

Cassandra Crossing: Attaining Non-LDC Income Level for Bangladesh

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The LDC Debate

In the recent past, subsequent to a statement by the Minister for Finance and Planning, there had been a sprinkle of debate on the desirability of Bangladesh continuing as a *Least Developed Country* (LDC). While most of us agreed with the spirit of the said statement of the Minister declaring his reluctance to keep Bangladesh in the LDC group, many of us pointed out that such common affiliation is bestowed on a country based on specific measurable criteria which do not call for acceptance or rejection by the concerned country. Some of us went a step further and pointed out that a number of real and potential benefits which Bangladesh currently enjoys from its status as an LDC are critical for the country's effective integration in the globalisation process.

Another recurring theme of the Finance Minister's recent speeches had been his critical appreciation of the role of foreign aid in Bangladesh economy and call for refocusing the country in its pursuit for attaining self-reliance. I understand that the term self-reliance in this context is not being used in the sense of autarky, but implying an end to (excessive) foreign aid dependence.

One wonders whether, from the perspective of development algorithm, there is any interface or sequencing issue between the twin objectives of ceasing to be an LDC and reducing foreign aid dependence.

Defining Criteria

It may be safely assumed that a non-LDC country do not usually suffer from economic vulnerability emanating from abject foreign aid dependence. However, it needs to be pointed out that the "economic vulnerability criterion", one of the three criteria applied to ascertain the list of LDCs since 2000 (the original criteria was determined in 1971) does

not include anything on foreign aid dependence. The said economic vulnerability criterion involves a composite *Economic Vulnerability Index* (EVI) based on indicators of (a) the instability of agricultural production, (b) the instability of exports of goods and services, (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP), (d) merchandise export concentration, and (e) the handicap of economic smallness (as measured through the population in logarithm).

It is obvious from the above list that the EVI indicators mentioned in (b), (c) and (d) are of critical importance for sustaining economic growth in contemporary Bangladesh. The ability of the country to improve on these three indicators relating to exports and trade-supportive activities will underwrite the process of diversification and modernisation of the economy, and, consequently, its capacity to alleviate the structural mismatch in the balance of payment.

Obviously, another set of determinants of such a process will entail developing our human resource related capability. Indeed, the “human resource weakness” criterion of the LDC involves a composite *Augmented Physical Quality of Life Index* (APQLI) based on indicators of: (a) nutrition, (b) health, (c) education, and (d) adult literacy.

If all these can be achieved, the per capita income the country is expected to rise and the need for foreign aid will, ultimately, diminish. That brings us to the most fundamental one amongst the three criteria defining a country’s LDC status, i.e. the *Low Income* criterion which is based on a three-year average estimate of the GDP per capita – under US\$900 for “inclusion” and above US\$1035 for “graduation”.

It is true that some honourable exceptions, such as Sri Lanka, in spite of their low per capita income, have escaped from being branded as LDC – largely thanks to their better performance relating to human development indicators. However, for simplicity of analysis, in the current context, we can reasonably assume that growth in per capita income envisages concomitant improvement in both “human resource weakness” and

“economic vulnerability”, and, consequently, reduce, the need for concessional external financing of development activities. Admittedly, we were consciously side-stepping the issue of direction of the causality.

Growth Projections

Guided by the above mentioned logical deduction, can we construct a simple quantitative model to project the time-frame within which Bangladesh may achieve a beyond-LDC income level? Can it be done within the next 15-20 years?

An estimation of such nature, developed at the *Centre for Policy Dialogue* (CPD), predicts that if Bangladesh economy grows under a “base case scenario” of 4 per cent GDP growth per annum, per capita income will rise from the current (2002) level of \$380 to \$610 by the year 2020. If we assume an “above average” growth trajectory of 6 percent per annum, the country will attain \$860 per capita income in 2020. This implies that even an “above average” GDP growth will not be adequate for Bangladesh to reach the coveted income horizon. Only if the economy grows at an “optimistic” rate of 8 per cent per annum, secularly over the next 18 years, Bangladesh may achieve a per capita income of \$1205 in 2020. As these figures are in current dollar term, in constant term the country may just cross the LDC income benchmark by the year 2020 under the optimistic scenario.

Obviously, although not unachievable, this is a daunting target to chase!

Explanatory Variables

If that be the case, what would be the nature of Bangladesh economy’s external dependence over the next two decades?

Nature of Bangladesh’s dependence on the global economy is defined by the dimensions of four major conduits, *viz.* foreign aid, trade, remittances and investment. The binding premise of our model is that the economy’s dependence on foreign aid, in both absolute and relative term, will not increase, notwithstanding the projected sustained accelerated

GDP growth to the tune of 8 per cent per annum. However, this does not mean that Bangladesh will cease to draw on foreign aid totally. Our savings–investment gap will demand that we continue to resort to foreign assistance to finance some of our capital investment requirements. Taking note of the evolving global climate for overseas development assistance (ODA), one can arguably assume that Bangladesh may continue to receive foreign aid to the tune of \$1.5 billion annually. Thus, if we hold such a foreign aid inflow figure as a constant, how should the other three external variables behave under such circumstance?

Our model predicts, based on the elasticity estimates, that in order to achieve the “optimistic” 8 per cent GDP growth, Bangladesh’s export has to grow by almost 21 per cent annually till 2020. This required export growth figure may be compared with the historic trend growth rate (1991-2001) of exports which had been in the order of 13.6 per cent.

With respect to foreign remittances, the target growth figure would be more than 15 per cent. The remittances in the past (1991-2001) has grown, buoyed up by the recent spectacular performance, at a trend rate of a little above 4.5 per cent.

Finally, the foreign direct investment (FDI) inflow needs to grow at steady rate of 21.6 per cent. Obviously, given Bangladesh’s melancholy experience in terms of attracting FDI, such a target figure remains highly challenging.

Cautious Optimism

Sceptics and cynics, sounding to be pragmatic, would, however, point out that given the emerging trends in the global economy, not to say the state of governance in the country, realising such targets are only wishful thinking.

Incidentally, achieving an increased per capita income does not necessarily mean that the country will have lesser number of poor people in the future. Understandably, aggregate

income growth and distribution of the incremental income among various groups are two different ball games.

In fine, even with two decades of extraordinary economic growth underwritten by a breakthrough in the areas of export, remittances and FDI, Bangladesh may still be an LDC for the next two decades. This makes the need for a “breakthrough” all the more imperative.

The derived conclusion apparently seems to be very pessimistic. However, recent experience of a number of developing countries in the East, particularly China, demonstrates that it is possible to regularly record double digit growth rate on a sustained basis. Once the development momentum crosses a critical threshold, it unleashes an accelerated dynamics. The role of innovative policy making and institution building become very pertinent from that perspective.

In the final analysis, however, it is the quality of development statepersonship of our political leaders which will be put to severe test in the coming years as they would, hopefully, strive to pull the country out of the dubious brand name called the “LDC”. We hope they will be able to deliver it during our generation!