

**Dialogue on
'Bangladesh's Graduation from the LDC Group: Pitfalls and Promises'**

**Presentation on
"Business as Usual' Trend of Structural Transformation:
Can It Ensure Graduation with Momentum?"**

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Discussion Points

1. Introduction and Objectives
2. Benchmark Situation of Bangladesh's Structural Transformation
3. Graduation-led Structural Transformation
4. Structural Transformation-enabled Smooth Transition after Graduation
5. Policies Planned to Encourage Structural Change

1. Introduction and Objectives

- The graduation would not be an unmixed blessing for Bangladesh
 - Majority of the LDCs suffer from severe *transformation deficits*
- LDCs require 'graduation with momentum' (UNCTAD, 2016) for smooth transition following graduation
- The key question is: whether graduation related indicators have adequate influence on structural transformation or not?
- The overall relationship between country's graduation and structural transformation has been examined at two stages
 - a) graduation-led structural transformation and
 - b) structural transformation-enabled smooth transition after graduation

1 a. Analytical Framework

- Structural transformation of an economy is usually measured by the productivity differences among different types of economic activity.
- McMillan and Rodrik (2011) divided a country's total labour productivity growth into two components
 - 'Within sector' productivity growth and "between sector" productivity growth.
 - 'Between sector' productivity growth indicates structural transformation
- **Graduation-led structural transformation:** current graduation criteria concentrate on reducing "arbitrary" structural handicaps rather than "relative" structural handicaps
- **Structural transformation-enabled smooth transition after graduation:** Achieving 'graduation with momentum'
 - A shift of production towards more sophisticated goods and services through investment in technological upgrading of productive facilities
- To ensure sustainable growth and development, graduating countries need to analyse how they are achieving the graduation criteria
 - Whether meeting them is sufficient to facilitate the structural transformation.

2. Benchmark Situation of Bangladesh's Structural Transformation

- Bangladesh has experienced slow progress in structural transformation over the last decades
 - The Share of agriculture in GDP has significantly decreased but their share in total employment did not decrease so much (Fig. 1&2)
- Majority of the growth in productivity resulted from the growth of 'within sector productivity' (Fig. 3)
 - Rather than 'between sector productivity'

Fig. 1: Contribution to GDP by each sector

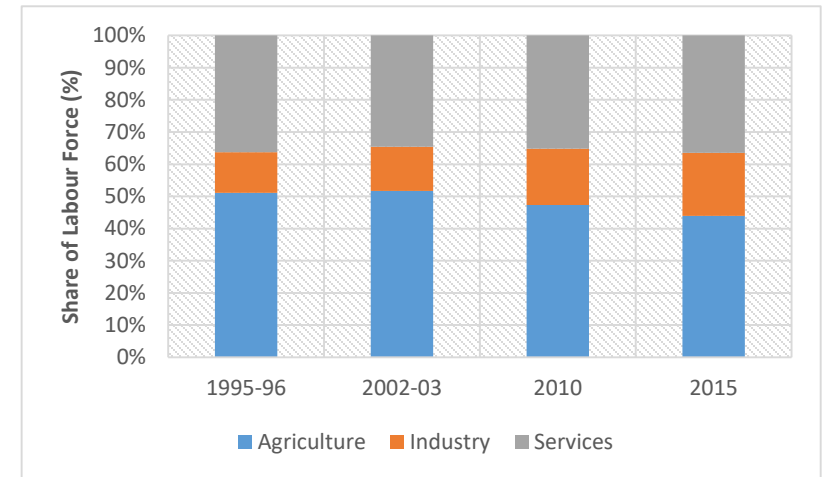


Fig. 3: Growth of 'within' and 'between' Sector Productivity, 1985-2015

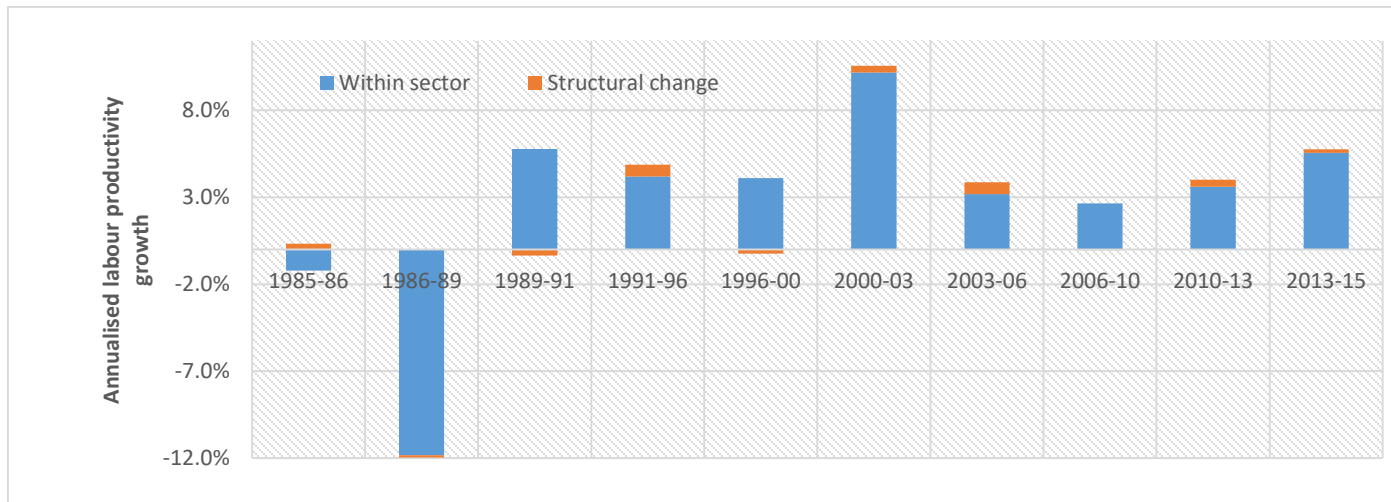
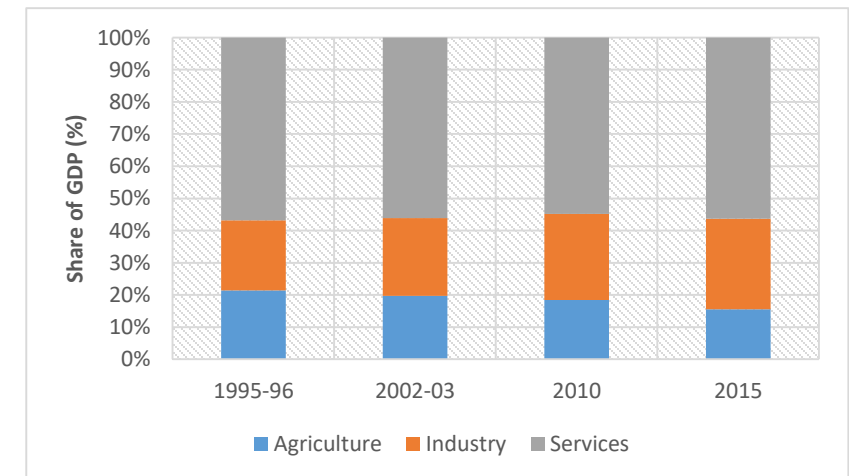


Fig. 2: Share of total labour force for each sector



2. Benchmark Situation of Bangladesh's Structural Transformation

- Bangladesh performed poorly in export diversification compared to that of India, Indonesia, Pakistan and Vietnam

Export Diversification (HHI Index value) in selected developing countries

	Bangladesh*	India	Indonesia	Pakistan	Vietnam	Developing countries excluding LDCs
1995	0.33	0.14	0.14	0.23	0.20	0.09
2000	0.38	0.15	0.13	0.21	0.24	0.13
2005	0.38	0.13	0.13	0.23	0.23	0.13
2010	0.41	0.16	0.16	0.20	0.11	0.12
2015	0.40	0.12	0.14	0.20	0.16	0.09

Source: Authors' estimation based on UNCTADstat; Note: Higher HHI values indicate export concentration

- In contrast, the majority of macroeconomic indicators of Bangladesh are found to be in a favourable condition over the past two decades
- Despite the positive changes, the economy is expected to struggle given the present direction of structural change as it approaches graduation in 2024

2. Benchmark Situation of Bangladesh's Structural Transformation

- Bangladesh had the lowest level of productivity among five countries (Fig. 4).
 - The gap in labour productivity particularly with India and Indonesia, is widened
- Growth in relative productivity in the manufacturing and service sectors was limited and volatile (Fig. 5)
- Bangladesh experienced a high level of within sector productivity growth but behind those of between sector productivity against major economies (Fig. 6)
 - Its structural change term remained low

Fig. 4: Labour productivity of selected Asian economies

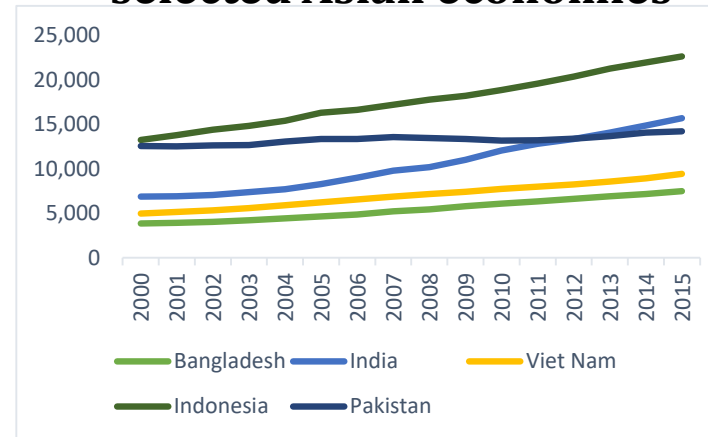


Fig. 6: Average labour productivity growth of selected Asian economies, 2011-15

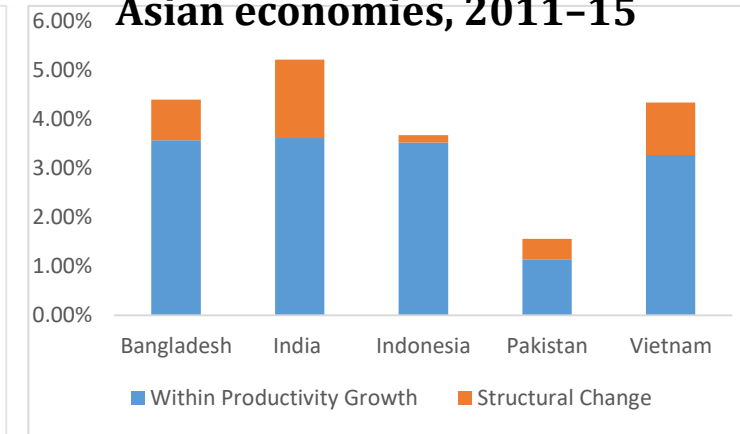
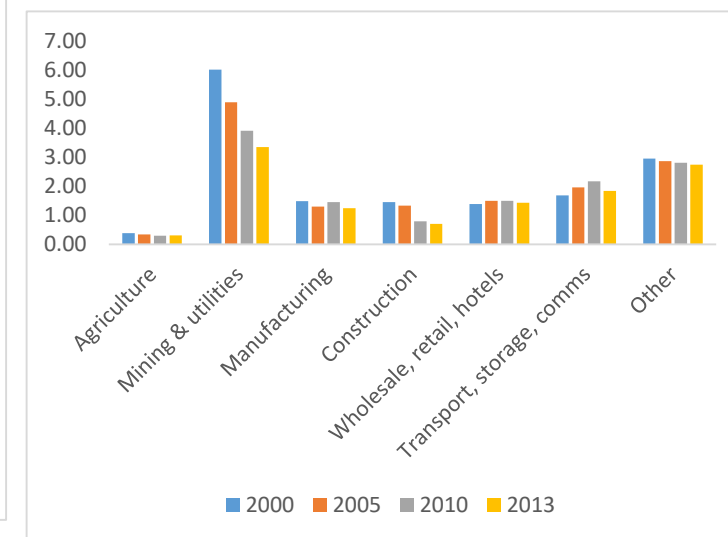
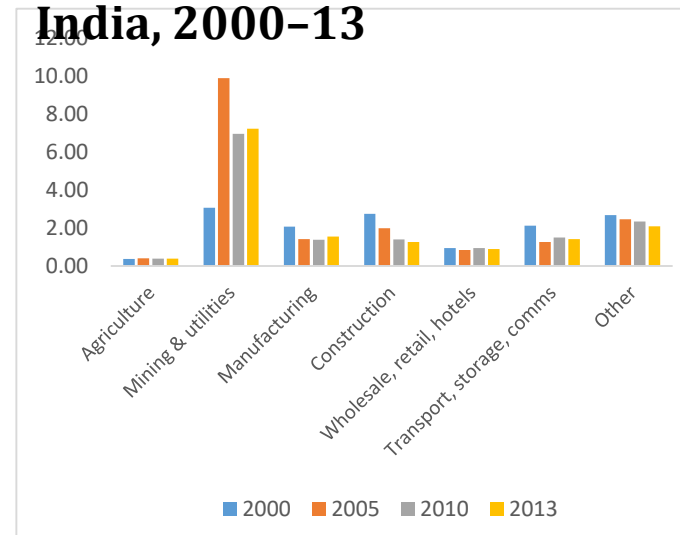


Fig. 5: Relative sectoral productivity growth of Bangladesh and India, 2000-13



3. Graduation-led Structural Transformation

- Bangladesh’s future macroeconomic trends appear to be favourable (Fig. 7)
 - Most of the indicators seem to be moving in a positive direction.
- Projected macroeconomic performance until 2024 will partly depend on global macroeconomic conditions in the coming years.
- An alarming trend is that the movement of labour in the industrial sector is very slow (Fig. 8)
- Bangladesh does not exhibit a decline in ‘between sector productivity’ growth
 - The pathway to structural transformation in 2025 will be an almost flat line
- The trends for higher structural change seem to be limited

Fig. 7: Projected trends of Bangladesh’s national account indicators until 2024

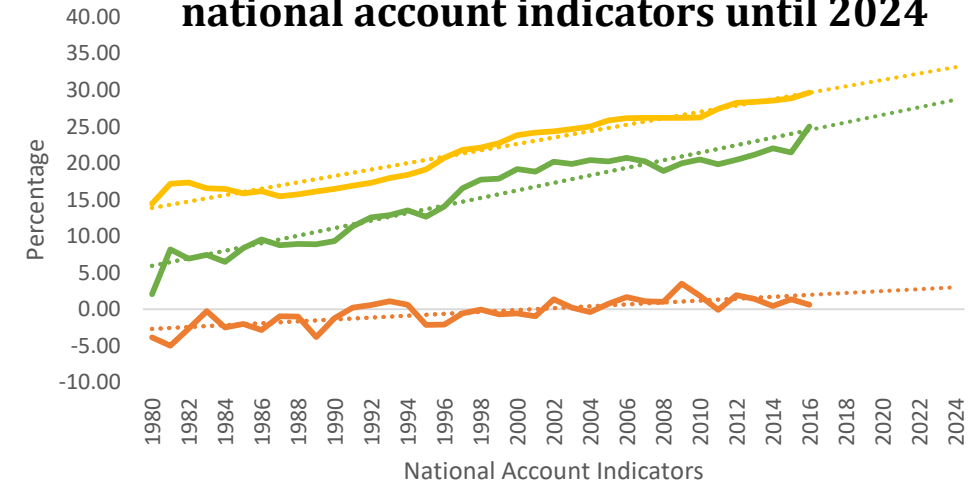
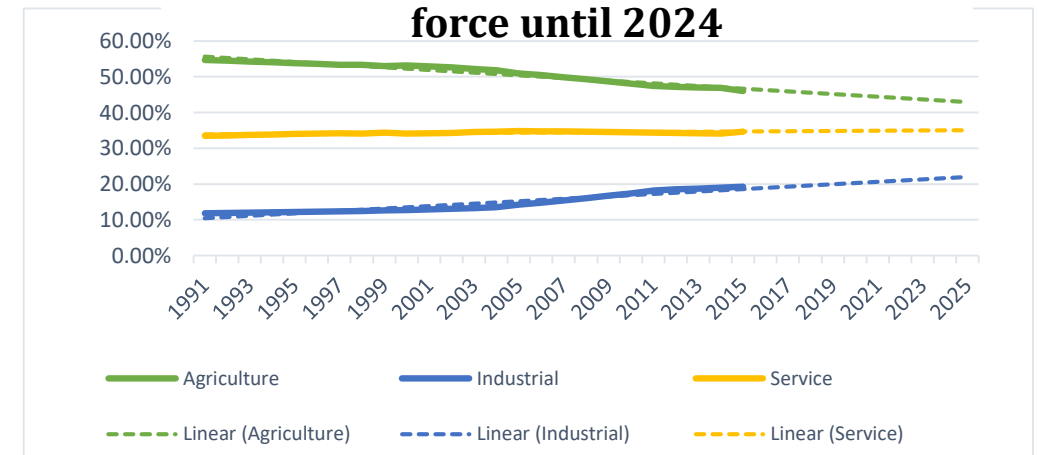


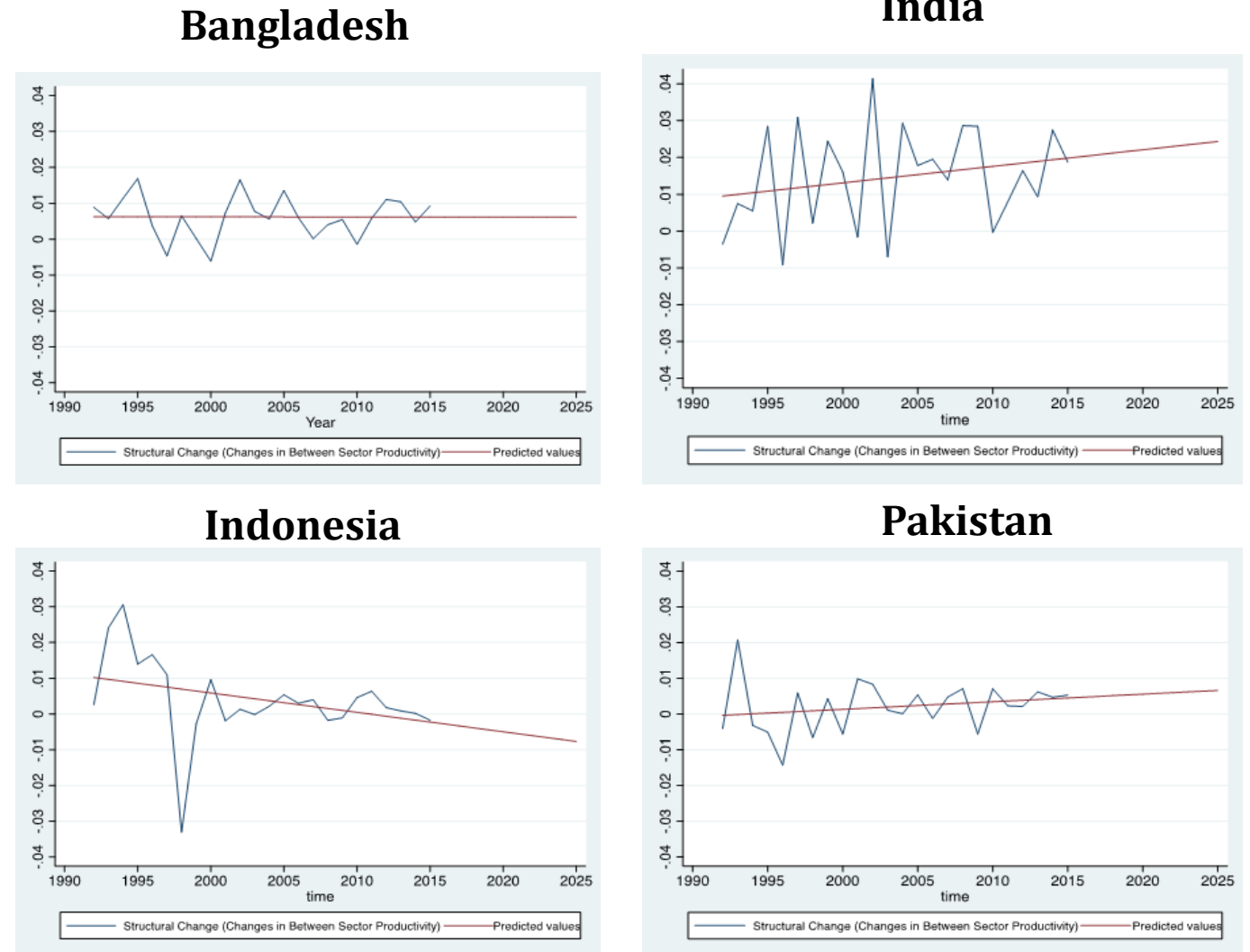
Fig. 8: Projected movement of labour force until 2024



3. Graduation-led Structural Transformation

- Emerging economies are expected to experience significant structural change in the coming years (Fig. 9)
 - India and Pakistan are expected to experience more rapid structural change
 - Indonesia and Vietnam exhibits a downward trend.
- Overall, Bangladesh experiences weaker structural change compared to the competing emerging economies.
 - More importantly, the gap in labour productivity between Bangladesh and those other countries has widened.

Fig. 9: Linear forecasting graphs of structural transformation in selected countries



4. Structural Transformation-enabled Smooth Transition after Graduation

- The transition to graduation is difficult in the absence of structural transformation
- Regression analysis (Table 2) shows that
 - Starting at a high level of labour employed in the agricultural sector can mean more opportunity for structural change
 - Macroeconomic stability is crucial for structural transformation
 - Graduation criteria have little effect on structural transformation

Table 2: Determinants of structural change in selected Asian countries including Bangladesh

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Agricultural share in employment	0.050 (0.000)***						0.060 (0.016)**	0.036 (0.005)***
Private investment		0.041 (0.027)**					0.063 (0.019)**	0.046 (0.001)***
Inflation			-0.061 (0.000)***				-0.007 (0.809)	-0.051 (0.001)***
GNI per capita				-0.0002 (0.244)			0.000 (0.391)	
EVI					-0.007 (0.488)		0.007 (0.449)	
HAI						-0.008 (0.348)	-0.013 (0.210)	
Constant	-1.731 (0.011)	-0.267 (0.601)	1.232 (0.000)	1.123 (0.004)	1.147 (0.010)	1.331 (0.034)	-3.594 (0.038)	-1.836 (0.019)
R ²	0.151	0.098	0.131	0.026	0.040	0.005	0.190	0.273
N	230	230	230	230	206	230	206	230

4. Policies Planned to Encourage Structural Change

- Bangladesh needs to undertake time-bound measures which will help to develop a strong foundation of structural transformation
- Bangladesh's core focus should be on raising productivity – both within and between sector productivity
 - Thereby to be able to reduce the productivity gap with its peer competing countries
- Major actions are required in three areas
 - Macroeconomic management, setting sectorial priorities and strengthening institutional governance.
 - Development of agriculture in high value products; development of SMEs
 - Skill and technology development
- Seventh Five Year Plan (7FYP) promotes structural transformation
 - Strategy is to encourage higher investment and FDI towards export-oriented manufacturing
 - FDI enables the 'spillover effect' through transfer of better technology and managerial skills

4. Policies Planned to Encourage Structural Change

- Services sector has to be modernised in terms of both technology and skills
 - 7FYP focuses on three services industries including international transport, tourism and information and communications technology (ICT) services
- It plans to implement a deregulation plan for private investment in traditionally public industries
 - Education, ICT, aviation and electricity.

Thank You.