

Bangladesh 2020: An Analysis of Growth Prospect and External Sector Behaviour

Paper 56

Debapriya Bhattacharya
Uttam Kumar Deb

Publisher

Centre for Policy Dialogue (CPD)

House No 40/C, Road No 11 (new),
Dhanmondi R/A, Dhaka-1209

Bangladesh

Tel: (880 2) 8124770, 9141703. 9141734

Fax: (880 2) 8130951

E-mail: cpd@bdonline.com

Website: www.cpd-bangladesh.org

First Published January, 2006

Copyright © Centre for Policy Dialogue (CPD)

Price Tk. 35.00

ISSN 1818-1570 (Print), ISSN 1818-1597 (Online)

The Centre for Policy Dialogue (CPD), established in 1993, is a civil society initiative to promote an ongoing dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such dialogues at local, regional and national levels. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues. These dialogues have brought together ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional group in civil society within a non-confrontational environment to promote focused discussions. The CPD seeks to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country.

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of the CPD include **The Independent Review of Bangladesh's Development (IRBD), Trade Related Research and Policy Development (TRRPD), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Ecosystems, Environmental Studies and Social Sectors and Youth Development Programme.** The CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has decided to bring out **CPD Occasional Paper Series** on a regular basis. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest will be published under its cover. The Occasional Paper Series will also include draft research papers and reports, which may be subsequently published by the CPD.

The present paper titled *Bangladesh 2020: An Analysis of Growth Prospect and External Sector Behaviour* has been prepared under the CPD programme on Independent Review of Bangladesh's Development (IRBD). The paper was prepared by *Debapriya Bhattacharya*, Executive Director, CPD and *Uttam Kumar Deb*, Senior Research Fellow, CPD.

Assistant Editor: *Anisatul Fatema Yousuf*, Head (Dialogue & Communication), CPD.

Series Editor: *Debapriya Bhattacharya*, Executive Director, CPD.

Abstract

External factors such as export, import, remittances and foreign aid have always played important roles to Bangladesh's economy, though the relative importance of various external factors has changed over time. This study has analysed the trend, structure and changing features of the external sector of Bangladesh. Based on the past performance and changes in the global economy, the study has projected the growth prospect and likely behaviour of Bangladesh's external sector under three scenarios: (i) optimistic scenario (8% GDP growth per annum), (ii) business as usual scenario (6% GDP growth per annum), and (iii) base case scenario (4% GDP growth per annum). Under these three scenarios, the study has projected the level of total GDP and per capita GDP of Bangladesh till FY2020. Projections are made about the required level of exports, imports, remittances, foreign aid and foreign investment to attain a consistent GDP growth at the rate of 4%, 6% and 8% up to the year 2020. The paper has also put forward the implications of the findings for policies related to the external sector of Bangladesh. The paper suggests that Bangladesh needs a steady growth based on foreign investment, service income and trade. The report adds that future growth of Bangladesh will depend on promoting export, sustaining remittances, and triggering export. Bangladesh will require a breakthrough in the performance of the external sector. According to the report, the key to the breakthrough lies in effective integration of Bangladesh's economy with the global economy which will ultimately depend on the ability of political leadership to undertake necessary policy reforms and institution building measures.

TABLE OF CONTENTS

1. ABSTRACT	i
I. INTRODUCTION.....	1
I.1 GDP Growth – Recent Trends	1
I.2 Role of External Factors in Bangladesh Economy	1
I.3 Present Exercise and Limits of the Exercise	2
I.4 Data Source	3
I.5 Layout of the Paper	3
II. GROWTH TREND AND SHARE OF EXTERNAL SECTOR.....	4
III. CHANGING FEATURES OF THE EXTERNAL SECTOR.....	5
III.1 Trend in Aid Commitment and Disbursement	5
III.2 Dynamics of Aid According to Concessional Status	6
III.3 Change in Aid by Economic Purpose.....	6
III.4 Share of ODA Disbursement in GDP	7
III.5 Change in Export-Import Ratio	8
III.6 Remittance and its Share in GDP	8
III.7 Export of Goods and Services	9
IV. GROWTH PROSPECT OF BANGLADESH ECONOMY: A PROJECTION OF THE EXTERNAL SECTOR	11
IV.1 GDP Projection	11
IV.2 Projection of External Sector Variables	13
IV.3 Required Growth of the External Sector	14
V. CONCLUDING REMARKS	19
VI. REFERENCES	21
 LIST OF TABLES	
TABLE 1: FLOW OF EXTERNAL RESOURCES TO BANGLADESH (FY1991-FY2001)	4
TABLE 2: PROJECTED GDP AND PER CAPITA GDP	12
TABLE 3: REQUIRED LEVEL OF EXPORTS	15
TABLE 4: PROJECTED LEVEL OF IMPORTS UNDER VARIOUS GROWTH SCENARIO.....	16
TABLE 5: REQUIRED LEVEL OF REMITTANCES	17
TABLE 6: REQUIRED LEVEL OF FDI UPTO FY2020	18
 LIST OF FIGURES	
FIGURE 1: TREND IN AID COMMITMENT AND DISBURSEMENT, FY1991-FY2001	5
FIGURE 2: CHANGE IN AID DISBURSEMENT BY CONCESSIONAL STATUS, FY1992- FY2001	6
FIGURE 3: CHANGE IN AID BY ECONOMIC PURPOSE, FY1980-FY2001	7
FIGURE 4: SHARE OF ODA DISBURSEMENT IN GDP, FY1980-FY2001	7
FIGURE 5: CHANGE IN EXPORT-IMPORT RATIO, FY1980-FY2001.....	8
FIGURE 6: TOTAL WORKER'S REMITTANCE AND SHARE IN GDP, FY1980-FY2001	9
FIGURE 7: COMBINED SHARE OF EXPORT & REMITTANCE AS % OF ODA, FY1980 2001	10

GROWTH PROSPECT AND EXTERNAL SECTOR BEHAVIOUR OF THE BANGLADESH ECONOMY: A PROJECTION TILL 2020

I. INTRODUCTION

I.1 GDP Growth –Recent Trends

The economy of Bangladesh has experienced an average of 4% plus growth per annum throughout the 1990s. Even during the year of devastating floods (FY1999), the economy grew by 4.9%. Average GDP growth in the 1990s (FY1991-2000) was 4.78%, which was one percentage point higher than that of the previous decade (i.e. 3.74% in FY1981-90). The second half of the 1990s demonstrated a more impressive growth performance (5.29%, FY1996-2000) in comparison to the first half (4.49% for FY1991-95). According to the revised estimates, GDP growth rate in FY2001 was 5.16% (Bhattacharya, 2002).

The experience of the 1990s has given rise to the hope that the real GDP growth in the coming years will be higher than what has already been achieved. According to the draft Interim Poverty Reduction Strategy Paper (I-PRSP) report (2002), the real GDP growth in FY2004 and FY2005 were expected to be 6.0% and 6.3%, respectively.

I.2 Role of External Factors in Bangladesh Economy

External factors such as export, import, remittances, and foreign aid have always played important roles to Bangladesh's economy. However, the relative importance of the various external factors has changed over time. In the 1970s, the growth of the economy was sluggish and growth of exports was insignificant. The volume of export of Bangladesh's major traditional items was actually lower in most years of the decade of seventies than what is attained in FY1970, the year before the start of the liberation war. Both the balance of trade deficit and the current account deficit as a proportion of GDP almost doubled between FY1973 and FY1980 (Hossain et al., 1998). During that period the country was following an import substituting industrial policy and the global economy had a protectionist approach to trade. In addition, the country was recovering from the losses from the independence war in 1971, domestic real shocks of two consecutive droughts in 1972 and 1973 and floods in 1974. The

country was also facing a number of international shocks such as oil price shock of the 1973 which rocked the world economy, food price shock as a consequence of the bad weather of 1972/73, demand shock for the exportable jute products originating from synthetic substitutes of jute and the oil price shock of 1979. As a result, the economy had to depend heavily on foreign aid to meet its demand for foreign currencies in the 1970s.

During the 1980s, Bangladesh had started to shift from import substituting industrial and protectionist trade policies towards export-oriented industrial policies. Towards this the country had initiated important reforms in domestic policies. The 1980s was a decade of crisis of external dependence.

Bangladesh experienced an accelerated pace of global integration of her economy in the 1990s. Economic reforms gained momentum in the 1990s and successive governments pursued an export-led growth strategy. In addition, Bangladesh was able to get increased market access with reduced tariff rates provided by some developed countries to export her commodities. Volume of foreign direct investment (FDI) gradually increased in the 1990s, and participation of Bangladeshi workers in the global labour market also increased, which resulted in increased remittances to the country. Thus, the 1990s was a decade of transition from *aid dependence* to *trade orientation* and enhanced integration of local economy with the global economy.

An optimistic scenario for the 2000s could be that the decade will usher in a breakthrough from trade orientation to investment driven economy while the 2010s will be a decade of steady growth based on foreign investment, service income and trade. In this respect, the pertinent questions are: Is such a projected path feasible? If so, what measures should be taken for this desired transformation? What are those internal and external factors which will need to be taken cognisance of if this is to be achieved?

I.3 Present Exercise and Limits of the Exercise

This paper makes an attempt to find answers to the abovementioned questions. It analyses the future prospect of the economy and current strategies pursued by the government. The present analysis is carried with three scenarios in the perspective: (i)

optimistic scenario (8% GDP growth per annum); (ii) business as usual scenario (6% GDP growth per annum); and (iii) base case scenario (4% GDP growth per annum). Under these three scenarios, the study projected the level of total GDP and per capita GDP of Bangladesh till the FY2020. Analyses were also carried out to study the trend and structure of the external sector of Bangladesh. Based on the past experiences and in the context of the changing global trading regime, projections are made about the required level of exports, imports, remittances, foreign aid and foreign investment to attain a consistent GDP growth at the rate of 4%, 6% and 8% up to the year 2020.

I.4 Data Source

The paper draws on secondary data collected from various sources. GDP data was gathered from the Bangladesh Bureau of Statistics (BBS). Data on export, import, remittances and foreign aid were obtained from the International Financial Statistics Yearbook 2001. Data on population growth rate were obtained from the report of the Population Census 2001 carried out by BBS. Flow of foreign direct investment in Bangladesh was obtained from the International Financial Statistics Yearbook 2001. Data on flow of foreign direct investment to the Southeast Asian countries (Thailand, Malaysia, Indonesia, the Philippines, China and Singapore) were obtained from UNCTAD. GDP data for these Southeast Asian countries were obtained from the website (<http://strategicasia.nbr.org/Data/CView/>).

I.5 Layout of the Paper

The paper is divided into five sections. Following the introductory part, Section II examines the growth trends in GDP and share of external sector. Section III takes a close look at the changing features of external sector of Bangladesh economy. Projections about the Bangladesh economy and its external sectors till FY2020 are made in Section IV. The final section (Section V) puts forward the implications of the findings for policies related to the external sector of Bangladesh.

II. GROWTH TREND AND SHARE OF EXTERNAL SECTOR

As Bangladesh is expected to continue to be a trade-oriented nation in the coming decades, consequently the experiences of the 1990s will have much relevance from the perspective of charting the future policy directions of the country. Hence, the analysis of the growth in external sector is carried out for the period of FY1990-FY2001. Compounded annual growth rate was estimated using linear growth estimation techniques. Estimated growth trend for export, import and remittances for the period FY1991-FY2001 was 13.58%, 10.78% and 9.53%, respectively (Table 1). Flow of FDI has increased from US\$33.66 million in FY1992 to US\$320.82 million in FY1998 and then gradually declined to US\$214.01 million in FY2001. In other words, Bangladesh did not experience any significant and consistent pattern of FDI inflows.

TABLE 1
FLOW OF EXTERNAL RESOURCES TO BANGLADESH (FY1991-FY2001)

Year	(in million US\$)						
	Export	Remittances	ODA	FDI	Total	Import	Foreign Exchange Reserve
FY1991	1717.55	763.91	1732.00	-	4213.46	3472.00	880.00
FY1992	1993.92	849.66	1611.00	33.66	4488.24	3516.00	1608.00
FY1993	2382.89	944.57	1675.00	38.05	5040.51	4071.00	2121.00
FY1994	2533.90	1088.72	1559.00	106.40	5288.02	4191.00	2765.00
FY1995	3472.56	1197.63	1739.00	102.93	6512.12	5834.00	3070.00
FY1996	3882.42	1217.06	1443.00	16.58	6559.06	6947.00	2039.00
FY1997	4418.28	1475.42	1481.23	-62.12	7312.81	7162.00	1719.00
FY1998	5161.20	1525.43	1251.38	320.82	8258.83	7524.00	1739.00
FY1999	5312.86	1705.74	1536.80	262.61	8818.01	8018.00	1523.00
FY2000	5752.20	1949.32	1588.00	228.68	9518.20	8403.00	1602.00
FY2001	6467.30	1882.10	1368.80	214.01	9932.21	9362.86	1307.00
Total	43095.08	14599.56	16985.21	1261.62	75941.47	68500.86	20373.00
Growth Rate (FY1991-FY2001)	13.58	9.53	-1.90	-	9.07	10.78	-0.49
Growth Rate (FY1997-FY2001)	8.70	7.32	0.80	-	7.54	6.46	-6.30

Note: Growth rates were estimated assuming linear growth trends.

Source: Authors' calculation, based on data obtained from CPD-IRBD Database 2003.

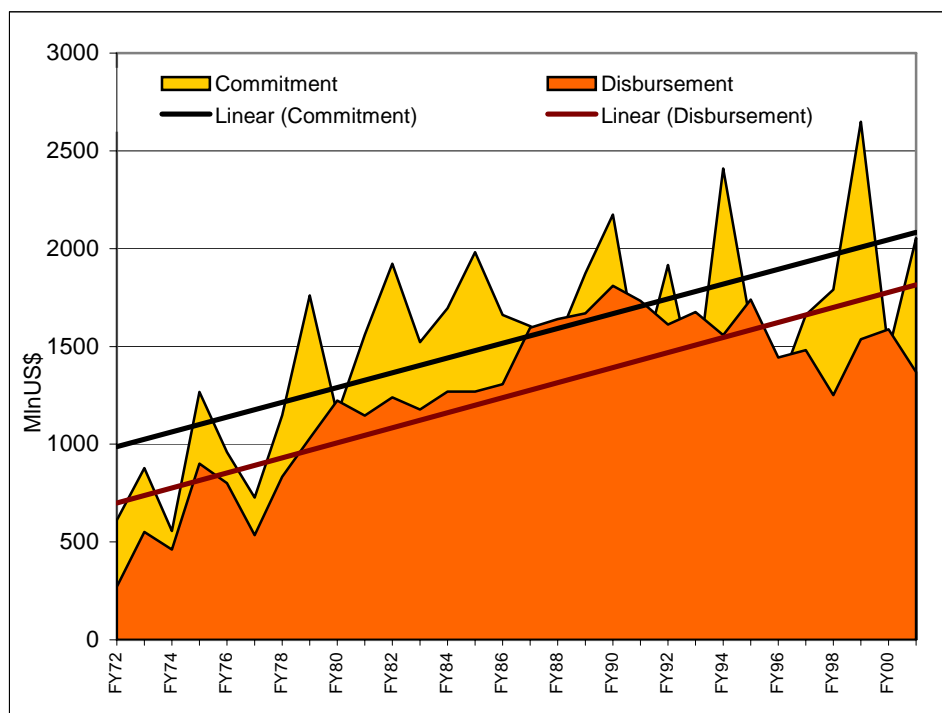
III. CHANGING FEATURES OF THE EXTERNAL SECTOR

III.1 Trend in Aid Commitment and Disbursement

Foreign aid flow to Bangladesh has experienced fluctuating fortunes in the past. Up until FY1990, the amount of foreign aid showed an upward but fluctuating trend while it showed a downward but fluctuating trend after FY1990 (Figure 1). In FY2001, the amount of disbursed foreign aid was US\$1368.8 million against the committed amount of US\$2052.84 million.

Disbursement of foreign aid was 106% of commitment (US\$1223 million) in FY1980 and declined to 64% (US\$1269 million) of committed amount (US\$1981 million) in FY1985. In 1990, the amount of aid disbursement was 83% of the committed aid (US\$2175 million); however, in FY1995 disbursed aid (US\$1739 million) was higher than committed amount (US\$1612 million). Disbursed aid was only two-thirds of the committed aid in FY2001. A definitive pattern between aid commitments and actual aid disbursement was observed during this period. When aid disbursement performance tended to be relatively better during a particular year, aid commitments in the following year tended to be pushed upwards; conversely, poor aid disbursement performance tended to be followed by lower aid commitments in the subsequent year.

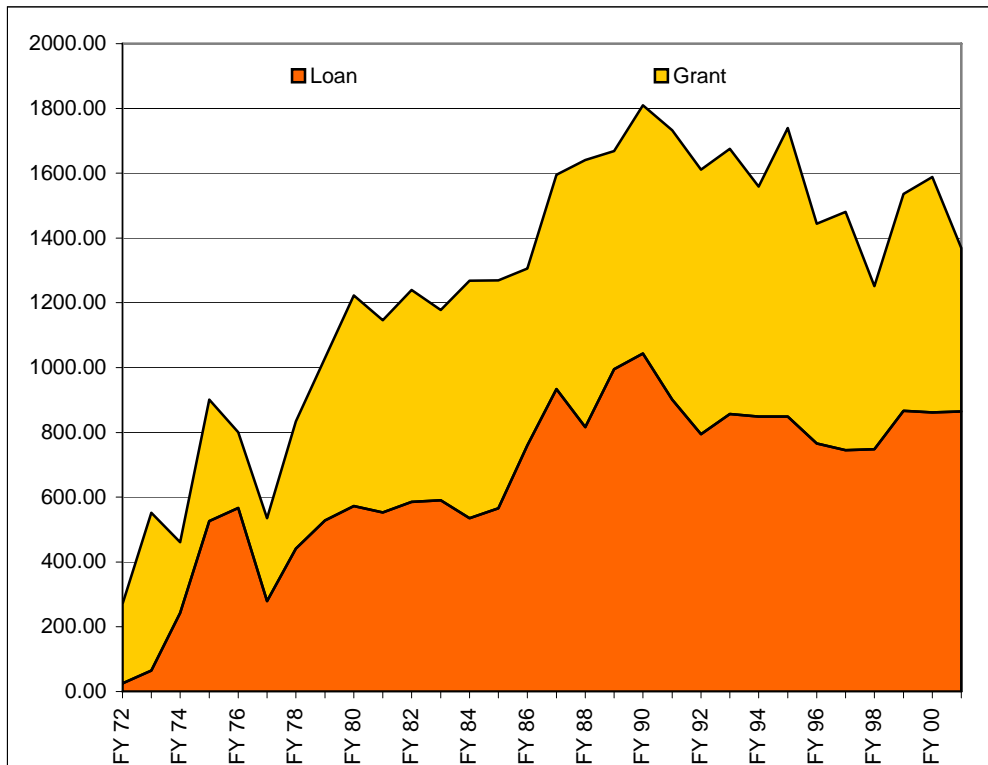
FIGURE 1
TREND IN AID COMMITMENT AND DISBURSEMENT, FY1991-FY2001



III.2 Dynamics of Aid According to Concessional Status

Bangladesh receives two types of foreign aid: loan and grant. Grant is provided to the country for financing the development need of the country. The country does not need to repay the grant it receives. On the other hand, loan has to be repaid after a certain period of time and the repayment has to be made with interest. The share of loan in the total aid increased over time, and proportion of loan has exceeded grant. In FY2001, the share of loan in the total foreign aid was about two-thirds (63.17%) of the total aid while the share of grant to total aid was 36.83% (Figure 2). It may be noted that the share of loan to total aid was less than 10% in FY1972.

FIGURE 2
CHANGE IN AID DISBURSEMENT BY CONCESSIONAL STATUS, FY1992-FY2001

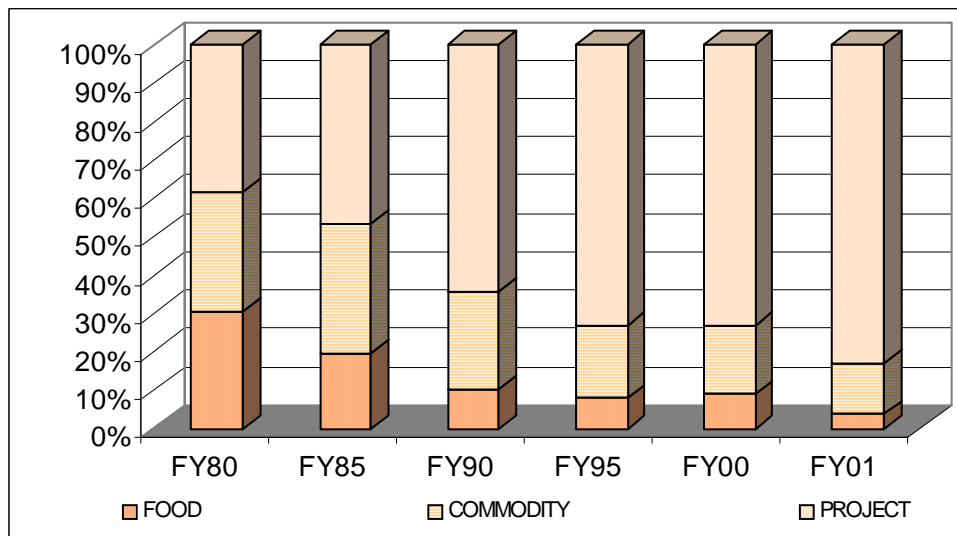


III.3 Change in Aid by Economic Purpose

Bangladesh receives three categories of aid: food aid, commodity aid and project aid. The share of food aid and commodity aid declined but the share of project aid increased over time. In FY1980, the share of both food aid and commodity aid was about 31% and the share of project aid was 38.42% (Figure 3). In FY1990, the share of food aid in total aid declined to 10.36% and the share of commodity aid declined to 25.24% but the share of project aid increased to 64.40%. In FY2001, the share of food

aid in total aid is only 3.71% and the share of commodity aid is 13.42%. On the other hand, the share of project aid was 82.87% of total aid in Bangladesh in FY2001.

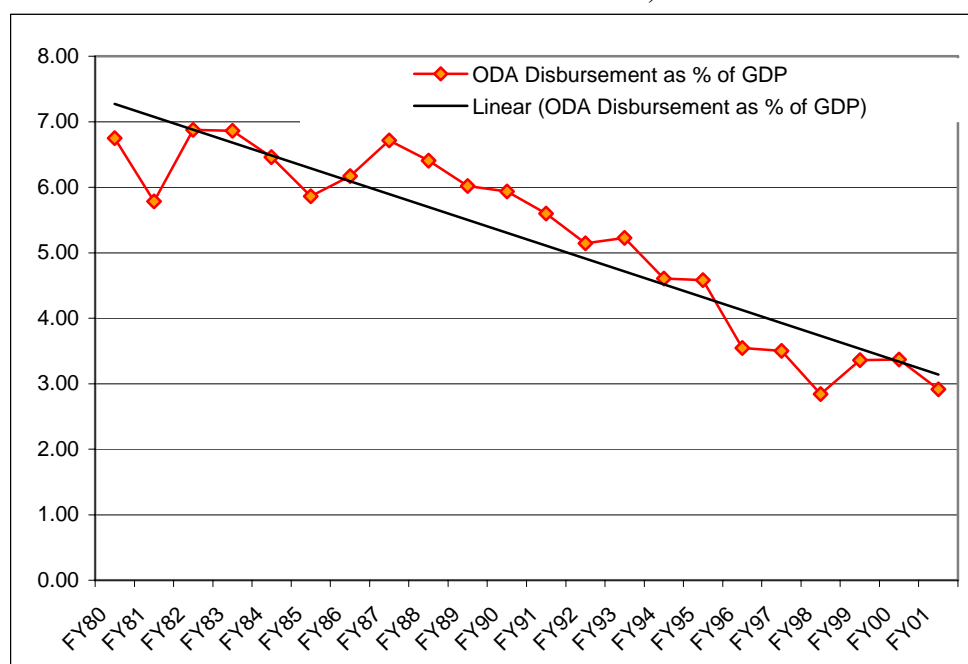
FIGURE 3
CHANGE IN AID BY ECONOMIC PURPOSE, FY1980-FY2001



III.4 Share of ODA Disbursement in GDP

Percentage share of official development assistance (ODA) to total GDP has declined over time. In FY1980, the share of ODA disbursement to total GDP was 6.73% which declined to 5.94% in FY1990. This has declined further to 3.37% in FY2000 and to 2.92% in FY2001 (Figure 4).

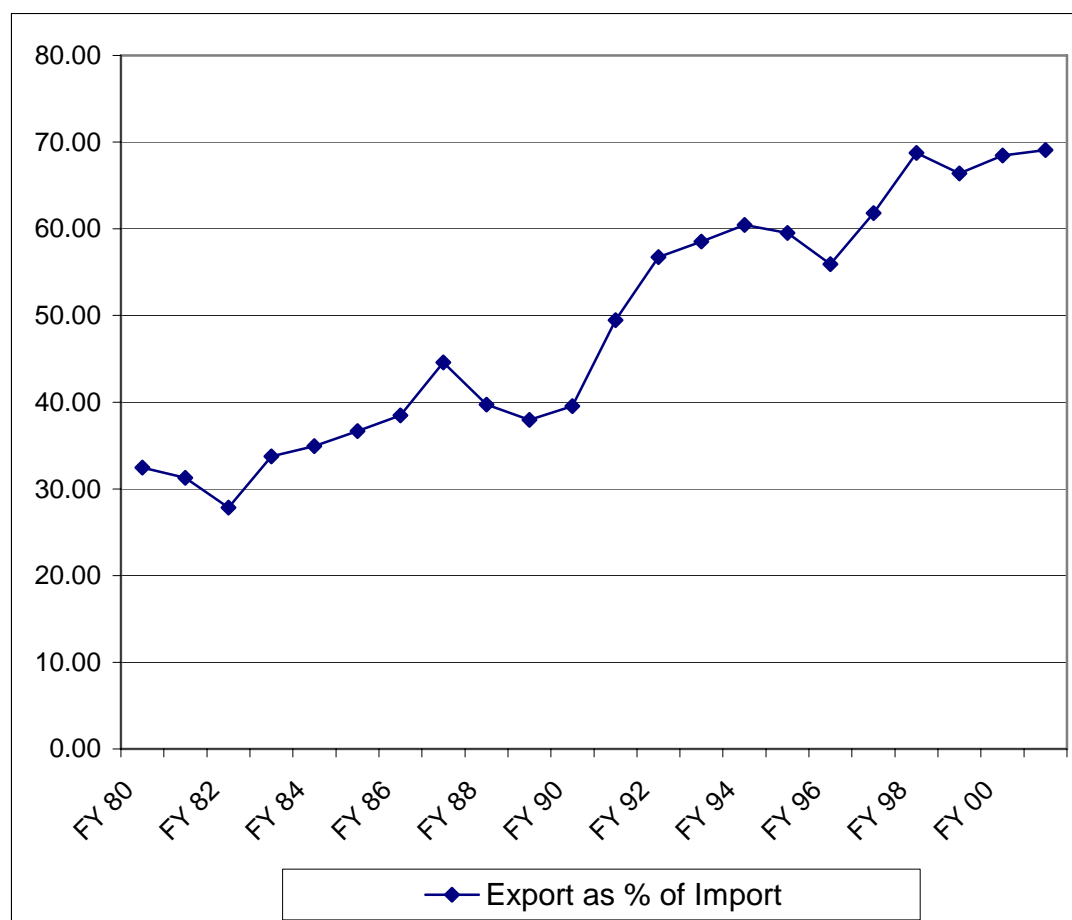
FIGURE 4
SHARE OF ODA DISBURSEMENT IN GDP, FY1980 – FY2001



III.5 Change in Export - Import Ratio

Foreign trade has also experienced changes over time. Export as percentage of import has increased over time. In FY1980, total export of Bangladesh was 32.46% of the total import. The ratio of export-import has increased to 39.54% in 1990 and to 69.07% in FY2001 (Figure 5).

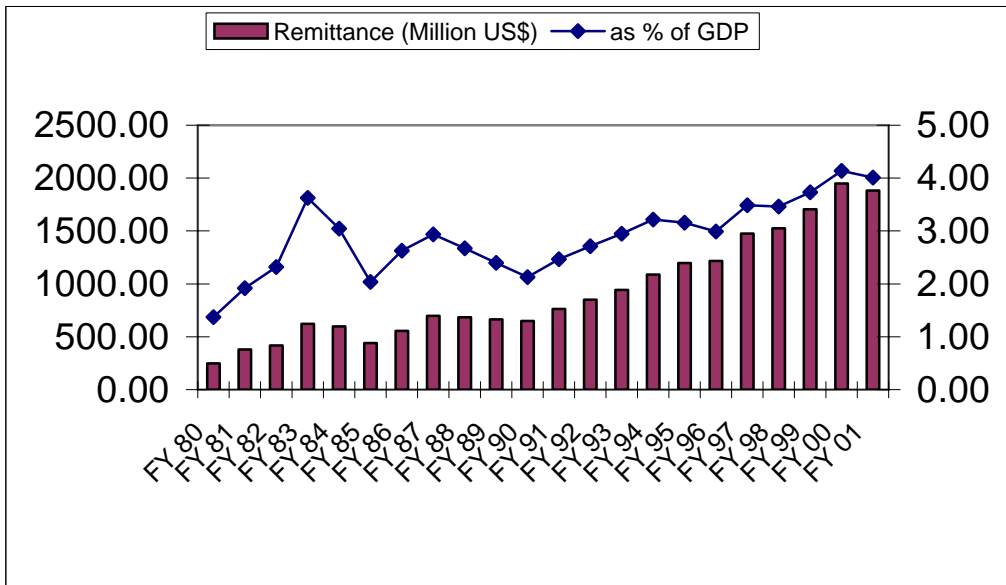
FIGURE 5
CHANGE IN EXPORT-IMPORT RATIO, FY1980-FY2001



III.6 Remittance and its Share in GDP

The amount of remittance sent by Bangladeshis working abroad has increased over time. Total remittances in FY1980 was US\$249 million which has increased to US\$763 million in FY1991 and further increased to US\$1949 million in FY2000. However, it has declined to US\$1882 million in FY2001 (Figure 6). Not only total amount of remittances has increased but its share as a percentage of GDP has also increased significantly. The share of remittances to total GDP was only 1.37% in FY1980 which has increased to more than 4% in FY2001.

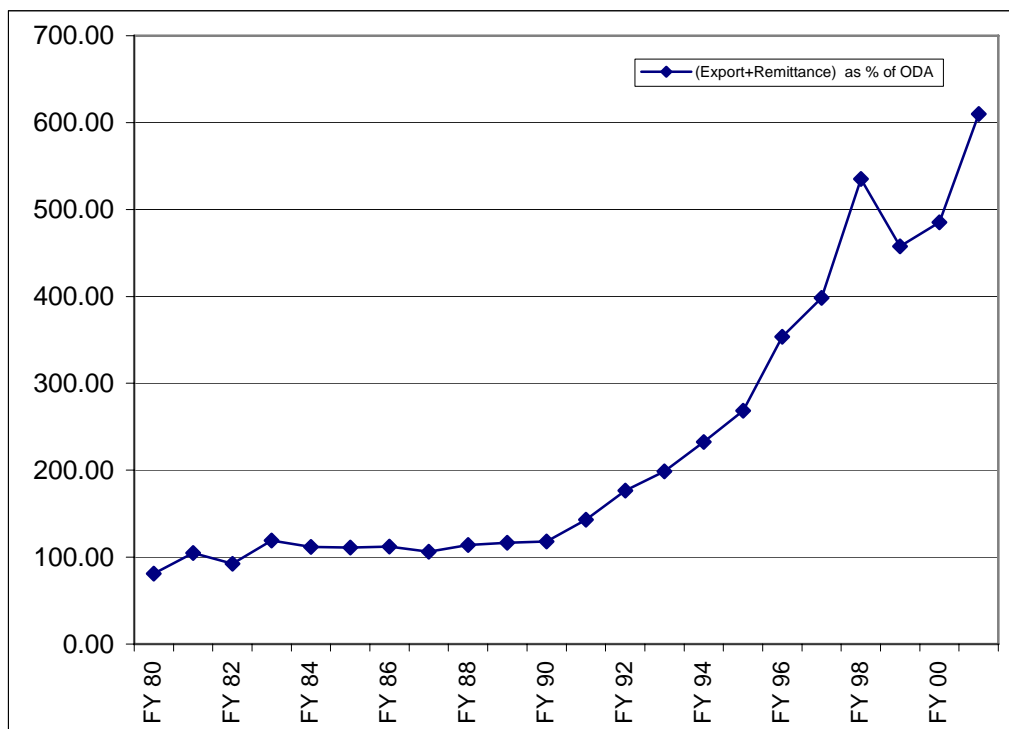
FIGURE 6
TOTAL WORKER'S REMITTANCE AND SHARE IN GDP, FY1980-FY2001



III.7 Export of Goods and Services

The export of goods and services (total export of goods plus remittances) indicates the real strength of the external sector of an economy. Total exports of goods and services were only 81% of official development assistance (ODA) in FY1980 which has increased to 118% in FY1990 and further increased to 610% in FY2001 (Figure 7). In other words, for every 100 dollar of foreign aid Bangladesh was able to earn foreign currencies amounting to only 81 dollar through export and remittances in FY1980 while Bangladesh earns about 610 dollar against every 100 dollar of foreign aid. That means that Bangladesh depends mostly on exports of goods and services to meet up its foreign exchange demand rather than on foreign aid. Total exports of goods and services were more than six times the foreign aid it received in most recent years.

FIGURE 7
COMBINED SHARE OF EXPORT AND REMITTANCE AS % OF ODA, FY1980-FY2001



IV. GROWTH PROSPECT OF BANGLADESH ECONOMY: A PROJECTION OF THE EXTERNAL SECTOR

This section presents estimates of Bangladesh's GDP till the year 2020. The estimates have been obtained by deploying a simple model using various growth assumptions for the period 2001-2020. The GDP estimates allow us to derive a per capita income series under various scenarios.

With the GDP projections an attempt has also been made to anticipate the expected behaviour of the external sector in accordance with different growth assumptions. The projected values of the explanatory variables provide us with the required growth rates of the external sector indices under various growth scenarios.

IV.1 GDP Projection

In the present GDP estimation exercise three types of growth scenarios have been developed. First, the "optimistic scenario" is targeting 8% consistent annual growth of the GDP; Second, the "business as usual" scenario implying steady 6% growth rate of the GDP; and Finally, the "base case" scenario with 4% growth rate.

Table 2 reports the results of the GDP estimation exercise. It is observed that, under the "base case" scenario, total size of the GDP will increase to US\$100 billion by 2020 from the benchmark estimate of US\$47 billion in 2001. On the other hand, under the "business as usual" and "optimistic" scenarios the size of the GDP is expected to reach approximately US\$140 billion and US\$197 billion respectively.

In other words, under 4% growth prospect, the size of the Bangladesh economy is expected to experience 2.1 times increase in terms of GDP growth between 2001 and 2020. In case of 6% growth prospect, such increase will be about 3.0 times; whereas, if GDP grows by 8% per annum, the economy will expand 4.2 times during the period under review.

TABLE 2
PROJECTED GDP AND PER CAPITA GDP

Year	Projected GDP (million US\$) at			Projected Per Capita GDP (US\$) at		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY2001(Actual)	46934	46934	46934	363	363	363
FY2002(IPRSP)	49186	49186	49186	375	375	375
FY2003	51154	52138	53121	385	392	399
FY2004	53200	55266	57371	394	410	425
FY2005	55328	58582	61961	404	428	453
FY2006	57541	62097	66918	415	448	483
FY2007	59843	65823	72271	426	468	514
FY2008	62237	69772	78053	437	490	548
FY2009	64726	73958	84297	449	513	585
FY2010	67315	78396	91041	461	537	623
FY2011	70008	83099	98324	474	562	665
FY2012	72808	88085	106190	487	589	710
FY2013	75720	93371	114685	500	617	758
FY2014	78749	98973	123860	514	646	809
FY2015	81899	104911	133769	529	677	864
FY2016	85175	111206	144470	544	710	923
FY2017	88582	117878	156028	560	745	986
FY2018	92125	124951	168510	576	781	1054
FY2019	95810	132448	181991	593	820	1126
FY2020	99643	140395	196550	611	860	1204

Source: Author's estimate.

The projections of the GDP series allow us to estimate the per capita income to be attained in the country by the year 2020. However, for undertaking such exercise, we need to develop a parameter for expected population growth during this period.

Population size in Bangladesh recorded a 1.47% growth during the period 1991-2001. Although the total fertility rate is currently stagnating, it is assumed that, thanks to various policy measures, the population growth rate will stabilise at 1% by 2020. If such expectation is realised, then the population of Bangladesh by the year 2020 will be in the order of 163 million. Accordingly, as may be noted from Table 2, per capita GDP in 2020 will be US\$611 as per the base case scenario or 1.7 times of the benchmark per capita estimate for 2001. In case the country grows at “business as usual” rate (6%), the per capita income at the terminal year will be around US\$860 (i.e. about 2.4 times the 2001 figure). If the economic growth accelerates to 8% per annum (optimistic scenario), the per capita income is expected to be US\$1205 in 2020, implying 3.3 times growth.

IV.2 Projection of External Sector Variables

Growth in GDP (and per capita GDP) in the coming years has important implications for growth in export, import, remittances and FDI. Therefore, the trend of growth rate required for export, import, remittances and FDI to achieve sustained growth in GDP at three different rates. Estimation is carried out on the basis of the following assumptions.

Assumption 1. Taking into account the global aid climate as well as domestic absorptive capacity for the period upto 2020, real flow of foreign aid had been assumed to be US\$1 billion annually.

Assumption 2. Elasticity of GDP with respect to export, import and remittances will be the same as was in Bangladesh during the FY1991-FY2001.

Assumption 3. Since Bangladesh has no significant and consistent experience of FDI flow, elasticity of GDP with respect to FDI may be similar to that of South-East Asian countries in the mid-1980s and mid-1990s.

Estimated value of elasticity of GDP with respect to export, import and remittances during FY1991-FY2001 period was 0.384%, 0.455% and 0.531%, respectively. In other words, GDP increased by 3.84% for 10% increase in export, by 4.55% for 10% increase in import, and by 5.31% for 10% increase in remittances.

As mentioned above, elasticity of GDP with respect to FDI was calculated on the basis of experience of Thailand, Malaysia, Indonesia, the Philippines, China and Singapore during the period 1984-1995 using their net FDI flow. Since countries have varying economic structure, policy situation and micro-environment to attract foreign investment, it was reckoned that likely situation for Bangladesh may not be the same as those countries; rather their average may proximate the situation in Bangladesh. Therefore, we have estimated elasticity of FDI with respect to GDP, considering the average situation in those countries. Estimated elasticity of GDP with respect to FDI was 0.371 indicating that 10% increase in FDI will result in 3.71% increase in GDP of Bangladesh.

Export -Import- Remittance and FDI

Estimates show that to achieve a sustained GDP growth rate of 4% per annum up to 2020, export of Bangladesh will have to grow at the rate of 10.42% while import will have to grow by 8.79% per annum. On the other hand, required trend growth rate in

remittances and FDI would be 7.53% and 10.78% per annum to achieve a 4% GDP growth rate.

To achieve 6% compounded growth in GDP, exports need to increase at the rate of 15.63% per annum, while imports will have to increase by 13.19% per annum. For 6% GDP growth, remittances and FDI need to grow at the rate of 11.30% and 16.17%, respectively.

To achieve 8% GDP growth, export and imports need a growth rate of 20.83% and 17.58%, respectively. On the other hand, remittances and FDI have to grow at the rate of 15.07% and 21.56%, respectively.

Share of External Sector in GDP

The share of external sector in the GDP will expand along with the rate of growth of the economy. At 4% GDP growth rate, the share of external sector in the GDP will be 106%. At 6% GDP growth rate, the share of external sector in the GDP will be 161%. At 8% GDP growth rate, the share of external sector in the GDP will be 237%. In other words, consistent growth of GDP in Bangladesh will largely depend on her further integration to the global economy through trade of merchandise and services as well as receipt of private capital flow from abroad.

The growth of Bangladesh's exports in the 1990s was mainly through the expansion of readymade garments (RMG) sector which depends, to a large extent, on the imported raw materials and capital items. This real world expectation is indicated in the projected share of the external sector in the GDP which have to be slightly more than the GDP volume to achieve a consistent 4% GDP growth. In the case of 8% growth, it has to be about 2.4 times of the GDP in FY2020.

IV.3 Required Growth of the External Sector

Table 3 depicts the required export expansion as per different growth scenarios. In order to achieve 4% growth of the GDP, the amount of annual export will have to be US\$43.6 billion in FY2020, which will be 43.7% of Bangladesh's GDP in FY2020. On the other hand, for 6% GDP growth, Bangladesh's exports will require to increase to US\$100 billion, i.e. 71.1% of the projected GDP in FY2020. For an 8% consistent growth of the GDP, exports from Bangladesh have to increase to US\$220 billion in

FY2020 which will be 112.2 % of Bangladesh's GDP in FY2020. Experts argue that future export growth may come from diversification of RMG exports, involving export-oriented growth of the agro-processing, pharmaceuticals industries, cement and other non-traditional goods (e.g. jewelleryes). All these items entail processing of imported raw materials leading to local value addition.

The reason for higher projected level of exports compared to the GDP is that the present structure of trade oriented growth is dependent on the relatively low local value added products including imported raw material. However, it may be mentioned here that this is not an unrealistic situation in the context of the emerging economies. For example, export-GDP ratios in Malaysia and Singapore in 2000 were 110% and 151%, respectively. The share of Hong Kong's export to her GNP in 1999 was 122%. Examples of high export-GDP ratio also exist among the European countries. For example, in 2000, export-GDP ratios of Belgium and Luxembourg were 88% and 120% respectively, while export-GDP ratio of Ireland in 1999 was 89%.

TABLE 3
REQUIRED LEVEL OF EXPORTS

Year	Exports Required (million US\$) to Achieve			Exports Required (as % of GDP) to Achieve		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY2001(Actual)	6467.30	6467.30	6467.30	13.78	13.78	13.78
FY2002(IPRSP)	7313.87	7313.87	7313.87	14.87	14.87	14.87
FY2003	8075.97	8457.03	8837.35	15.79	16.22	16.64
FY2004	8917.49	9778.86	10678.17	16.76	17.69	18.61
FY2005	9846.69	11307.30	12902.43	17.80	19.30	20.82
FY2006	10872.72	13074.63	15590.01	18.90	21.06	23.30
FY2007	12005.66	15118.19	18837.41	20.06	22.97	26.06
FY2008	13256.65	17481.16	22761.24	21.30	25.05	29.16
FY2009	14637.99	20213.47	27502.40	22.62	27.33	32.63
FY2010	16163.27	23372.84	33231.15	24.01	29.81	36.50
FY2011	17847.48	27026.01	40153.20	25.49	32.52	40.84
FY2012	19707.19	31250.18	48517.11	27.07	35.48	45.69
FY2013	21760.68	36134.58	58623.23	28.74	38.70	51.12
FY2014	24028.14	41782.41	70834.45	30.51	42.22	57.19
FY2015	26531.87	48313.00	85589.26	32.40	46.05	63.98
FY2016	29296.49	55864.33	103417.51	34.40	50.24	71.58
FY2017	32349.19	64595.92	124959.37	36.52	54.80	80.09
FY2018	35719.97	74692.26	150988.41	38.77	59.78	89.60
FY2019	39441.99	86366.66	182439.30	41.17	65.21	100.25
FY2020	43551.85	99865.77	220441.40	43.71	71.13	112.16

Source: Author's estimate.

As Table 4 shows, the required level of imports in FY2020 for consistent 4%, 6% and 8% growth in GDP will be US\$51 billion, 104 billion, and 206 billion, respectively. In other words, volume of imports would be 51%, 74% and 105% of GDP in FY2020 to achieve the targeted GDP growth rate of 4%, 6% and 8%, respectively.

The implication of higher import level compared to the volume of GDP is that Bangladesh's export will continue to depend to a large extent on the import of capital items and intermediate goods. This is not unrealistic considering the fact that import-GDP ratios of Malaysia and Singapore in 2000 were 86% and 138%, respectively. In Hong Kong, the share of export to GNP in 1999 was 129%. If we look at Europe, we see that import-GDP ratios of Belgium and Luxemburg in 2000 were 85% and 99%, respectively.

TABLE 4
PROJECTED LEVEL OF IMPORTS UNDER VARIOUS GROWTH SCENARIO

YEAR	Imports Required (million US\$) to Achieve			Imports Required (as % of GDP) to Achieve		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY2001(Actual)	9362.86	9362.86	9362.86	19.95	19.95	19.95
FY2002(I-PRSP)	11183.94	11183.94	11183.94	22.74	22.74	22.74
FY2003	12167.01	12659.10	13150.07	23.79	24.28	24.75
FY2004	13236.49	14328.83	15461.86	24.88	25.93	26.95
FY2005	14399.97	16218.81	18180.05	26.03	27.69	29.34
FY2006	15665.73	18358.07	21376.10	27.23	29.56	31.94
FY2007	17042.75	20779.50	25134.02	28.48	31.57	34.78
FY2008	18540.81	23520.31	29552.59	29.79	33.71	37.86
FY2009	20170.54	26622.64	34747.93	31.16	36.00	41.22
FY2010	21943.53	30134.17	40856.62	32.60	38.44	44.88
FY2011	23872.37	34108.87	48039.21	34.10	41.05	48.86
FY2012	25970.75	38607.83	56484.50	35.67	43.83	53.19
FY2013	28253.58	43700.20	66414.48	37.31	46.80	57.91
FY2014	30737.07	49464.25	78090.14	39.03	49.98	63.05
FY2015	33438.86	55988.59	91818.39	40.83	53.37	68.64
FY2016	36378.13	63373.48	107960.06	42.71	56.99	74.73
FY2017	39575.77	71732.45	126939.44	44.68	60.85	81.36
FY2018	43054.48	81193.96	149255.40	46.73	64.98	88.57
FY2019	46838.97	91903.44	175494.49	48.89	69.39	96.43
FY2020	50956.12	104025.50	206346.43	51.14	74.09	104.98

Source: Author's estimate.

Remittances

Required level of remittances in FY2020 for consistent 4%, 6% and 8% GDP growth will be US\$8.9 billion, US\$16.4 billion, and US\$29.9 billion, respectively (Table 5). In other words, remittances in FY2020 would be 8.86%, 11.69% and 15.21% of GDP in FY2020 to achieve a consistent GDP growth of 4%, 6% and 8%, respectively. Increased level of remittances may be obtained through supply of skilled manpower (ICT specialists, managerial and other professional) which would require planned investment and human resource development strategy.

TABLE 5
REQUIRED LEVEL OF REMITTANCES

Year	Remittances Required (million US\$) to Achieve			Remittances Required (as % of GDP) to Achieve		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY2001(Actual)	1882.10	1882.10	1882.10	4.01	4.01	4.01
FY2002(I-PRSP)	2390.00	2390.00	2390.00	4.86	4.86	4.86
FY2003	2569.97	2660.07	2750.17	5.02	5.10	5.18
FY2004	2763.49	2960.66	3164.62	5.19	5.36	5.52
FY2005	2971.58	3295.21	3641.53	5.37	5.62	5.88
FY2006	3195.34	3667.57	4190.31	5.55	5.91	6.26
FY2007	3435.94	4082.01	4821.79	5.74	6.20	6.67
FY2008	3694.67	4543.27	5548.44	5.94	6.51	7.11
FY2009	3972.88	5056.66	6384.59	6.14	6.84	7.57
FY2010	4272.04	5628.07	7346.74	6.35	7.18	8.07
FY2011	4593.72	6264.04	8453.90	6.56	7.54	8.60
FY2012	4939.63	6971.87	9727.90	6.78	7.91	9.16
FY2013	5311.58	7759.70	11193.89	7.01	8.31	9.76
FY2014	5711.55	8636.54	12880.81	7.25	8.73	10.40
FY2015	6141.63	9612.47	14821.95	7.50	9.16	11.08
FY2016	6604.09	10698.68	17055.62	7.75	9.62	11.81
FY2017	7101.38	11907.63	19625.90	8.02	10.10	12.58
FY2018	7636.11	13253.19	22583.52	8.29	10.61	13.40
FY2019	8211.11	14750.80	25986.86	8.57	11.14	14.28
FY2020	8829.41	16417.64	29903.08	8.86	11.69	15.21

Source: Author's estimate.

Level of FDI

Access to flow of concessional capital from external sources is increasingly becoming mandatory for countries. Under this situation, countries are trying to attract private sector investment in different sectors of their economy. Thus, financing development is increasingly being dependent on the flow of FDI. Required level of FDI for consistent 4%, 6% and 8% GDP growth will be US\$1.57 billion, 3.69 billion, and 8.35 billion respectively (Table 6). In other words, FDI in FY2020 would be 1.58%,

2.63% and 4.25% of GDP in FY2020 to achieve a growth rate of 4%, 6% and 8%, respectively.

Studies on FDI inflow assert that flow of FDI not only depends on macroeconomic policies but also on many other factors at the micro-level. Macro-policies are necessary conditions and micro-level situations are sufficient conditions for attracting FDI. Micro-level performance is dependent on many factors including availability of skilled workers, adequate infrastructure (telecommunication, port facility, road, etc.), and stability in work environment (no labour unrest). Consequently, Bangladesh needs to improve her transport linkages, telecommunication facilities, efficiency of ports etc.

TABLE 6
REQUIRED LEVEL OF FDI UPTO FY2020

Year	FDI Required (million US\$) to Achieve			FDI Required (as % of GDP) to Achieve		
	4% GDP Growth	6% GDP Growth	8% GDP Growth	4% GDP Growth	6% GDP Growth	8% GDP Growth
FY2001(Actual)	214.01	214.01	214.01	0.46	0.46	0.46
FY2002(IPRSP)	248.62	248.62	248.62	0.51	0.51	0.51
FY2003	275.42	288.82	302.22	0.54	0.55	0.57
FY2004	305.11	335.52	367.37	0.57	0.61	0.64
FY2005	338.00	389.77	446.58	0.61	0.67	0.72
FY2006	374.43	452.80	542.86	0.65	0.73	0.81
FY2007	414.80	526.01	659.91	0.69	0.80	0.91
FY2008	459.51	611.07	802.18	0.74	0.88	1.03
FY2009	509.05	709.88	975.13	0.79	0.96	1.16
FY2010	563.92	824.67	1185.37	0.84	1.05	1.30
FY2011	624.71	958.02	1440.93	0.89	1.15	1.47
FY2012	692.06	1112.93	1751.60	0.95	1.26	1.65
FY2013	766.66	1292.89	2129.25	1.01	1.38	1.86
FY2014	849.31	1501.95	2588.31	1.08	1.52	2.09
FY2015	940.86	1744.82	3146.35	1.15	1.66	2.35
FY2016	1042.29	2026.95	3824.70	1.22	1.82	2.65
FY2017	1154.64	2354.71	4649.31	1.30	2.00	2.98
FY2018	1279.12	2735.47	5651.70	1.39	2.19	3.35
FY2019	1417.00	3177.79	6870.21	1.48	2.40	3.78
FY2020	1569.76	3691.64	8351.42	1.58	2.63	4.25

Source: Author's estimate.

IV. CONCLUDING REMARKS

Bangladesh has made the first transition! That is, she has been able to transform herself from a predominantly aid dependent country to a trade dependent country. Now, the country is poised for the second transition! That is, Bangladesh needs a steady growth based on foreign investment, service income and trade. This will evidently require a breakthrough in the performance of the external sector. Accordingly, the most important question in this connection is: Will her quest for such as breakthrough be successful?

This is possible only if the country is able to undertake necessary policy reforms and institution building measures. Key to the breakthrough lies in effective integration of Bangladesh's economy with the global economy. Future growth of Bangladesh will depend on: (a) Promoting export; (b) Sustaining remittances; and (c) Triggering FDI.

A breakthrough becomes all the more essential, as even an optimistic scenario does not elevate Bangladesh from the LDC status by 2020. *At the minimum, Bangladesh should try to adopt a national slogan that says - US\$1000 per capita income by 2015!*

Sceptics and cynics, would, however, point out that given the emerging trends in the global economy, not to say the state of governance in the country, 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. Future policies will need to be crafted in a way so that the issues of growth and equity could be addressed adequately if poverty in Bangladesh is to be drastically reduced.

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.

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 becomes very pertinent from that perspective.

In the final analysis, however, it is the quality of statespersonship of our political leaders which will be put to severe test in the coming years. Hopefully, they would 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!

References

- Bhattacharya, Debapriya (2002): “Bangladesh Economy in FY2001: Macroeconomic Performance” *in Bangladesh Facing the Challenges of Globalisation: A Review of Bangladesh’s Development 2001*, pp. 1-30 (Chapter 1), Dhaka: Centre for Policy Dialogue (CPD) and University Press Limited (UPL).
- Hossain, M.Islam, Abdul Bayes and Abdullah Al Mamun (1998): “The External Trade Sector of Bangladesh” *in Bangladesh at 25: An Analytical Discourse on Development* (Edited by Abdul Bayes and Anu Muhammad), pp. 109-133 (Chapter 6), Dhaka: University Press Limited (UPL).
- IMF (2001): *International Financial Statistics Yearbook 2001*; Published by the International Monetary Fund, Washington, D.C.
- Interim Poverty Reduction Strategy Paper (2002): *Bangladesh: A National Strategy for Economic Growth and Poverty Reduction*, Dhaka: Economic Relations Division, Ministry of Finance, Government of the People’s Republic of Bangladesh, April.
- Rahman, Mustafizur (2002): “Bangladesh’s External Sector in FY2001: Review of Performance and Emerging Concerns”, *in Bangladesh Facing the Challenges of Globalisation: A Review of Bangladesh’s Development 2001*, pp. 31-64 (Chapter 2), Dhaka: Centre for Policy Dialogue (CPD) and University Press Limited (UPL).