



This development seems positive if attention is restricted to inflation, exchange rate, and balance of payments. However, the other side is that it portends a slowing economy.

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Economic data for 2012 suggests a slowdown of the economy from the level achieved earlier, which is not unexpected. As the global economy has slowed down, and some of our domestic problems have also intensified, it may not be possible to sustain the previous growth rate. Among our domestic problems, infrastructure inadequacies are glaring, especially power shortages, which are holding the economy back. Whatever increase in electricity generation has been achieved is not enough to meet the increase in demand. As such it has not been possible to achieve the rate at which industrial development could have progressed. If we cannot remove this bottleneck, industrial development and economic growth will not rise to the desired high rate. In fact the growth rate may slow down. I feel this to be a critical matter which needs to be urgently addressed. Also, the improvements that were supposed to have taken place in the road sector have not happened; transportation problems have mounted due to congestion and a lack of maintenance of roads and highways. Such problems are increasing industrial costs of production. The government must find some cost-effective solutions to the infrastructure problems.

To solve the electricity problem quickly, the government has opted for a very costly method by way of (quick) rental power plants. The failure to design a strategy to develop a long term solution means that we are doomed to depend on this expensive method of generating electricity for a substantial period. This is going to adversely affect our industrial development. Another problem is that despite the sharp increase in prices, new electricity and gas connections are not easy to get. The lack of gas has prevented many prospective industries from being set up. This has slowed down industrial expansion during the last several years. If we cannot address these problems, our economic growth may decline in future. The government has entered into some agreements with India to import electricity, but we are yet to see any electricity flowing from across the border. The plan to import electricity is a good one. There are some neighbouring countries and states which produce electricity in excess of their demand and are willing to export. But the problem is that the electricity will have to be transported through Indian territories. Indian concurrence is essential if this were to happen, which introduces considerable uncertainty.

A major reason for the failure to improve the infrastructure is corruption. Governance is in a very sorry state; one appalling story of corruption is drowned by another even more appalling story. The Padma Bridge scam has not only stalled the largest

infrastructure project of the government, it has also earned us an international notoriety as a corrupt nation. The Sonali Bank scam has seriously rocked the financial sector and made other banks over-cautious about lending which slowed down flow of funds to business. Corruption is effectively imposing large taxes on economic transactions and distorting investment incentives. It is believed that corruption is reducing the economic growth rate by 1-2 percent, a rather hefty loss.

Our economy depends much on the West. We exported merchandise worth more than US\$24 billion in 2011-12. Most of it went to OECD countries. Therefore, the economy is vulnerable to the ongoing economic crisis in the West, especially in the EU which happens to be our largest market. The countries that we export to in bulk have experienced lower than expected growth rates in the last two years and are not likely to improve much this year. The forecasts made by IMF and OECD are not very encouraging; some small improvements may occur but overall economic conditions of USA and EU, our principal economic partners, will continue to stagnate. EU may even suffer a contraction. More than 50 percent of our exports go to EU countries; so their economic woes are going to affect us as well. We can see the reflection of this in our latest export growth rate which is getting smaller. The growth rate for the first five months of this fiscal is barely above 4 percent which is very low. Such a small growth rate cannot support rapid industrial development. We cannot also expect any extra demand from the USA since it is also running into difficult patches. Furthermore, we have picked up some diplomatic problems with the USA; there is a strong possibility that it might withdraw GSP facilities. Although we get very limited GSP facilities on our exports to the USA, it is important not to underestimate the signaling effect of such a withdrawal. Non-GSP exports may also decline if importers are unnerved by the move.

Organisations like Goldman Sachs, JP Morgan and Citi Bank have come to recognize the growth prospects of Bangladesh. If one considers the growth performance over the last decade or so, Bangladesh certainly appears to be one of the most stable economies in the world. The growth rate is not exceptionally high, but it's mostly around 5-6 percent fluctuating within a small band. It's neither deteriorating sharply nor increasing much. If the economy can grow at this rate, then in about 20 years we should be one of the better economies of the developing world.

The world economy will increasingly require more semi-skilled

and skilled workers and there are not many countries which can supply such workers. We don't have good prospects to capitalize on this demand at this moment because of inadequate training facilities and diplomatic efforts. Once these problems are taken care of, I think the demand for our workers will rise quite quickly. If that happens, remittances are going to increase rapidly. The steady growth of remittances is one of the most positive aspects of our economy, which have not been adversely affected by other things yet. I expect the remittance to be close to US\$15 billion this fiscal year. That gives us a very big cushion against any adverse developments on the external front. Also, this gives strong support to the domestic currency. The taka has been steady at about Tk 81 per US\$ for many months. It has been possible largely because of the robust flow of remittances.

The economy suffered from double digit inflation during March 2011 to March 2012 which prompted Bangladesh Bank to tighten monetary policy; and it has worked. Tightened monetary policy reduced the growth rates of money and credit, which ultimately affected the aggregate demand of the economy. The reduction in demand helped to tame inflationary trends. This is a good outcome on the inflation front, but it has consequences for economic growth. When the money supply is reduced, it not only affects the domestic economy, but also impacts the external sector. It reduces import more than proportionately and this has happened in Bangladesh. Import in the first five months of this year (July-November) is perhaps lower by 3-4 billion dollars than what it should have been. If the economy could maintain the average growth rate of import of the last several years, import should have gone up by more than 15 percent, but instead it has declined by more than 5 percent. The balance of payments got a cushion of this amount due to the reduction in import. Both higher remittances and the lower than expected import have helped to maintain the taka at this level. In fact it has appreciated to some extent because of the lower import demand. The demand for foreign currency comes mainly from the import demand. Since import is declining there is less demand for dollars. This has helped calm the currency market. So, the taka is now stable and I expect it to remain stable during this fiscal year.

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other side is that it portends a slowing economy. The growth rate is likely to decline to about 6 percent if the facts and figures we have are accurate. Noting that the growth rate may decline to 5.5 percent in India in 2012-13, Bangladesh will not be doing badly. However, if the law and order situation further deteriorates the economic performance could suffer.

The balance of payments of the economy is improving; but that's not because the economy is buoyant; but mainly because the economy is stagnant. Importantly, investment seems to have become stagnant. The interest rate is too high and the business climate is not conducive. If there is less investment, capital stock of the economy does not grow. This will affect innovation and productive capacity.

It is now well known that education is the key factor explaining the rapid development of the high growth countries. The rate of skill formation among the youth in East Asian countries is much faster than that in our country. Unfortunately we have neither grasped the importance of, nor invested adequately in, education of our youth. Consequently there is an acute shortage of skilled manpower in the country. This is a very real problem for the business sector. It is known that there are scores of thousands of foreign workers working in Dhaka alone. Can you imagine such a densely populated country importing so many workers? The business sector has been forced to import skilled workers to keep their enterprises running. Since we have not imparted skills to our own workers, they become the lowest paid workers when they go abroad. Our failure to train them results in very low productivity workers. The population that could have been an asset is in fact a burden. Only quality investment in education could turn things around. The first few years' education is very important for a child's mental development. But primary education is much neglected; consequently children are not equipped with the basic skills, i.e. the three R's. They are unable to benefit fully from higher education. The quality of the graduates churned out by the numerous universities of the country leaves much to be desired. It is difficult to build up a high growth economy with low quality workforce. It is really sad to see the potentials of our youth slip through the fingers and the opportunities to improve the lives of so many people go to waste.

Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.

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