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# BANGLADESH ON THE WORLD STAGE

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## Decoding the social dynamics of Bangladesh's rising middle-class



**Given the low share of 'wealthier' middle-class in Bangladesh, upward mobility between subcategories of the middle-class seems rather difficult.**

VISUAL: COLLECTED

FROM PAGE 13

A large middle-class is also likely to be associated with higher levels of savings in the country. The middle-class thus matters for growth in Bangladesh on account of its investments in human capital that is facilitated by steady employment which seems to be a key characteristic of what it means to be middle-class. Thus, a strong middle-class is likely to lead to long-term development of the country by positively affecting the proximate causes of growth. In the process, robust positive impact on consumption growth through schooling will also support increased demand for human capital during the country's industrialisation process.

Specifically targeting the middle class may help in the fight against poverty,

compared with policies that solely aim to help the poor and impoverished. To the extent that the policy-makers would like to nurture the middle-class, the key question is: how should they do so? No doubt, there are many deeply embedded institutional and cultural characteristics that can present difficulties when trying to foster the middle-class. Specifically, existence of strong democratic culture, fair legal traditions, functioning institutions, and good governance can create a rapidly emerging middle-class. In addition, policies that spur the private sector are likely to lead to faster growth of the middle-class. Similarly, policies that promote urbanisation will boost the size of the middle class. As such, strong evidence exists that a rising middle-class will boost consumption and investment,

and be an important driver of economic growth.

The middle-class has growing expectations regarding quality healthcare, good education, social protection, affordable living, and other social services. They no longer remain satisfied with simply having access to public services; they are increasingly concerned with their quality. The middle-class would demand greater access to high-quality, inexpensive education and healthcare. Providing quality services that the middle-class demands is far more complicated than providing access and this can be a source of friction and conflicts. With rapid growth of the middle-class, the demand for public services soars, the capacity of the government to respond to them also expands, but at a slower rate. This, in turn, may

have implications on poverty, assuming that the government is able to meet public demands—it is well-known that the causes of poverty include insufficient access to public services such as education and healthcare, especially for rural inhabitants.

Bangladesh's emerging middle-class can thus be a critical factor because of its potential as an engine of growth. History tells us that those belonging to the middle-class vigorously accumulate capital, both physical and human. So, a stable middle-class can provide a solid foundation for economic progress by driving consumption and domestic demand.

The experience of Brazil and South Korea illustrates major differences in the role of the middle-class. In the 1960s, both these countries had similar levels of income and economic growth rates; but by the 1980s, the middle-class made up only 29 percent of the population in Brazil due to high income inequality. In contrast, South Korea's share of middle class was 53 percent. The high share of the middle-class enabled South Korea to shift away from export driven growth towards domestic consumption, a transition that did not happen in Brazil. And South Korea progressed rapidly afterwards, whereas Brazil stagnated.

### HARNESSING INVESTMENT OPPORTUNITIES

Investing in the middle-class in Bangladesh can be an exciting and potentially rewarding venture for investors. The economic opportunities emerge from high growth potential fuelled by various factors, including rapidly rising consumption, infrastructural development, and technological advancements. Investing

early in these areas can lead to substantial returns as they mature. Moreover, investing in different lucrative markets provides an opportunity to diversify the investment range which can act as a hedge against potential risks in the investors' overall portfolio.

Moreover, Bangladesh's economy is still in its early stage of development. As the economy progresses, it presents opportunities for investors to expand and reach new, underserved markets. Above all, favourable demographics offer a young and growing population. This demographic trend can translate into increased demand for goods and services, driving further economic expansion and creating investment opportunities in various sectors.

One must also realise that, in the aftermath of the Covid-19 pandemic and adverse global and national developments that have followed afterwards, Bangladesh economy has suffered serious macroeconomic instability which has resulted in high inflation and financial and external volatility over the last two years. This, in combination with other factors, has slowed down economic growth and unemployment is more likely to have risen in the country. The ensuing slow recovery in investment has also cut the pace of structural transformation (from agriculture to higher productivity sectors) in Bangladesh.

Anecdotal evidence shows that productive structural transformation—the shift in employment out of lower productivity sectors into higher productivity ones—has slowed, weakening a key driver of job quality growth that is associated with poverty reduction, falling shares of vulnerable employment

and growth of the emerging middle-class in the country. This shows a clear need for improvements in productivity, sustainable structural transformation and expansion of the social protection system to ensure a basic social floor for the poor and vulnerable middle-class of the country.

No doubt, investing in the emerging middle-class dominated Bangladesh economy offers enticing opportunities for growth, but it comes with its fair share of challenges as well. By understanding the potential rewards and risks, conducting thorough research, and maintaining a long-term mindset, investors can harness the growth potential of this dynamic economy. The key will be to invest with caution, along with a well-thought-out strategy to make the most of the emerging opportunities.

### MIDDLE-CLASS AND SOCIAL TRANSFORMATION

The middle-class is not only a driver of consumption and domestic demand, its social role is equally important. The middle-class is usually progressive, supports democracy and moderate political platforms. A strong middle-class can, therefore, influence inclusive development through more active participation in the political process, expressing support for inclusive political programmes and electoral platforms.

Although a larger middle-class may imply a happier population—especially for the new entrants—this may also create pressures for better delivery of public services or for more democratic governance as middle-class citizens recognise their potential to bring about positive changes.

SEE PAGE 15





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