The journey at 50: Looking back, looking ahead

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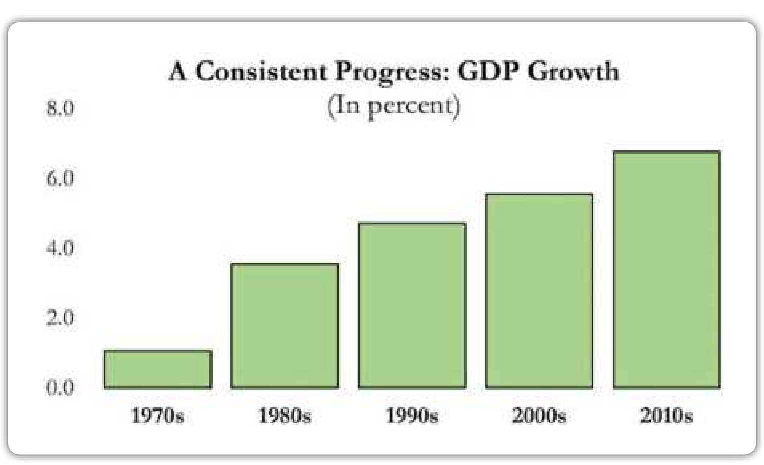
Bangladesh and I shared our first decade together. Unsurprisingly and somewhat self-servingly, I tend to relate to Bangladesh's journey at an instinctive level, the way one remains absorbed with one's own life, with the love and the losses that populate one's mid-life balance sheet of accumulated pride and angst. What is national is also very personal. As Bangladesh turns 50, as a child of the 1970s, I remain inspired and humbled by our inheritance from and our indebtedness to the freedom fighters of 1971, who gave their lives so that we can live ours with dignity and freedom.

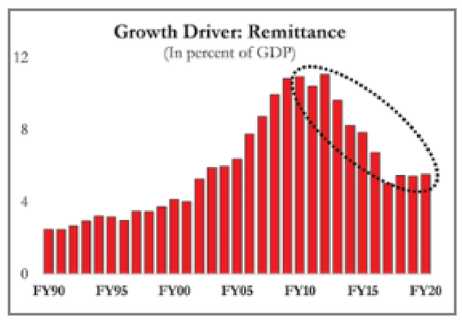
For me, as a macroeconomist, Bangladesh's story is a bottom-up story, a story of consistent and cumulative progress over the last five decades that came from a close collaboration among its people, the government, NGOs, the private sector and development partners. Most hearteningly, it is a story powered by women and has been empowering for women.

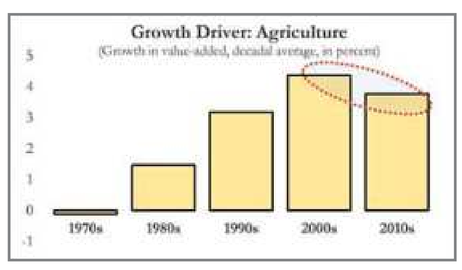
In 1971, Bangladesh was the most densely populated and the second poorest country in the world. There was Upper Volta, today's Burkina Faso, the only country poorer than Bangladesh at birth, but it had a population of only five million. In the early years, we had a perennial fear of flood, famine and food shortages. Bangladesh's economic progress came both despite and, I would argue, precisely because of those extreme initial conditions, which gave us the focus, discipline, humility and curiosity, most importantly during the first three decades of our journey. At 50, Bangladesh still remains the mostly densely populated country but the journey has been transformative; in fact, a middle-income country poised to graduate from LDC status, Bangladesh has gradually emerged as a surprise, as an example, and as an inspiration to many, at home and abroad.

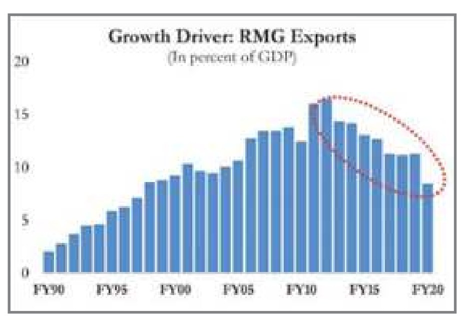


Looking back and taking a long view, in addition to the hard work by the people and the select policies of the governments, three macro factors drove Bangladesh's economic achievements: Independence in 1971, our extreme initial conditions, and like many positive economic stories, a dosage of luck and right timing—in terms of being a part of two waves of globalisation, one at birth during the 1970s to late 1980s, and another during the early 1990s through till the Global Financial Crisis in 2008. We were also very fortunate in not having major commodity resources (like oil) or being a geopolitical flashpoint like some of our neighbours or peers in other neighbourhoods.

In our first 20 years, during the 1970s-1980s, the first wave of globalisation sowed the seeds of remittance and garments exports; the fear of famine created a focus on food security, agriculture and population control; and extreme poverty and sufferings invited low-cost innovations in microfinance, health and education and the adoption of technology in agriculture, thanks to the pioneers of our social innovations. The inspiration of 1971 and the desperation of 1970s and 1980s gave birth to those innovations. The pioneers of our social innovations themselves were the products of 1971. These innovations improved lives, gave hopes to and flamed aspirations in the most important and receptive part of our society—women. As I have seen growing up in a family with a strong mother and four sisters, echoing the concept of how leverage works in finance, women amplified the positive returns of and in Bangladesh's journey.







The progress in demographic transitions and fertility decline by the late 1980s allowed improvement in the human development indicators, laying the foundations of the broader takeoff in the 1990s onwards when remittance, garment exports, agriculture, and domestic market integration through rural roads and connectivity, all reinforced and amplified each other, reducing poverty and lighting stronger aspirations.

In the last 30 years, from 1990 onwards, as the global integration deepened and the private sector matured, agriculture and remittance lifted the rural economy; and RMG helped solidify a manufacturing base, albeit concentrated. In terms of the cumulative external source of demand during 1990-2020, the largest share came from remittance at over 180 percent of GDP, then garments (value added) at around 150 percent of GDP, then foreign direct investment (FDI) at around only 20 percent of GDP. Remittances touched millions of households; the RMG industry employed millions of women, which created an industrial base and a manufacturing culture, and broadened the formal sector. Most importantly, agriculture, led by our open-minded and productive small farmers, lifted millions out of poverty and provided food security, soothing our existentialist angst.

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Where are we now after 50 years? Bangladesh has emerged as the Silicon Valley of social innovations, perhaps more accurately the Silicon Delta. Among the developing economies with large populations, Bangladesh has also witnessed the most bottom-up and the largest manufacturing export-led takeoff in a democratic form of governance. China and Vietnam are socialist market economies; India's is a service story, while trying to ignite manufacturing; Brazil, Indonesia, Nigeria and South Africa are commodity stories. The requirements for a diversified and manufacturing-led take-off from our current phase are much stiffer.

As the future unfolds, a bigger economy would require more and bigger engines of growth for its continued take-off and for maintaining the cruising altitude. With the economy now exceeding 300 billion dollars, the traditional growth drivers—agriculture, RMG exports and remittance—have been shifting, in fact moderating in recent years (see the three charts on growth drivers), a cause for justified concern and introspection about the sustainability of the recent high growth in a complicated world that will be struggling with the pandemic now and with automation, disruptive technology, deglobalisation and climate change over the next 10-30 years. Our traditional growth drivers were labour-intensive and created jobs, the key to bottom-up and inclusive growth. However, past performance cannot and should not be taken for granted. Our focus needs to graduate from high growth to high and quality growth.

To boost the existing growth drivers and find new ones in this fluid world, we will need to upgrade our institutions, governance and state capacity. We must upgrade how much and how well we finance the private sector through the financial system and the government through tax and other revenues. Although remittance has long provided a much-needed boost at the micro (individual) level, it has left some unintended macro side-effects on the financial sector governance by creating surplus liquidity, and by impacting risk management and overall financial sector discipline. The confidence from high remittance inflows, liquidity and foreign exchange reserves can reduce the urgency of reforms by casting a veil over the underlying pains. In many ways, at the macro level, remittance is love without accountability—never a healthy gift unless from a mother.

We also cannot afford to have the dubious distinction of being the country with one of the world's highest growth rates but the lowest tax-to-GDP ratio (Vietnam collects more than double the amount we do and spends three times as much as we do on education). The state capacity, the political economy, and the quality of our macroeconomic management will determine whether the economy we are building will serve all, as our freedom fighters dreamt of in 1971, or only a connected few, a challenge many countries are increasingly grappling with.

As a private sector-led economy, we don't need to reinvent the wheels as we plan ahead. History tells us capitalism often needs to be saved from the capitalists; otherwise, gravity pushes it towards crony capitalism (for example, South East Asia in the 1980s-1990s); aided by the state, businesses often swallow both markets and competition. Cross-country experiences show that financial and fiscal reforms are often painful to some, especially the vocal and connected few (but benefit the silent majority), therefore involving political choices and commitment. Some of this churning has started bubbling up in Bangladesh. How we respond now will shape the quality of our institutions and innovations, the pace of our productivity, and the diversity of the players and the industries over the next 50 years. The gift of 1971 and the subsequent progress earned by hard-working Bangladeshis over the last 50 years should be the responsibility and the confidence to ask and debate these difficult questions frankly, openly, and critically.

For me, one of the most unique features of Bangladesh is our population density. As we go through these complex transitions, through rapid urbanisation and industrialisation, we have to manage our density delicately, including in the agenda of decentralisation, local governance, the safety nets for the vulnerable, infrastructure and urban planning. For that, the recent focus on some of the large infrastructure should help; but more broadly, the state capacity, the rule of law, a respect for the environment and a deeper sense of social justice and representation will be critical to ensure our social cohesion. Industrialisation, especially manufacturing, has historically been a very toxic and disruptive process; our density limits how much toxicity and disruption we can and should consume; in fact, social discontent amid high density is a recipe of non-linear instability (remember the movement for road safety in 2018?). Without due attention, our density dividend can easily unravel into density discount. As we turn 50, let this realisation about our inherent fragility foster more pre-emptive accountability and bottom-up representation; and encourage more space for the diversity of voices, dissent and experimentation, the common ingredients in all the innovations in our delta.

Looking ahead, I like to remind myself, now older and a less agile middle-aged man, of a guidance from Professor Amartya Sen, who in a 2013 Lancet article, asked and answered "What's happening in Bangladesh" on the progresses Bangladesh has made so far: "Bangladesh's laudable success has been the avoidance of the twin dangers of inertia and smugness. The future will demand more from these virtues."

Let's remember 1971. Let's remember our inheritance and our indebtedness. Let's try together and harder, with inspiration and confidence, but without inertia and smugness.

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