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## **Graduation of Bangladesh as Least Developed Countries (LDC)**

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# **Graduation of Bangladesh as Least Developed Countries (LDC)**

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## **Introduction**

Committee for Development Policies (CDP) defines Least Developed Countries as “low-income countries suffering from severe structural impediments to sustainable development”. A set of formal criteria is used for identifying countries as LDCs by CDP. LDC category was established in 1971 and its membership has changed over time. At the initial stage of establishment, a low per capita gross domestic product (GDP) and structural impediments to growth were required for designating a country as least developed. The list of LDCs is reviewed by CDP every three years with the advice and suggestions to the Economic and Social Council of the United Nations about inclusion of new countries and graduation of existing ones. At present, the CDP uses three criteria for identifying countries as LDCs: Gross National Income per capita, the Human Asset Index (HAI) and the Economic Vulnerability Index (EVI). Both HAI and EVI are composed of several indicators.

Bangladesh was enlisted as an LDC in 1975 and since then, the country has progressed in the different indicators heading toward the graduation level. This study provides a country specific report regarding the existing position and condition of Bangladesh as a LDC with a view to provide valuable assessment and useful platform for further development and elaboration of smooth graduation strategy. The first section of the study describes the recent macro-economic performance of Bangladesh including social development indicators. The second section of the study describes Bangladesh's stance in the way to graduation using the three criteria and attempts to analyze the existing “gap”. The third part of the study includes the identification and analyses of policy instruments and government interventions needed to close each of the “gaps”. Section four discusses the costs and benefits in phasing out of the support measures such as concessional ODA and DFQF market access. The last section ends up with concluding remarks along with some recommendations.

## Chapter 1

### Recent Macroeconomic Performance of Bangladesh

The recent performance of Bangladesh's economy in the context of macro-economic and social development is praiseworthy considering the impact of the global financial crisis. Bangladesh has been able to manage the desired GDP growth rate despite the difficulties in external sectors resulted from the financial crisis 2008.

#### 1.1 Economic Growth

Global financial crisis in 2008 slowed down Bangladesh's economy causing GDP growth rate decline to 5.7 % in 2008-09 from 6.1% in 2007-08. In 2009-10, growth bounced back and average growth remained above 6 percent in the past three years. GDP grew by 6.71% in FY 2010-11 and by 6.32% in FY 2011-12. Overall GDP growth has been mostly driven by industry and service sector. In FY 2011-12, agriculture, industry and service sectors grew by 2.53%, 9.47 % and 6.06 % respectively.

GDP at current market prices stands at Tk. 91,47,840 million in FY 2011-12, which was 14.82% higher than that of the previous year (table 1). At current prices, per capita GDP for FY 2011-12 is USD 772 which has been increased from the per capita GDP of USD 748 in FY 2010-11. Per capita national income stood at USD 848, increasing from USD 816 a year earlier.

**Table 1: GDP, GNI, per capita GDP, per capita GNI at Current Price**

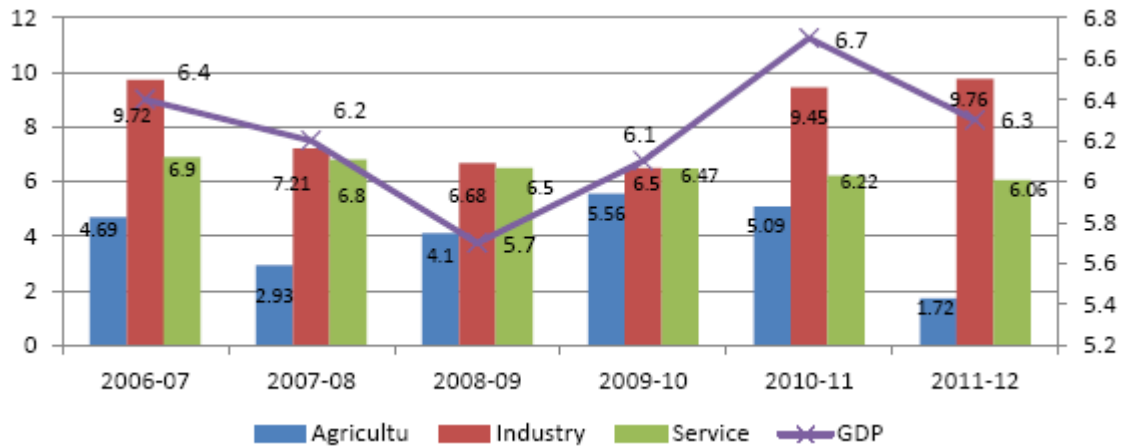
Item	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
GDP (In Crore Tk.)	415728	472477	545822	614795	694324	796704	914786
GNI (In Crore Tk.)	442935	507752	594212	670696	758928	869217	1004723
Population (In Crore)	13.88	14.06	14.24	14.42	14.61	14.97	15.16
Per Capita GDP (In Tk.)	29955	33607	38330	42628	47536	53238	60350
Per Capita GNI (In Tk.)	31915	36116	41728	46504	51959	58083	66283
Per Capita GDP (In US\$)	447	487	559	620	687	748	772
Per Capita GNI (In US\$)	476	523	608	676	751	816	848

Source: Statistical Year Book 2011-12, Bangladesh Bureau of Statistics

#### *Sectoral Performance in GDP Growth*

Global financial crisis in 2008 slowed down the growth rate of three major sectors resulting in lower GDP growth rate than previous years. However, agriculture growth rate increased to 4.15% in 2008-09 from 2.93% in 2007-08 revealing that the global crisis has not affected agriculture sector of Bangladesh. The economy bounced back with increased GDP growth of 6.1 % in 2009-10 from 5.7% in 2008-09, which was solely geared by agricultural growth (figure 1). Agricultural growth rate increased by 1.46 percentage points in 2009-10 whereas the other two sectors observed lower growth rates. Higher GDP growth rate in the following years can be explained by the major contribution of industry sector while agriculture and service sector had experienced lower growth.

**Figure 1: Sectoral GDP Growth at Constant Price**



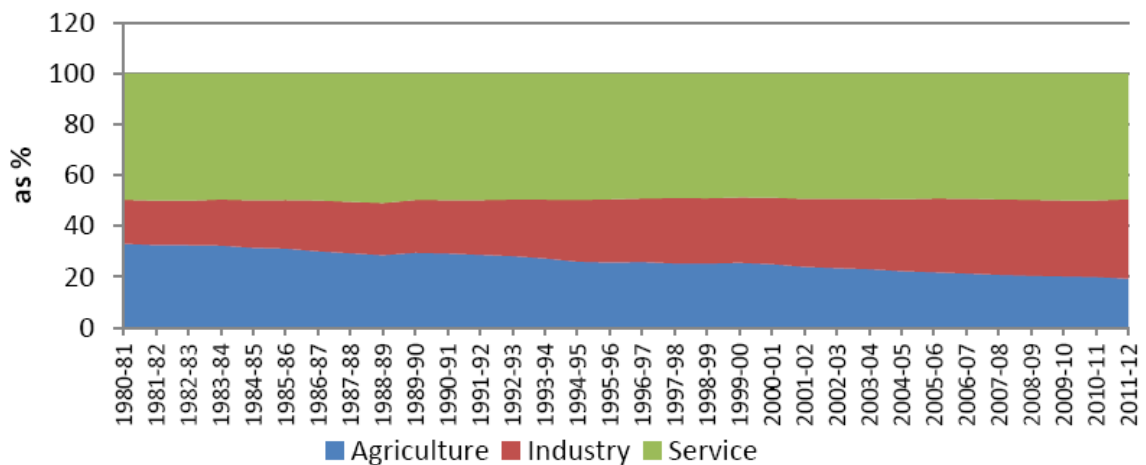
Source: Bangladesh Economic Review 2012, Ministry of Finance of Bangladesh

### Agriculture Sector

Three major sub sectors: crops and horticulture, livestock and forestry, fisheries have contributed to the growth of overall agriculture sector.

In FY 2011-12, the provisional growth rate of broad agriculture sector stood at 2.53 %, which was lower than the 5.13 % in FY 2010-11. Of this growth performance, the growth of crops and horticulture sub-sector plunged from 5.04 % in FY 2010-11 to 1.72 % in FY 2011-12. Livestock and forestry sub-sector grew by 3.39 % and 4.42 % respectively in FY 2011-12, and were 3.48% and 3.90 % respectively in the previous fiscal year. The fisheries sector grew by 5.38 % in FY 2011-12 compared to 5.25 % in FY 2010-11.

**Figure 2: Trend of share of three major sectors in last three decades at constant price**



Source: Bangladesh Economic Review 2012, Ministry of Finance of Bangladesh

### **Industry Sector**

Within the broad industry sector, the growth of mining and quarrying sub-sector was 6.25 % in FY 2011-12 up from 4.8 % in FY 2010-11. In this sub-sector, natural gas production and crude petroleum grew to 2.95 % from 1.05 % a year earlier. The growth rate of the production of large and medium scale manufacturing industries was 10.78 % in FY 2011-12, remaining at about the same level as in FY 2010-11, 10.94 %. The index of production in this sub-sector, especially jute, cotton, ready-made garments, wooden furniture, non-metallic products, basic metallic products, fabricated metallic products increased in the first six months of FY 2011-12 compared to the index of the same period of FY 2010-11.

### **Service Sector**

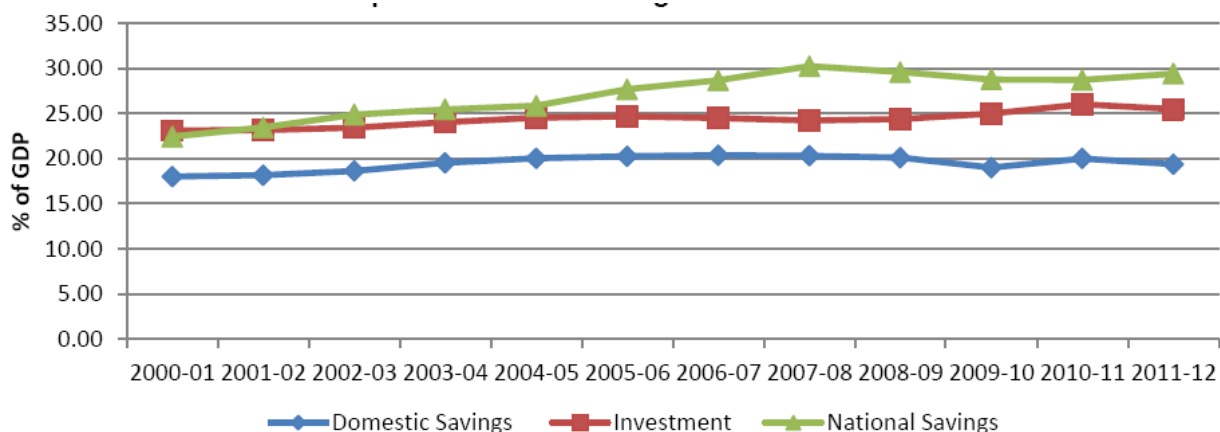
The growth in almost all the sectors within the broad service sector except financial intermediation, whole sale and retail trade were estimated at 5.88 % during FY 2011-12 compared to 6.31 % growth of the previous fiscal year. The output of the wholesale and retail trade came down from 7.75 % of the previous year to 5.88 % in FY 2011-12. Growth in hotel and restaurant sub-sector was expected to remain the same while that in transport, storage and communication was estimated at 6.58 % for this fiscal year up from 5.69 % in FY 2010-11. On the other hand, air transport and post and telecommunication sub-sector with an estimated growth of 9.24 % and 10.61 % respectively contributed significantly to GDP.

During FY 2011-12, financial intermediation showed the prospect of an estimated growth rate of 9.52 % which was 9.64 % in FY 2010-11. Among the three sub-sectors of this sector, the growth of two sectors was estimated to be declined. The growth rate in the real estate renting and business activities sector was provisionally estimated at 4.05 % which was 3.96 % in FY 2010-11. Among the other services sectors, the growth rate of public administration and defense, education, and health and social services were expected to grow at the rate of 6.07 %, 8.61 % and 7.94 % respectively in FY 2011-12. Moreover, community, social and personal service sector was estimated to grow by 4.76 % in FY 2011-12, slightly higher than the growth rate of the previous fiscal year.

## **1.2 Savings and Investment**

Estimated domestic savings remained at same level with 19.3 % of GDP in FY 2010-11 and 19.4 % of GDP in FY 2011-12. Investment in FY 2011-12 also showed similar feature and stood at 25.4 % of GDP in FY 2011-12 from 25.2 % of GDP in FY 2010-11. Of which the share of private investment stood at 19.1 % of GDP while that of public investment was 6.3 % in FY 2011-12. In FY 2010-11, the private and the public sector investments were 19.5 and 5.6 % of GDP respectively. Major initiatives of the Government implemented in infrastructure sector including power and reduction in cost of doing business helped create investment-friendly environment. In addition to this, because of satisfactory growth of remittances, national savings in FY 2011-12 upturned to 29.4 % of GDP from 28.8 % of GDP in the previous year.

**Figure 3: Trend of Savings and Investment**



Source: Bangladesh Economic Review 2012, Ministry of Finance of Bangladesh

A close look on the composition of total investment reveals that construction sector accounts for more than 75% of total investment, followed by machinery and equipment which account for about 16 %, and transport which accounts for about 6 % of total investment (table 2).

**Table2:Sectoral Composition of Investment**

Categories	2006-07	2007-08	2008-09	2009-10	2010-2011
<b>Construction</b>					
Total	76.23	77.96	78.71	77.33	75.41
Private	61.65	64.66	66.18	63.93	61.21
Public	14.58	13.31	12.53	13.39	14.36
<b>Machinery &amp; equipment</b>					
Total	16.76	15.61	14.99	15.22	16.91
Private	10.98	10.29	10.04	9.97	11.60
Public	5.78	5.32	4.95	5.26	5.31
<b>Transport &amp; equipment</b>					
Total	6.83	6.26	6.13	7.28	7.52
Private	5.11	4.59	4.47	5.56	5.85
Public	1.72	1.67	1.64	1.72	1.67
<b>Breeding stock &amp; plantation</b>					
Total	0.17	0.17	0.16	0.17	0.17

Source: Bangladesh Bureau of Statistics

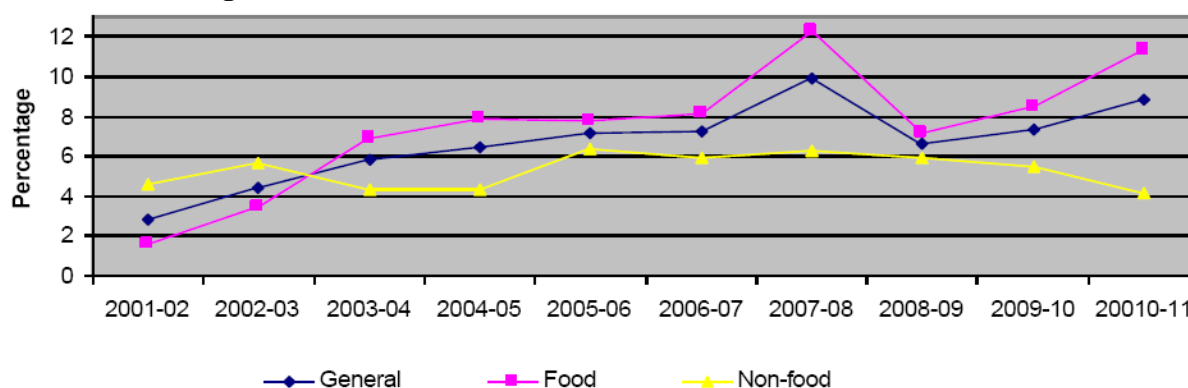
Thus, share of private investment in construction sector to total investment is the key source of change in the pattern of private investment. However, this share seems to decline over time from 66% in FY 2009-10 to 61% in FY 2010-11. Though there is an increase of the share of transport sector but still the increase is not sufficient to offset the decrease in investment in construction sector.

### 1.3 Inflation

The overall inflationary picture is somewhat alarming especially considering the FY 2011-12 when the annual inflation rate reached to 10.62 % in FY 2011-12 from 8.80 % in FY2010-11(Figure 4). Global recession has induced the general inflation to cease up to 6.66% in 2008-09; however, inflation grew persistently in the following three years.

Oil and food inflation in global market and excessive credit flows to unproductive sectors were mainly responsible for this upturn. Inflation on point to point basis in June 2012 stood at 8.56%. The trend analysis of inflation in Bangladesh reveals that in the first half of FY 2011- 2012 general inflation went up because of food inflation while at the end of FY2011-12, non-food inflation was the key factor in pushing general inflation upward. At thatpoint in time, food inflation receded to 7.08%(monthly rate, point to point basis) from about 13 % in the same month of FY2010-11.

**Figure 4: National Inflation Level over time(base Year 2005-06)**



Source: Bangladesh Bureau of Statistics

Satisfactory food production and supply of essential commodities including demand management through Open Market Sale (OMS) of the essential commodities and sufficient stock of food grains contributed to the efforts of pulling down food inflation. On the other hand, price hike in international market, depreciation in exchange rate and adjustment of oil price contributed to non-food inflationary pressure. In order to contain inflation, the Government has undertaken necessary steps by forging better coordination between fiscal and monetary policies.

### 1.4 Wages and Employment

Wage Rate Index constructed by BBS reveals that nominal wage rate index kept on rising and in FY 2011-12 the index rose by 11.88 % compared to that of the previous fiscal year (Annex 2).The wage rate index of agriculture, fisheries and manufacturing sectors increased by 15.17 %, 2.86% and 6.54 % respectively. Compared to these sectors, the wage rate indices of construction sector is much higher and have been the highest during the recent times. It is to be noted that, in FY 2011-12, the wage rate indices of construction sector increased by 32.10 %.

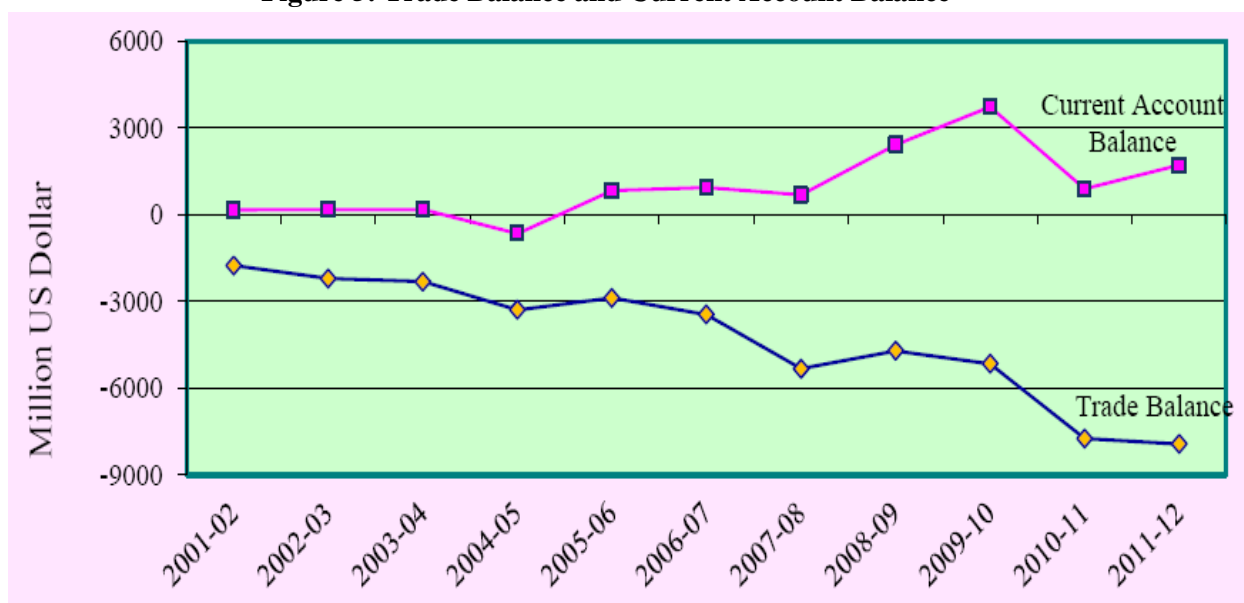
According to “Labor Force Survey 2010”, the number of economically active population (above 15 years) is 56.7 million. Out of this, as many as 54million people (male 37.8 million and female 16.2 million) are engaged in a number of professions, the highest (47.33 %) still being in agriculture.

According to the Labour Force Survey, 2005-06, the total labour force of over 15 years of age was 47.4 million (male 36.1 million and female 11.3 million) with agriculture remained the highest (48.10 %) source of employment. Between the two survey periods, the number of agricultural workers decreased by nearly 1 %. According to LFS 2010, it is observed that 44.4 % (25.5 % in agriculture and 18.9% in others) of labour force is engaged in self-employment while it was 41.98 % in FY 2005-06.

## 1.5 Balance of Payment

The trade balance recorded a deficit which increased by 3.2 % as compared to the deficit of US\$7,744 million during FY 2010-11 and stood at US\$7,995 million in FY 2011-12. The current account balance recorded a surplus of US\$1,630 million in FY 2011-12 as compared to the surplus of US\$885 million in FY 2010-11.

**Figure 5: Trade Balance and Current Account Balance**



Source: Bangladesh Economic Review 2012, Ministry of Finance of Bangladesh

In spite of increase in the deficit recorded in the income account at 3.7 %, the deficit in service

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