

Policy Note

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Understanding the Progress of Bangladesh

by JICA Ogata Research Institute*

Despite its start as one of the poorest countries in the world, Bangladesh has been observing a continuously strong economic growth and social improvement. JICA Ogata RI research project “Empirical Study on the Risk and Poverty in Bangladesh” investigated key factors of its impressive socio-economic development. A few country specific driving forces, such as non-farm industries, especially ready-made garment (RMG), microfinance institutions (MFIs), and the development of infrastructures, can be considered to have constituted the mechanism of progress of Bangladesh. Understanding why these changes happened may give useful insights for sustaining its great progress in Bangladesh, and for replicating it in other countries.

1 The Great Progress of Bangladesh

“New Asian tigers”, the “Next Eleven”, and a “Miracle”. These are the phrases often used in the media to describe rapidly emerging countries in the world economy. The People’s Republic of Bangladesh in the South Asia is now well perceived as one of them, with its competitive ready-made garment (RMG) export, young and low-cost labor force, as well as its large market potential with 160 million of population.

Contrary to such bright praises for Bangladesh in the recent days, the country had received a pessimistic recognition as a nation for its severely underdeveloped conditions since the independence in 1971. The devastating Liberation War for independence destroyed the infrastructure of the nation and other important bases of the society and economy. It was also plagued with unproductive agriculture, malnutrition, lack of natural resources, exposure to natural disasters, and high population density. In fact, Bangladesh appeared near the global bottom of all the economic and social indices in the

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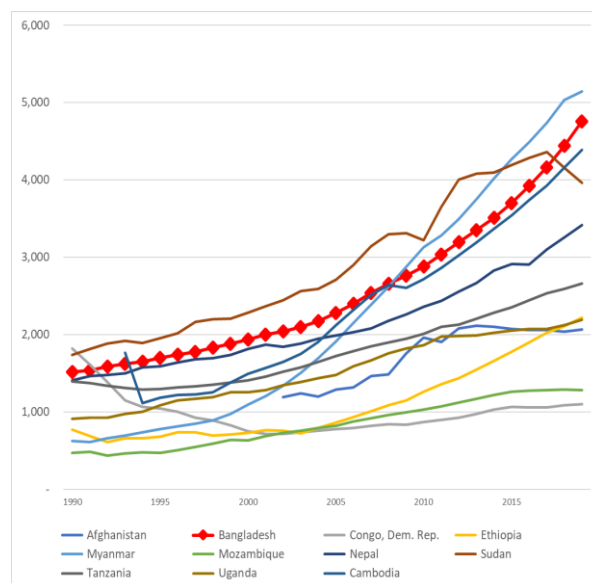
1970s, such as income, poverty, child and maternal mortality, and schooling. Therefore, as Faaland and Parkinson lamented in 1976, Bangladesh was initially regarded as *a test case for development* (Faaland and Parkinson, 1976).

However, despite its start as one of the poorest countries in the world, Bangladesh has achieved a strong economic growth throughout the recent a few decades especially since 2000, as the growth rate of per capita GDP has exceeded 5% on average. Figure 1 shows the growth trajectories of Bangladesh and other 10 large LDCs (Least Developed Countries) in terms of population in 1971, at the time of independence.¹ Compared with those fellow LDCs, Bangladesh has been achieving an uninterrupted and accelerating growth trajectory for more than a quarter century. In addition, Bangladesh has made substantial improvements especially in social indicators such as education and health, and finally positions herself among the top 20 achievers of MDGs by the middle of 2010s.² In 2018, Bangladesh finally reached to the threshold to graduation LDC status, and is now expected to graduation in 2026 (it was set to 2024 before the outbreak of the COVID-19 crises). If the current growth trend continues, the country is expected to achieve the first goal of SDGs, “no poverty”, well before 2030, the target year of the SDGs (Chapter 1).³

2 Background of the Progress⁴

Why was Bangladesh able to achieve such impressive socio-economic progress against the overall pessimistic initial views? There should be various potential explanations for the mechanisms of the success. Since many economic, political, and institutional factors are intertwined with each other, it is very hard to identify a single decisive mechanism. Nevertheless, some conceptual frameworks can help us to grasp what might have been going on behind the rapid development.

Figure 1: Trajectory of GDP per capita
Bangladesh’s growth was steady and rapid compared to other LDCs with large population



Source: World Development Indicators, World Bank
Note: in PPP, constant 2017 international Dollars

2.1 The Four Drivers: Green Revolution, MFIs, Non-farm Industries, and Infrastructure

Figure 2 depicts one of such potential mechanisms consistent with our findings through “Empirical Study on Risk and Poverty in Bangladesh”, a research project by the JICA Ogata RI. As shown with thick lined boxes in the left-hand side of the figure, there seems to be at least four country specific drivers of growth, namely, the Green Revolution in agriculture, MFIs (micro-finance institutions), emerging non-farm sectors such as RMGs, and development of infrastructure by the government with the support of its international development partners. Empirical evidence supports that these driving forces have facilitated a structural transformation from low-productive agrarian economy to more efficient non-farm based one, thus resulting in an overall welfare improvement and poverty reduction.

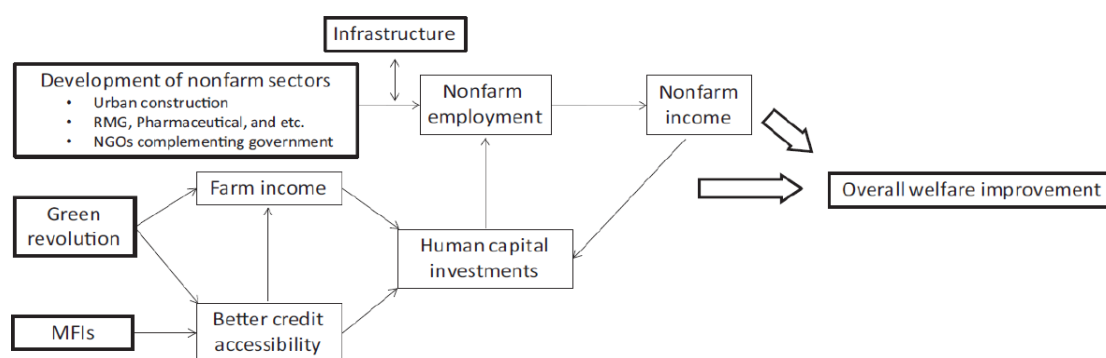
Firstly, the implementation of the Green

Revolution in Bangladesh, including the adoption of high-yield rice varieties as well as land tenure reforms, has contributed to increase the income of farmers, especially for the most disadvantaged landless ones. Coincidentally with these technological progress in the agricultural sector, the services of MFIs have expanded nationwide to provide financial access to these farmers. Towed by the renowned MFIs, such as the Nobel-prize

market through the recent progress of Bangladesh (Chapters 1, 6, and 9).

Development has not been limited only on the supply side of non-farm labor forces. Industrial development in the non-farm sectors with the help of improvement in economic infrastructure has created the large non-farm employment opportunities. Among the important modern industries, the RMG sector has particularly changed the position of

Figure 2: Potential Mechanism of Bangladesh's Progress



Source: Introductory chapter of Sawada et al. (eds, 2018)

winning Grameen Bank, and Bangladesh Rural Advancement Committee (BRAC), MFIs have also expanded the services to the population in a great scale. For example, the membership of MFIs reached 39 million people in 2017, the 4.3 times of that was in 1996, as well as the volume of lending and saving increased by around 40 times of the level of twenty years ago. The specific advantage of the microfinance in Bangladesh is its high penetration even to the poorest rural communities where would not otherwise have access to financial services. Those rural farmers who got their liquidity constraints relaxed started investing in education, which has resulted in the increased supply of educated labor forces. As can be seen from that fact that Bangladesh has achieved the equal school enrolment ratio for boys and girls, women are those who received education and participated in the non-farm labor

Bangladesh in the international trade. Starting from a small amount in 1980s, the export value of the RMG sector in 2017 is 35 times of that in 1990, or 30.6 billion USD. Out of 62 million economically active population in total, four million workers (6.5%) are employed in the factories of the sector. The Bangladeshi firms in the sector have successfully been connected to the global supply chain, and the country has now emerged as the world second largest exporter of the garment after China (Chapter 2). In addition to the RMG, other export-oriented manufacturing industries such as pharmaceutical production are rapidly growing, thereby contributing to diversify the industrial portfolio of Bangladesh (Chapter 2). Furthermore, as a special feature of Bangladesh, non-governmental organization (NGO) sector provides a large employment opportunity for educated young

jobseekers. Complementing the duties that governments have traditionally been in charge, NGOs in Bangladesh provide a wide range of socially oriented services by employing young workers who want to pursue their careers in non-agricultural jobs (Chapter 8).

For the development of these non-farm industries, the improvement of economic infrastructure played a vital role. By the effort of the government with the support from its international development partners, Bangladesh has achieved substantial improvement in the services of infrastructures such as roads, bridges, electricity, and water and sanitation. A wide range of evidence suggests that infrastructure development enhanced household welfare, income and expenditure, and that it contributed to the successful structural transformation from agrarian to non-agrarian economy. For example, as Mahmud and Sawada (2018) found, the Jamna Multipurpose Bridge built in 1998 economically integrated the country which was before divided between the east and the west of the Jamuna River. The market integration by the Bridge contributed to increases in both agricultural and non-agricultural income, with overall facilitating the employment shift toward the non-agricultural sector employments. In addition to large scale bridges, rural roads and electrification are found to be significantly important for the structural change of the economy, as Chapter 4 shows.

2.2 A Fruit of Progress: Empowerment of Women

A remarkable change that happened side-by-side with the abovementioned developments is the empowerment of women. For example, the Gender Parity Index (GPI) in education has improved from 0.49 in 1973 to 1.09 in 2011, which means that girls are more likely to enroll in schools than boys now. The Total Fertility Rate (TFR), another index that (inversely) reflects women's power in society,

declined from 5.1 in 1989 to 2.1 in 2017. Moreover, women have become increasingly visible in economic spheres of Bangladesh. For instance, 90% of the workers in the RMG sector are women. The majority of the beneficiaries of MFIs' services has been women, and they utilize the funds to "feminize" agriculture as well as to expand non-agricultural self-employment. Given that women in Bangladesh had traditionally been restricted from economic activities due to patriarchal hegemony and conservative social norms, such evidence of women empowerment is one of the most celebratory aspects in the country's development (Chapter 1).

According to JICA Ogata RI's research, women who received longer years of education are found to be significantly likely to work in the non-farming sector. Reversely, the increase in non-agricultural sector labor in villages is significantly associated with increased girl's school attendance. Those educated women coming from rural villages are the pool of labor force that has supported the expansion of the industrial sector employment such as in the RMG. These empirical relationships suggest that a virtuous cycle of positive feedback, just like the triangle cycle formed by "non-farm employment", "non-farm income", and "human capital investment" in the Figure 2 (Chapters 6 and 1).⁵

2.3 Why Are the Private Sector and NGOs So Active?

Given the analysis based on the framework shown in the Figure 2, one of the noticeable features of the development process of Bangladesh is a powerful involvement of the private sector and NGOs, as being highlighted by the RMG industries and MFIs. Why did they exert their potential in the process of development? There are suggestive evidence that helps answer this question.

For the RMG sector, a potential reason of success is that the sector could attract high-skilled elites working as company managers. In the

beginning, the industry was initiated with a technology injection by a Korean investor (Daewoo) in 1980s. However, who made the sector sustainably competitive for decades were not the foreign investors but were the highly educated Bangladeshi managers who graduated from major universities in the country. Chapter 2 document that those elite managers materialized the foreign technology input, and then have engaged in “continuous learning” of new technology, management, and marketing in order to maintain their product quality at the international standard. This process in turn attracts younger generations of elites to the sector and sustains the growth for long. The importance of the pool of highly educated elites is also identified in the case of the pharmaceutical sector, i.e., another rising export industry which has started to replicate the growth model of the RMG sector (Chapter 2).

The high penetration of MFIs in Bangladesh can largely be attributable to the profound involvement of NGOs in its society, as almost all of the registered NGOs in Bangladesh provide microfinance services. In addition to microfinance, NGOs in Bangladesh have provided a range of social services including health care, education, etc. complementary with public institutions. NGOs also contribute to rural employment generation, especially for the educated youth (Chapters 3, 8, and 10). To see why NGOs are such active in the country, it is noteworthy that the government’s policy and attitude toward NGOs seem to have a nature that encourage their initiatives. For example, facing the aftermath of the Liberation War and series of natural calamities in 1970s, the Bangladeshi government appropriately realized its limited capacity and reached out to NGOs to seek assistance for the delivery of necessary services with the government. In addition, the government has kept a policy environment with very few constraints and regulations on the operations of NGOs, as well as allowing the funds from foreign development partners to flow into the NGO sector (20-30% of the

development fund inflows throughout 1990s, for instance). Nowadays, however, as the government is enhancing its capacity in planning, budgeting, and services delivery, the historical role of NGOs in Bangladesh may be changing. This is potentially reflected in the fact that NGOs are slightly losing its popularity as employer among the educated youth, as the Chapter 8 reveals.

3 The Remaining Challenges

As seen above, the miraculous growth of Bangladesh can be seen as a result of four interlinked drivers, Green Revolution, MFIs, non-farm industries, and infrastructure development. Especially, the partnerships between the government and the people’s initiatives such as NGOs played an important role in improving the delivery of services in places where otherwise can be stagnated in an underserved trap. In addition, providing credit access can spur investing in education especially for potentially underinvested groups (such as women), that in turn have wide and sizable benefits through facilitating the structural transformation of the economy.

However, knowledge gap still exists on how Bangladesh can enhance those positive forces to keep a sustainable growth for the coming decades. In fact, the country is struggling with a lot of development challenges. Coping with natural disasters which would be intensified by climate change is on top of the agenda. Persistently weak governance and institutional quality, such as corruption, are another threat to the country’s prospects since they could erode trust in society. Insufficient infrastructure, especially the unstable supply of electricity is still serious constraints on doing business in the country. The high dependence

of the export sector on the RMG is now seen as a major risk of the country's economy in the future, while the government is eagerly taking measures to diversify the industries. Urbanization risk is rising, as Dhaka is now one of the most polluted cities in the world (Chapters 1, 11, 12, 13, and 14, and Mahmud et al. 2019). Given that the people are found to start caring their quality of life including environmental

pollution, coping with urban problems is becoming more and more urgent. To get over these challenges and realize a sustainable development in an inclusive manner, as well as replicating Bangladesh's recent great progress in the other countries, further study to unveil the deeper mechanisms of the great progress should be beneficial.

¹ These countries are Afghanistan, Democratic Republic of Congo, Ethiopia, Myanmar, Mozambique, Nepal, Sudan, Tanzania, Uganda, and Cambodia.

² [Overseas Development Institute](#).

³ Chapter 1 of Sawada et al. (ED, 2018). Hereinafter, "Chapter X" means "Chapter X of Sawada et al. (ED, 2018)".

⁴ Statistics in this subsection are based on [BGMEA](#), [BBS](#), and [CDF](#).

⁵ In addition to economic mechanisms mentioned, some affirmative action policies such as Female Secondary School Assistant Project (FSSAP) should also be noted.

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