective village governments can play an important role in the development of a country. Hence, Bangabandhu’s idea of transforming villages into production cooperatives can be modified in the light of the current national and international situation and be implemented to benefit the nation (Islam 2017). In celebrating the Mujib year, the government may want to pay attention to this idea.<sup>13</sup>

<sup>13</sup> The fact that successive governments failed to set up a local government at the village level, despite many initiatives, suggests that there are important obstacles in this regard in the socio-political structure of the economy. Grassroots level mobilization is necessary to overcome these obstacles. See Islam (2019) for the case that setting up village councils can be one of the best ways to honor Bangabandhu, who dreamt of village cooperatives.

### (c) Achieving greater equity and social cohesion

#### *Rise of inequality in Bangladesh*

Rising income and social inequality pose a serious challenge to Bangladesh’s development prospects. Traditionally, Bangladesh has been an equitable and socially homogeneous nation. After the abolition of the Zamindari system in 1950, Bangladesh did not have a socially distinct upper class. The Liberation War reinforced the social homogeneity of the Bangladeshi population in 1971, when the rich and the poor, urbanites and rural folks, educated and the illiterate, people of different religions and ethnicity, fought and endured the sacrifices together. One of the profound expectations generated by the Liberation War was of a socially cohesive and equitable Bangladesh. Unfortunately, Bangladesh has moved away from this goal.<sup>14</sup>

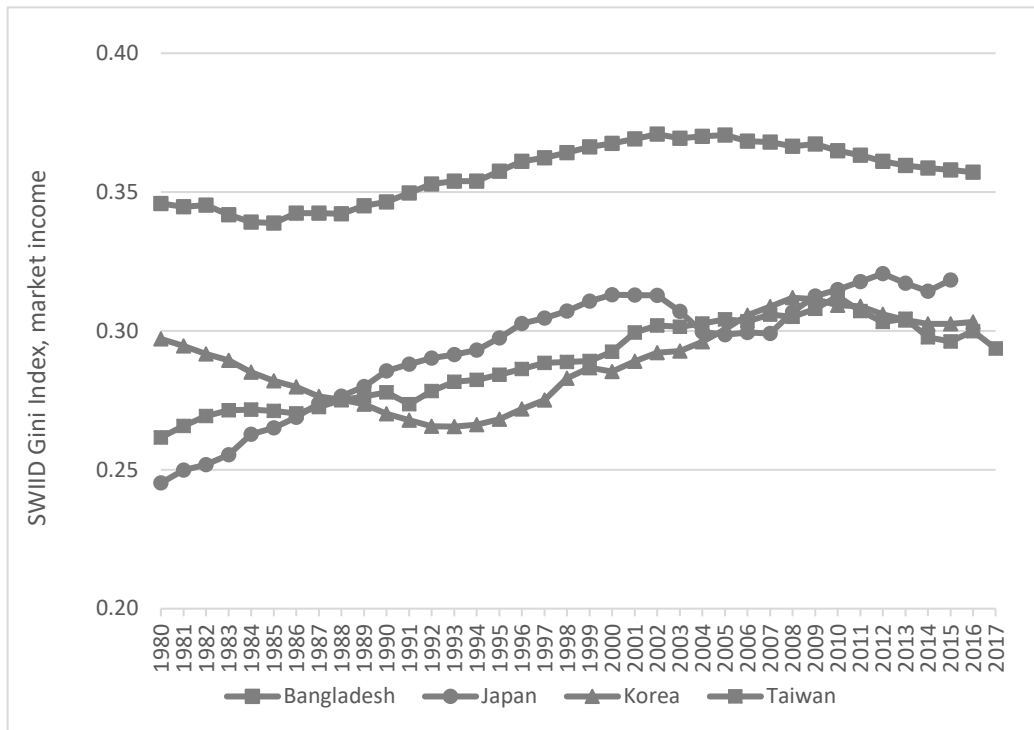
Following the overthrow of the Bangabandhu’s administration in 1975, the new government embraced capitalism, with its inherent tendency to increase income and wealth disparities. However, even within the capitalist path of economic development, there are

<sup>14</sup> There are lingering controversies and dissatisfactions over the implementation of the Treaty. Tensions persist in the Chittagong Hill Tracts. Other ethnic and religious groups also have grievances, particularly regarding the capture of their land and violations of other rights.

strategies to keep inequality low. Successful East Asian economies – such as Japan, South Korea, and Taiwan – combined fast economic growth with equity. The Gini Coefficient of income distribution in these countries remained around 0.3 despite rapid growth in the GDP. However, successive governments that came to power in

Bangladesh after the August 1975 coup, have paid little attention to the equitable distribution of income. As a result, the Gini Coefficient of inequality for both market and disposable income in Bangladesh has increased to much higher levels than those in the East Asian countries (Figure 6).<sup>15</sup>

**Figure 6: Inequality of distribution of market income – Bangladesh as compared with Japan, South Korea and Taiwan**



Source: Author, based on data from SWIID<sup>16</sup>

### *Emergence of “two countries” in one country*

The rising income inequality has led to a bifurcation of the Bangladeshi society. In fact, there are now “two countries” in the one country of Bangladesh -- one for the rich and the other for the poor. This bifurcation is most vivid in the nation’s education and health sectors. In education, there has emerged a sub-sector of high-cost, private, English-medium schools and colleges, catering to

the children of the rich. The rest of the population has to remain content with low-quality education offered in the public, Bangla-medium schools and colleges.<sup>17</sup> A similar

situation can now be observed in the health sector, where a sub-sector comprising private, costly clinics and hospitals have emerged, catering to the rich, while the vast

<sup>15</sup> In comparing inequality levels and trends among countries as presented in Figure 6, it should be noted that these countries were at very different stages of their development during this period (1980-2017). Despite this, Figure 6 shows that inequality in Bangladesh has remained higher than in Japan, Korea, and Taiwan during this period.

<sup>17</sup> There is yet another sub-sector, comprising Madrasahs, which cater to orphans and children from families in the lowest income groups in the society. However, some differentiation has developed among the madrasahs, so that some also attract children from relatively well-off families.

<sup>16</sup> Standardized World Income Inequality Database, available at <https://fsolt.org/swiid/>. For an explanation of the data, see Solt (2016, 2019).

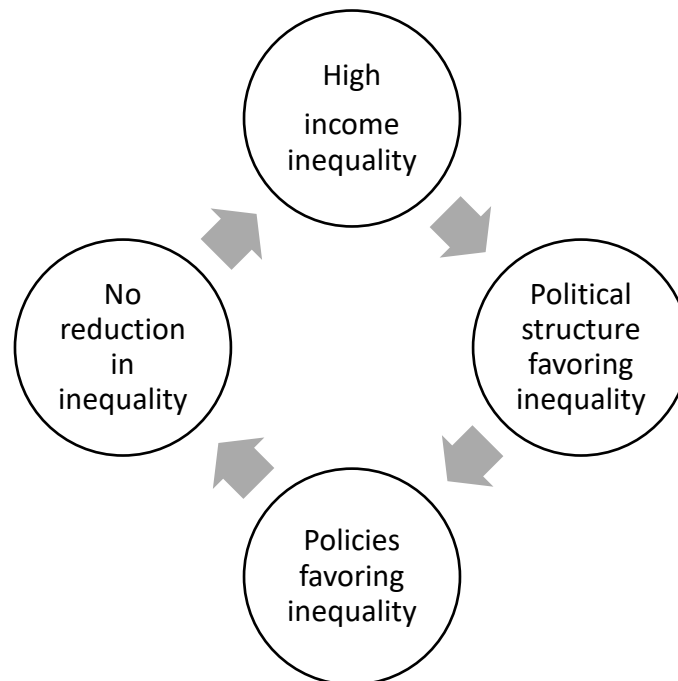
majority of the population depend on low-quality, government clinics and hospitals.<sup>18</sup> Similar dichotomy can be seen in many other areas of life in Bangladesh as well.<sup>19</sup>

### *Inequality Trap*

What is alarming is that the growing income inequality can lead the country into an “Inequality Trap,” where the rich and wealthy capture the political institutions and obstruct any future effort aimed at reduction of inequality. Instead, they use the political institutions to enact laws aimed at regressive redistribution of income, thus

aggravating inequality (Figure 7). With increasing consolidation of the capitalist class, Bangladesh may be falling deeper into this Inequality Trap. More than sixty percent of MPs in the recent parliaments of Bangladesh are rich industrialists and business executives.<sup>20</sup> Many of the rest depend on wealthy businesses for financial support. Clearly, it is difficult for such parliaments to enact laws favoring the poor. As recent events show, most current MPs of Bangladesh are more interested in using their power and privilege to get duty free cars, allotment of land in government financed land-development projects, and other personal benefits, further increasing their own income and wealth, rather than helping the poor.

**Figure 7: Inequality Trap**



<sup>18</sup> As with education, in healthcare there is a sub-sector, comprising of village quacks who are the only option for people with very little means.

<sup>19</sup> It should be mentioned that Bangladesh has a large and dynamic NGO (non-government organizations) sector comprising many developmental NGOs offering various services, including education and healthcare. Going forward, it may also be possible, through appropriate guidance, to make use of private sector initiatives and ventures under public-

private-partnership to bridge the current divide in education and healthcare services.

<sup>20</sup> According to “Sujan,” a civil society organization of Bangladesh, 61.07% of the members of Bangladesh’s 11<sup>th</sup> Parliament, elected in December 2018, have a business background. See <https://www.thedailystar.net/bangladesh-national-election-2018/61.07-percent-elected-mp-are-business-persons-shujan-1683718>

*Inequality leading to wrong social and policy choices*

Also of concern is the fact that rising income and wealth inequality lead to wrong social and policy choices. For example, partly because of the lack of social cohesion and empathy, the government is pushing the private car model, which is wholly unsuitable as a mode of transportation for Bangladesh because of its extremely low land-man ratio. A similar situation can be seen regarding housing and settlement policy. RAJUK, the authority responsible for supervising the development of the capital city, has itself become a developer, acquiring people's lands and developing them using public money, and then distributing them as plots among members of the elite at nominal prices. This housing policy is both socially regressive, and physically unsuitable for Bangladesh because of its low land-man ratio. There are other examples of such wrong-headed policies and social choices that are driven by economic, social, and political inequality.

*Inequality as an obstacle to utilization of the "Demographic Bonus"*

Another way in which the rising inequality can be harmful is by obstructing effective utilization of the demographic bonus. The bifurcation of the education and health systems means that the bulk of the youth entering the workforce has poor education and physical fitness. They have little proficiency in English, which is now necessary for success in the current globalized economy with fast technological progress.<sup>21</sup> The Digital Divide will thus widen, making large parts of the younger generation unprepared for jobs of the new era. It should be noted that the era of industrialization based on low-cost unskilled labor is ending. Instead, the world is entering the stage in which knowledge and skills are becoming the pre-conditions for even entry-level manufacturing jobs.

There is also the problem of mismatch between the education received by the young, including those at the tertiary levels and even in English medium schools, and the actual requirements of the economy. This mismatch is

evident in the rising problem of educated unemployed. The curriculum and the education system must be reoriented more toward imparting technical skills required by the new economy – skills that can allow young people to become entrepreneurs, without waiting for employers to hire them.

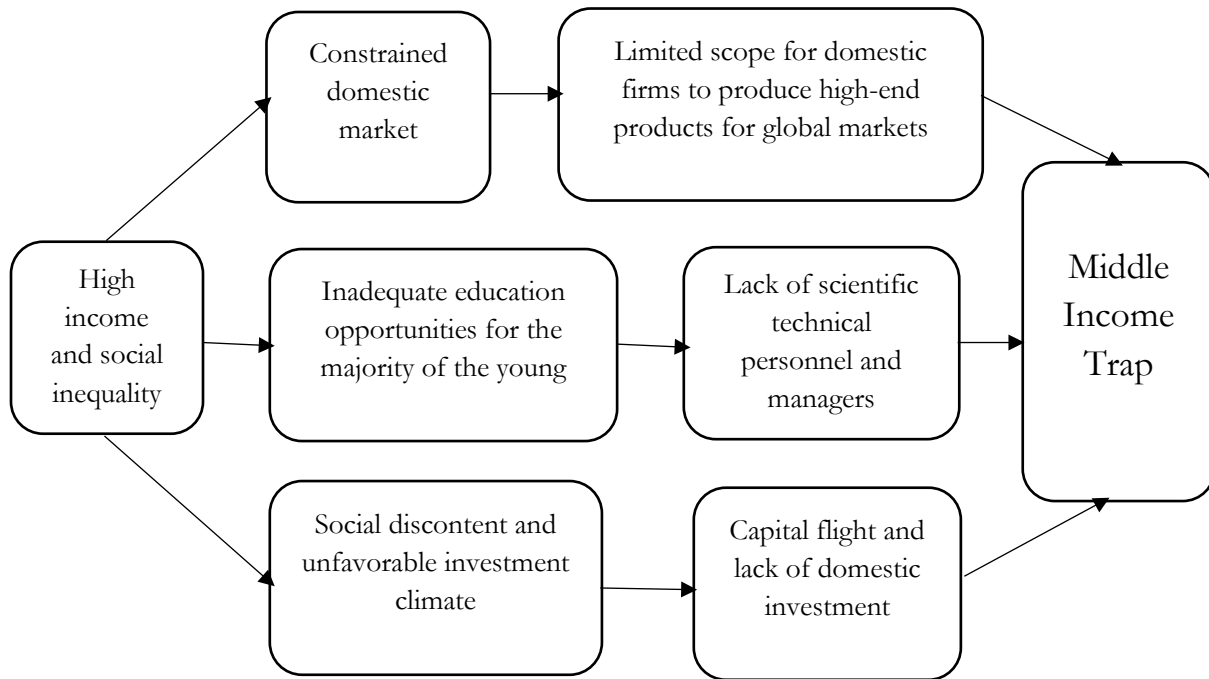
*Inequality and social discontent*

Rising inequality is straining the social fabric and leading to social pathologies. This is in part because a significant part of the recent inequality increase is due to illegal and corrupt earnings. For example, the amount of default on credits from banks is estimated to be between two and three lakh crores Taka, which is almost equal to the size of the country's annual development budget. Every day, newspapers and the electronic media carry reports on corruption, malpractice, and plunder of public resources. The rampant corruption and illegality of the earnings undercut the social legitimacy of the *nouveau riche* and the capitalist class of Bangladesh. The illegitimacy of much of the gains made by the *nouveau riche* is creating resentment and creating a socially volatile situation, which in turn is one of the reasons for increasing capital flight from Bangladesh.

*Inequality and the Middle-Income Trap*

The rising inequality may also lead Bangladesh to the Middle-Income Trap, thus thwarting its goal to become a high-income country by 2041. Inequality may trigger several interrelated processes leading to this outcome (Figure 8). First, it may limit the size of the domestic market, obstructing domestic firms from using the domestic market to test and develop high-end, technologically sophisticated products, before launching these successfully in the global market. Second, rising inequality may limit education and health opportunities for the bulk of the young, constricting the pipeline of scientific-technological personnel and managers. Third, as noted above, high inequality may create social discontent and risks, thereby discouraging investment and encouraging capital flight (see Islam 2014 for details).

<sup>21</sup> In this regard, there is the additional problem of a match between the skills taught (even in the universities) and the requirements in the labor market. This is manifested in the rising number of unemployed educated youth in the country.

**Figure 8: Inequality and “Middle Income Trap”**

Source: Author

There are symptoms of all three above processes at work in Bangladesh. Unless reversed through effective policy measures, Bangladesh may be stalled in the Middle-Income Trap, unable to reach the High-Income status.

#### **(d) Protecting the environment**

An important challenge that Bangladesh faces is protection of environment. In its drive toward industrialization, policymakers of Bangladesh have not paid adequate attention to protecting the environment. Because of this neglect, the country's environment has suffered terribly (see BAPA and BEN, 2010 and Islam, 2018). For example, the capital city Dhaka is regularly ranked as one of the worst livable cities in the world.<sup>22</sup> The rising levels of pollution are now affecting the growth prospects of the country.

It is already difficult to industrialize a country as densely populated as Bangladesh. The area is small and the scope for spatial maneuvering is limited. Any contamination can affect rapidly millions of people. Thoughtful policies and careful implementation are necessary to avoid environmental disasters. Unfortunately, the government has taken risky decisions in going forward with the Rampal coal-fired power plant, in close proximity of the Sundarbans, and the nuclear power plant in Rooppur, to be located deep inside the country and in the middle of densely populated areas. The government's decision to make coal the main fuel for expansion of power generation capacity is misdirected from the viewpoint of environmental protection, and it is incongruent with the global trend of moving away from coal. Similarly, the government is persisting with the Cordon approach (see GoB, 2017), which has disrupted the country's river system and given rise to the ubiquitous problem of waterlogging. Yet, Bangladesh's sixty years of experience with water development has shown that the

<sup>22</sup> For example, Dhaka has been ranked third from the bottom on the list of most polluted cities, with only Aleppo in war-torn Syria and Lagos in Nigeria ranked below it.



Cordon approach is inappropriate for the deltaic setting of Bangladesh, characterized by high and extreme seasonality of river flow (Islam 2016b).

A comprehensive effort is necessary to make Bangladesh's economic growth and industrialization environmentally sustainable. The problems of environmental protection are closely related to the overall problem of good governance. Since the improvement of governance is a difficult challenge and is time-consuming, and many environmental problems require urgent action, policymakers must design incentives so that consumers (citizens) themselves adopt pro-environment behavior, without active intervention from the government machinery. Bangladesh also needs to invest in technologies (such as monitoring through sensors) to monitor the polluters, as a way of overcoming the governance-deficit in protecting the environment.<sup>23</sup>

### (e) Ensuring political stability and inclusion

Finally, needless to say that political stability is a precondition for continued progress in Bangladesh. Political stability however can be achieved through several ways. For example, autocracy or a one-party rule can deliver political stability. However, political stability is more durable and commendable when it is achieved through democratic inclusion.

A particular reform that may be helpful in achieving political stability is switching from the current "majority system" of election to the "proportional system," as noted above in the context of development of the local government. Most developed countries practice proportional elections. Many developing countries are also choosing this method. Nepal recently adopted a constitution allowing a part of the parliament to be elected following the proportional method.

In the specific case of Bangladesh, the proportional system can help to achieve political inclusion and stability by (i) preventing large impact of small changes in vote shares of the parties, (ii) reducing the objective scope and subjective incentives for voter manipulation, (iii) promoting better quality candidates, (iv) improving the quality of election campaigns, (v) eliminating the necessity of pre-election electoral alliances, (vi) increasing the authority of political parties, (vii) creating a level playing field for smaller parties, and (viii) being more fair and just.

Other reforms are also necessary for political inclusivity and stability. Becoming complacent with the current political stability may prove myopic (see Islam (2016b, Chapter 5) for a more detailed discussion of the merits of the proportional election system for Bangladesh and of some of the other reforms that can be helpful for political stability and inclusiveness).

## 5 Conclusions

Bangladesh has come a long way from the precarious economic situation it faced at its birth in 1971. Since then, it has achieved commendable economic growth and social progress. The nation can look forward to the next thirty years with confidence and optimism.

There are many factors working in favor of Bangladesh. However, the positive potential of these factors will not be automatically realized. Instead, creative policies and careful implementation will be necessary. The emphasis in recent years on raising the level of public expenditure without paying adequate attention to the quality of the investments has sown seeds of many destabilizing processes, some of which are now surfacing. Bangladesh, therefore, faces many challenges. Among these are the challenges of raising the efficiency of public investment, strengthening local government, achieving greater equality and social cohesion, protecting the environment, and ensuring political stability and inclusion.

Bangladesh is poised to celebrate the Golden Jubilee of its independence. This jubilee provides a good opportunity to consider the future challenges the nation faces. In 1971, the nation emerged with hopes that were sky-high and enthusiasm that could move the Himalayas, so to speak. Some of that enthusiasm has dissipated over the years because of many unfortunate events. There was a concern that with the passage of the generation which fought in the Liberation War, none will be left to embody the spirit of that War and the enthusiasm for nation building generated by that victory. However, it is heartening to see that the new generations of Bangladesh are equally patriotic and enthusiastic about their country. They are scaling the Himalayas, doing well in the World Cup cricket, and traveling to furthest corners of the globe for a better life, without forsaking their motherland. At home, they formed the *Gonojagoron Moncho* and rose to impose discipline

<sup>23</sup> I would like to thank one of the reviewers for emphasizing these options. However, even designing and implementing necessary

incentives for the use of technologies require policy-implementation capability. Thus, the problems of poor governance cannot be avoided.

on Dhaka traffic, something the older generation had failed to do. Thus, there is much to be hopeful about the new generation of Bangladesh. With appropriate leadership, they can certainly meet the challenges and take Bangladesh to new heights in the next thirty years.

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