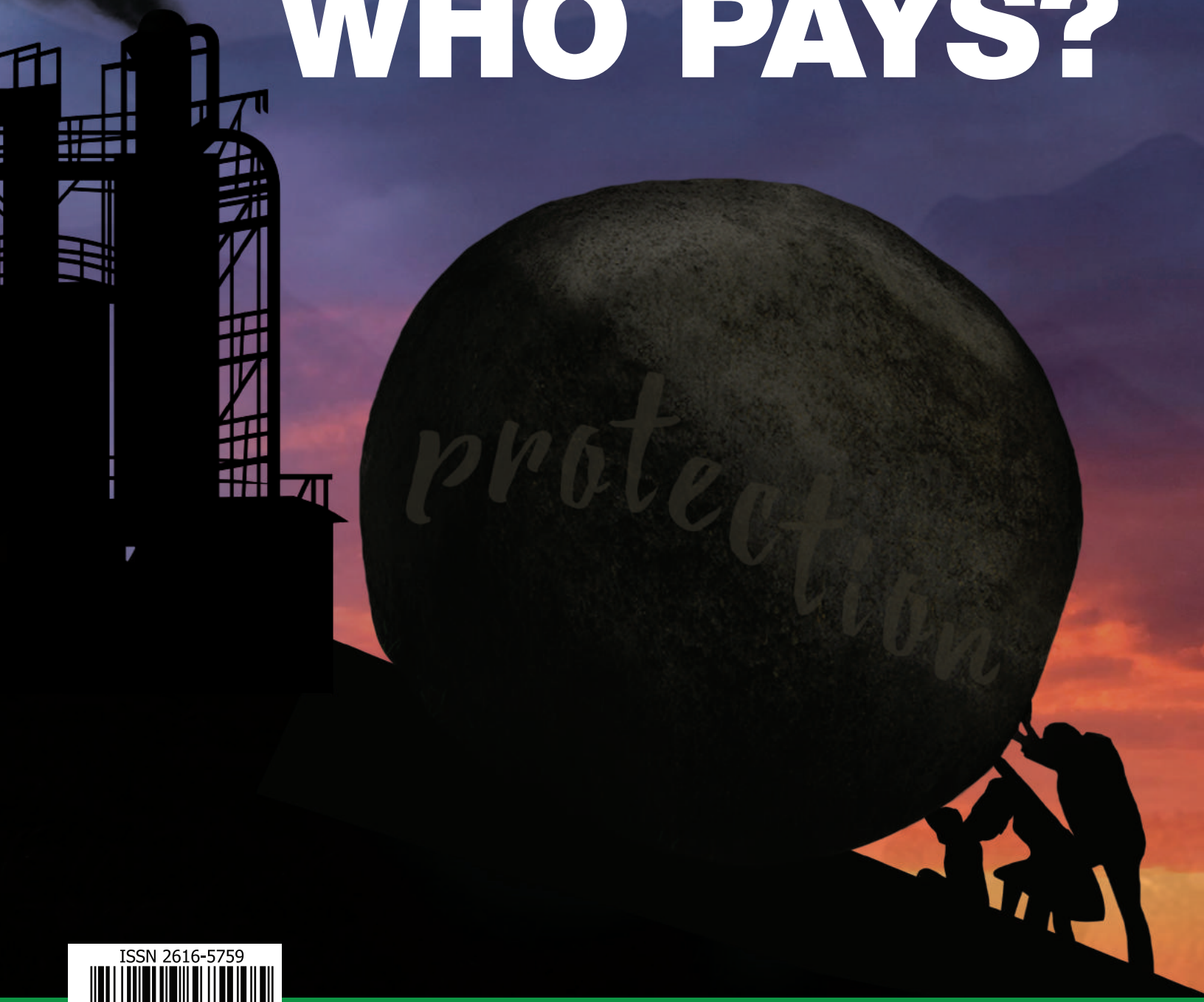
POLICY INSIGHTS
Business, Economics and Development Intelligence

July 2018

THE COSTS OF INDUSTRIAL PROTECTION: WHO PAYS?



ISSN 2616-5759
9 772616 575005

A PUBLICATION OF POLICY RESEARCH INSTITUTE OF BANGLADESH

POLICY INSIGHTS
Business, Economics and Development Intelligence

Published By

pri Policy Research Institute

Policy Research Institute of Bangladesh
Express House
House 16(4th Floor), Road 10/A, Block H
Banani, Dhaka – 1213, Bangladesh
Phone: 02 55041982, 02 55042342
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Policy Insights is published quarterly by Policy Research Institute of Bangladesh. **ISSN 2616-5759**

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From the Editor

Fairly robust output growth under a highly protective environment for domestic import-competing industries has been a salient feature of Bangladesh's economic development over the past two decades or so. How trade and industrial policy choices affect consumers does not attract much attention. The lead article in this issue of Policy Insights sheds some light on this issue, demonstrating that Bangladeshi consumers face the highest average rate of tariffs on imports when compared with many other Asian developing countries. It provides an estimate that, over the most recent five-year period, the total cost to consumers of protection – measured as the extra cost consumers pay over and above international prices – was a staggering $71 billion. Unlike producers, though, consumers are not organised. Their voices are rarely heard in stakeholder consultations, including pre- and post-budget discussions. This excessive policy-induced burden is a major concern, given that the country's lower-middle- and middle-class consumers are expected to increase in number to 34 million by 2025, with their combined purchasing power reaching $100 billion. Dealing with this issue may not be easy, particularly when consumers are not effectively represented in policy discourse and the economic growth record can be seen as a justification for current policy choices.

Whether Bangladesh is experiencing 'jobless growth' has been the subject of lively debate. This issue also contains an article, based on a recent World Bank publication on South Asia, that provides an estimate of 110,000 jobs per percentage point of gross domestic product growth. So, growth is not jobless after all – but the article suggests that rapid economic growth alone will not be enough to meet the job creation challenge. At the current rate, a growth rate of about 15% would be needed to create 1.6 million jobs every year. The quality of jobs is also important – they need to be productive and remunerative. Another article in this issue, drawing on detailed primary data, suggests women workers in the readymade garment industry usually work longer hours than is legally allowed. It argues that, while these workers receive a monthly salary above the legal minimum wage, this is only because they have worked extensive overtime hours, which, however, are not being duly compensated.

The Myanmar military's campaigns of violence and terror against the Rohingya community in Rakhine forced around a million refugees to take shelter in Bangladesh, putting huge pressure on already inadequate public services, weak infrastructural capacities and poor livelihoods of host communities in Cox's Bazar district and surrounding places. Humanitarian assistance from the multilateral donor agencies and the international community has so far been inadequate to cope with the massive challenges involved. An article in this issue of Policy Insights calls for enhanced global responsibility and expanded international support measures, to include 'beyond-aid' contributions, such as trade concessions and new investments in regional initiatives.

Other articles in this issue explore such issues as the need for a green growth strategy in Bangladesh against a backdrop of intensified environmental degradation and climate change-related risks and vulnerabilities; the unfolding balance of payments and liquidity crisis in the domestic banking system; the importance of the digital transformation of business enterprises to improve their competitiveness; and options for a comprehensive social pension system, as Bangladesh will soon be a rapidly ageing nation, with the share of the old-age population projected to reach 25% by 2050. This issue also carries an article that examines the potential implications arising from a trade war between China and the United States.

The costs of industrial protection: Who pays?

Zaidi Sattar

Photo by Ignat Gorazd

Ghosts of protection

Protection to domestic industries has been an integral part of Bangladesh economic policy since independence. This was one policy we inherited from Pakistan times without much thinking, as if it was received wisdom for all developing economies aspiring to become industrialised. In the 1970s, there emerged an alternative path to industrialisation and growth: export-oriented industrialisation. The success of the East Asian economies – South Korea, Taiwan, Hong Kong, Singapore – showed the way. China is an extraordinary example, having achieved double-digit gross domestic product (GDP) growth rates for a quarter of a century on the back of exports. Bangladesh finally moved to embrace the policy of export orientation and trade openness, although this has been gradual and intermittent over the past 30 years or so. A closer review of the state of industrial protection as it stands today reveals that the ghosts of protection remain alive and kicking, imposing costs on the economy. This is despite the fact that Bangladesh has achieved enormous success in export-oriented industrialisation and growth.

Since the switch to trade openness in the early 1990s, exports have averaged double-digit growth. The dynamic export-oriented readymade garment (RMG) industry is now a global showcase of entrepreneurship and competitiveness, a robust validation of trade theory on comparative advantage driven by specialisation based on resource endowment – in this case cheap labour. But this validation of trade theory did not come easy in an economy where high tariff protection persists stubbornly to this day. This is another validation of the political economy of trade protection, whose basic premise is that trade protection, once started, takes a life of its own, giving rise to vested interests that wield sufficient influence on policy-making to prevent dismantling of the protection regime. This means that, if there are social and economic costs associated with persistent protection, these are being borne by some groups, with full knowledge of these costs or without. It is the premise of this brief analysis that the burden of protection costs falls unevenly on consumers in Bangladesh, and yet they are increasingly becoming the growth drivers of this economy as it transitions from being a purely investment-driven economy towards being a consumption-driven economy. But are they being treated fairly in the policy space?

Bangladesh is on track to graduate out of least developed country status by 2024. The latest data coming out of the Bangladesh Bureau of Statistics shows the economy's GDP at $270 billion, with a per capita income of over $1,700. The poverty headcount is down to 24%, and the middle class is on the rise. This comes as no surprise: glimpses of the country's emerging income status can be foreseen in the everyday sights of buzzing restaurants, crowded shopping malls and burgeoning retail stores sprawling across the country. Yet the reality is that a close inspection of Bangladesh's tariff structure gives no indication that tariff trends are moving in the direction reflective of a dynamically growing economy moving up the income scale to middle-income status.

...the burden of protection costs falls unevenly on consumers in Bangladesh, and yet they are increasingly becoming the growth drivers of this economy as it transitions from being a purely investment-driven economy towards being a consumption-driven economy.

The surging middle class

Bangladesh's middle class is surging in size and spending power. In a recent roundtable held in Dhaka, the global market research firm Nielson shed some perspective on this phenomenon. Its findings highlighted the rapid expansion of the middle class in Bangladesh – fuelled by rising disposable incomes – and their propensity to spend on new and wide-ranging products and services. According to Nielson's estimates, the number of retail stores in the country has grown by 8.6% year-on-year to 1.64 million in 2015. This momentum is continuing.

These findings substantiate previous research on this development, particularly a Boston Consultancy Group (BCG) report (2015) entitled, 'Bangladesh: The surging consumer market nobody saw coming'. This report focuses particularly on the middle and affluent class (MAC) in Bangladesh, defined as consumers earning more than $401 (approximately Tk. 34,000) a month, or above $5,000 annually. This segment of consumers, estimated at around 12 million strong, provides insights into the consumption trends of goods and services that go beyond basic necessities and into the realm of convenience and luxury. Examples include air conditioners, flat-screen TVs and imported cosmetics. What is evident from the report is the rapid expansion of the consumer class, and their eagerness to spend their cash surplus on quality brands, goods and services – regardless of origins. If you add to this the larger group of lower-middle-class (LMC) consumers who buy a whole range of import substitute consumer products, this will add another 25 million to the MAC population. BCG projects the size of Bangladesh's MAC population to rise to 34 million by 2025, when our GDP will have crossed $500 billion. The MAC plus LMC


Photo by Mark Bartlett

Table 1
Average tariffs for selected countries/regions

Country	Year	Average tariff rate (%)
Bangladesh	2017	25.64
China	2016	9.73
India	2016	12.06
Indonesia	2013	6.77
South Korea	2015	12.36
Malaysia	2014	5.23
Philippines	2015	6.32
Thailand	2015	10.17
Vietnam	2016	9.64
Turkey	2016	8.29
ASEAN	2016	4.73
South Asia	2016	12.19

Source: NBR; WITS, World Bank

consumer market could reach $100 billion – an attractive market indeed in terms of size and spending power. The question is, what prices do Bangladeshi middle class consumers pay as they grow in number?

Yet the report by BCG is also quick to point out that the Bangladeshi MAC population accounts for only 7% of the country's population – meagre by Asian standards. In comparison, the number stands at 21% for Vietnam, 38% for Indonesia and 59% for Thailand. Recognising that Bangladeshi consumers pay around 70–100% above world prices for consumer products – either imported or produced locally – this does not seem all too surprising.

Bangladeshi consumers pay high tariff-induced prices

While liberalisation of the import regime since the 1990s has given consumers more choice, they still continue to pay prices for consumer goods that are well above international prices – and it seems they have accepted this almost without complaint – until now. The Consumer Association of Bangladesh (CAB) is now voicing concern that consumers are being left out of budget consultations and discussions on tariff-setting, even though they are the ones who ultimately bear the burden of the tariffs. Even on a global scale, Bangladeshi consumers incur the highest average rate of tariffs on imports, especially compared with their Association of South-East Asian (ASEAN) neighbours, all of whom face substantially lower average rates, as shown in Table 1. Since tariff rates on consumer goods are typically higher than average rates, it might be astonishing to many but the fact remains that Bangladeshi consumers pay some of the highest prices for consumer goods in Asia, if not the world. It becomes starkly obvious, then, why the Bangladeshi MAC population today comprises such a small portion of the population compared with that in its neighbours and comparators.

Tariffs serve the dual purpose of generating revenue and protecting domestic manufacturing activities. Though a strategic shift has been taking place as the National Board of Revenue (NBR) moves away from its reliance on trade taxes to increase its reliance on domestic taxes such as Value Added Tax (VAT) and income taxes, trade taxes (customs revenue) still remain a significant component of NBR revenues (about 30%). Scaling down tariff protection is often viewed as giving up revenue, which accentuates the resistance to tariff reduction. But this is counterintuitive. If tariff protection is effective, it restricts imports and revenue is constrained. Barring the high tariffs and para-tariffs on automobiles, alcoholic beverages, cigarettes and firearms (meant for revenue mobilisation or discouraging consumption), other high tariffs on consumer goods imports have an inherent protection objective. To the extent that protection is effective in restricting competing imports, revenue mobilisation becomes a sideshow (especially in the application of Supplementary Duty). More revenue could be raised by removing or scaling down Supplementary Duty on consumer goods that typically have high income and price elasticities.

Measuring the costs of protection

Economists measure the cost of protection in terms of static efficiency, growth rates and firm- or industry-level productivity effects. Economist Arvind Panagariya (2002) lucidly summarised the findings of many empirical studies of protection costs, concluding that high protection imposed high costs on the economy, which could range from 2% to as high as 10% of GDP. Bhagwati (1982) added the political economy dimension to this discourse in putting the lobbying costs (which he termed as 'directly unproductive profit-seeking' (DUP) activities) on the table. Bangladesh's tariff protection structure presents a unique case, where much of the protection is accorded to producers of import substitute consumer goods (with a minimum of protection going to the production of intermediate or capital goods). This makes it possible to implement a unique but simple approach to measuring the costs of protection to consumers – measuring the divergence between the international price and the tariff-induced domestic price of protected consumer goods. The focus of this analysis being on consumers, we avoid the complexities arising from the theoretical framework of deadweight losses endured by society (when gains to producers from price hikes and to government from revenue fall short of losses to consumers).

A tariff raises the domestic price of the product over the international price by at least the amount of the tariff. As such, it is in essence a tax on the consumer and a subsidy to the producer, in the sense that, without it, the producer would have to sell at the international price, which is lower. At the end of the day, it is consumers who bear the burden of these tax instruments as producers pass on the tax burden to consumers in the form of higher tariff-induced prices including mark-up. Moreover, the higher tariff-ridden prices contribute to restraining imports and limiting the consumers' choice. PRI research has monitored trends in nominal tariffs and landed cost of imports for over 25 years in order to be able to measure the extra cost to consumers as a consequence of protective tariffs on consumer goods.

In theoretical terms, a tariff leads to a gain in the producer surplus but a loss in consumer surplus that can be broken down into two effects: the revenue effect and the redistributive effect. The revenue effect refers to the transfer of

Even on a global scale, Bangladeshi consumers incur the highest average rate of tariffs on imports, especially compared with their Association of South-East Asian (ASEAN) neighbours, all of whom face substantially lower average rates...

Table 2

Extra payment on imports and import substitutes by consumers owing to protection, FY2012–FY2017

	NPR	Domestic production/ sales of import substitutes	Import value	Protection cost from import substitutes	Protection cost on imports	Total protection cost to consumers
	%	US$ millions				
FY2012	46.30	21,882.5	4,224	11,817	954	12,771
FY2013	47.09	23,408.2	3,777	12,721	823	13,544
FY2014	44.50	26,092.7	4,623	13,386	914	14,300
FY2015	43.15	25,932.7	6,042	13,047	1,155	14,202
FY2016	41.84	27,455.5	5,936	12,973	1,337	14,310
FY2017	41.07	26,861.0	7,546	12,644	1,579	14,223

Notes: Protection cost=NPRx dom prodn+imports

Source: ASYCUDA database and PRI staff estimates

the consumer surplus to government in the form of higher government revenue, whereas the redistributive effect refers to the transfer in consumer surplus to producers. Consumers pay not just a higher price for the imports but also an extra cost in the form of higher prices on domestically produced import substitutes, as producers potentially raise prices up to the tariff-induced price. Estimations of the extra cost borne by consumers owing to protective tariffs can then be computed by adding up the protection-induced price effect (the nominal protection rate, NPR) – extra cost – on the sum of imports and domestically produced import substitutes. These costs are then propounded as a proportion of GDP. Table 2 highlights these computations for several years from FY2012.

This estimate of the protection cost is based on the importation of consumer goods and domestic production and sale of import substitute consumer goods only. During the five-year period, FY2013–2017, the total protection cost to consumers works out to a substantial amount of $70.6 billion. For FY2017, the protection cost to consumers works out to $14.2 billion, or 5.7% of FY2017 GDP, and 31% of manufacturing value added. This is in essence the extra cost consumers pay over international prices – a veritable transfer of resources from the pocket of consumers to that of producers. Although the average NPR for all consumer goods works out to 44% for the period in view, the top protected ones have an NPR ranging from 53% for soap and toiletries to 156% for air-coolers and non-alcoholic beverages. Taking total tariffs into account (including VAT paid by consumers), on average consumers paid 70% above international prices for buying consumer goods in the domestic market.

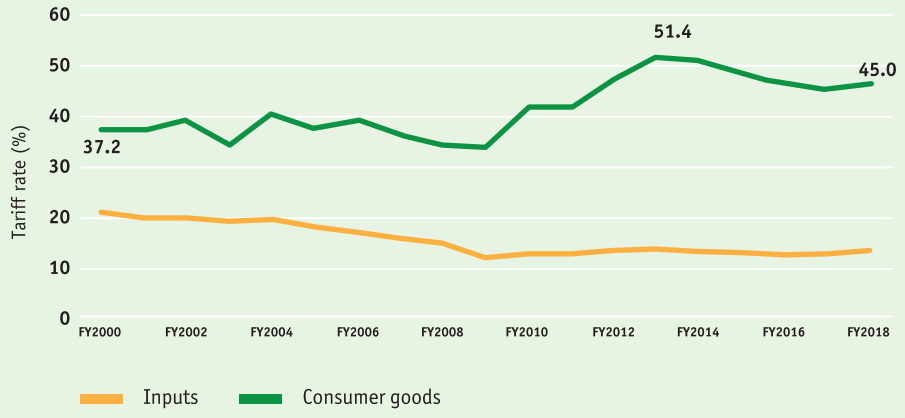
In pursuing this issue further, it is useful to look deeper into the NPR. The NPR provides the total proportional difference between domestic and international prices of a good, taking into account import tariffs and para-tariffs (trade taxes other than customs duty). Domestic prices could also be subject to other market distortions such as licensing, prohibitions and price controls. Therefore, in principle, analysing the NPR provides an estimate of the total price-raising effects of tariffs and other trade restrictions. In the absence of any robust estimate of the distortive effect of other restrictions, the NPR is a reasonably good estimate of the price-raising effect of tariffs and para-tariffs (i.e. the protective effect of customs duty and other trade taxes). In Bangladesh, research shows that the majority of all domestically produced manufactured products are subject to the highest NPR rate. At present, the consumer products with the highest rate of NPR include air conditioners (156%), plastic tableware and kitchenware (113.44%), non-leather footwear (113.44%) and sanitary wares (104.80%) – products that have been integral in fuelling the rapid expansion of the brand-savvy MAC population. As such, despite the resilience of the Bangladeshi consumer class, the financial burden of tariffs continues to act as a major constraint to its growth.

Consumers suffer collective action failures

Evidently, when it comes to tariffs, the consumer seems to have no voice. Amid a plethora of stakeholder consultations pre- and post-budget organised around the year, chamber representatives put forth various proposals for tariff adjustments, understandably, to raise their profitability, which can happen if output tariffs are raised or input tariffs are cut. In the past five years, input tariffs have been cut such that they now average about 13% while output tariffs average 46% – all benefiting producers. This divergence between input and output tariffs is shown in Chart 1. Producer groups, of which there are many, lobby hard to get input tariffs (on intermediate, capital and raw materials) reduced and output tariffs (on consumer goods) increased as much as possible. Their goal basically is to get higher tariffs on the outputs they produce and lower tariffs on the inputs they source from imports or domestic suppliers. To the extent that producers get their way – and it seems they do – the outcome is skewed in favour of producer interests and against consumer interests, as consumers end up paying prices that are significantly above international prices. This is essentially a protection tax on consumers. But nobody,

Chart 1

Bangladesh's average input and output tariff trends, FY2000–FY2018



Source: PRI staff estimates based on NBR data

Photo by Hans Splinter

not even CAB, has raised the issue of how long consumers should continue to be taxed to protect producers. This situation is quite unique to Bangladesh and not something that is much talked about in economic literature.

Why do producers consistently get their way at the expense of consumers? Economist Mancur Olson (1971) offered an answer in his Logic of collective action. According to Olson's theory, smaller groups are generally easier to organise, and more effective in lobbying their case than larger groups, which have difficulty in organise themselves to press their case, however strong it may be. And, typically, the smaller the group, the quicker it is able to organise, and the more vociferous it becomes in pushing its demands. As such, it becomes easy to see why consumers – spread all over the country and comprising children and adults, students and professionals and a host of other categories of individuals, simply cannot organise themselves to press for their legitimate demands for lower prices and a greater choice of goods, as easily as, say, the small yet powerful producer groups.

Rationalising protection as a national imperative

The strategy of import substitute protection for industrialisation comes at a high price in Bangladesh, paid for by consumers who end up bearing the brunt of the protection tax. This could make sense only if it were a time-bound initiative. But theory and practice tell us that this is not how protection works. Once started, it takes a life of its own. Besides, import substitution has not given us jobs and growth. Export orientation has. RMG success is not a story of import substitution transiting into exports; it started off as an export industry. Not only is the economy stuck in the quagmire of high protection, but also this policy is characterised by an anti-export bias, which is preventing numerous non-RMG exports (some 1,400 products in FY2017) from becoming significant export items, thus hampering the product diversification of exports. Amid the ever-growing demand for consumption, rationalising the protection regime has become a national imperative, to spur domestic spending to fuel growth. It is time for CAB to become proactive on the issue of protection costs, thus going beyond those of ensuring unadulterated foodstuff or proper product labelling. PI

Amid the ever-growing demand for consumption, rationalising the protection regime has become a national imperative, to spur domestic spending to fuel growth.

Zaidi Sattar is the Chairman of Policy Research Institute.

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Photo by Ata Adnan

Jobless growth?

Robert Beyer and Martin Rama

The job creation challenge

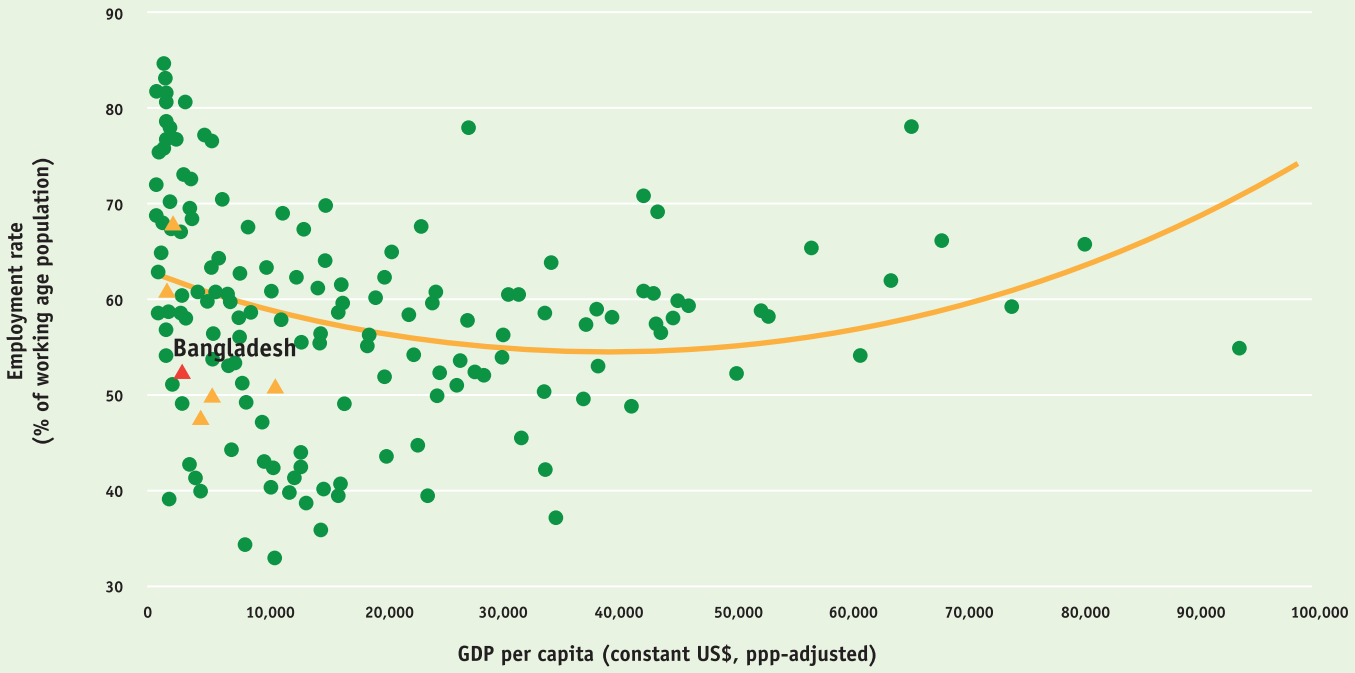
Job creation is one of the main concerns of politicians and policy-makers around the world. If anything, the concern is more pronounced in South Asia, where very large numbers of young people are reaching working age every year. Between 2005 and 2015, the number of South Asians aged 15 and above grew by 1.8 million per month, a trend that will moderate only gradually over time. Many of the entrants in this group are staying in school longer than their predecessors, and many may never seek a job. But still, many of them will, and it is not clear that South Asian economies offer enough good options for them.

In Bangladesh, the debate about the job creation challenge is lively. Mohammad A. Razzaque and Nuzat Dristy convincingly make the case in the first article of the Policy Insight's first edition, providing examples to show that 'the challenge of job creation… is even more profound than it may seem at first sight.' In a recent op-ed in the Daily Star, Selim Raihan analyses the anatomy of 'jobless growth' in Bangladesh and argues that, in addition to declining employment creation of growth,

Between 2005 and 2015, the number of South Asians aged 15 and above grew by 1.8 million per month, a trend that will moderate only gradually over time.

Chart 1

Employment rates low in Bangadesh and in many other South Asian countries



Source: World Bank South Asia Economic Focus (2018)
Note: Everyone older than 15 years is considered part of the working-age population (consistent with the ILO definition). Yellow triangles are countries in South Asia.

the quality of the new jobs created is a major concern.

In the latest edition of South Asia Economic Focus (the bi-annual World Bank macroeconomic update for South Asia), we contribute to the debate and analyse the relationship between growth and employment across South Asia. This article summarises our key findings; we encourage the reader interested in methodological issues to look at the full report.

Assessing what it would take to the keep the employment rate constant presents a useful benchmark. The employment rate is the share of the people aged 15 and above who work. Between now and 2025, the total population will increase in all South Asian countries, although it will do so at different paces. The increase is expected to range between 3% in Sri Lanka and 26% in Afghanistan. The growth of the working-age population will be faster, across all countries. The number of people aged 15 and above is expected to expand by between 8% and 41% by 2025, depending on the country.

In Bangladesh, the working-age population is estimated to increase by 170,000 every month. In order to keep the current employment rate constant, 1.1 million additional jobs would be needed on average every year in Bangladesh from now until 2025.

A key question is whether rapid economic growth alone can generate the massive number of additional jobs needed. Concerns that the answer could be negative lie behind discussions on 'jobless growth'. But, before reaching a conclusion, it is important to distinguish between short- and long-term effects of economic growth.

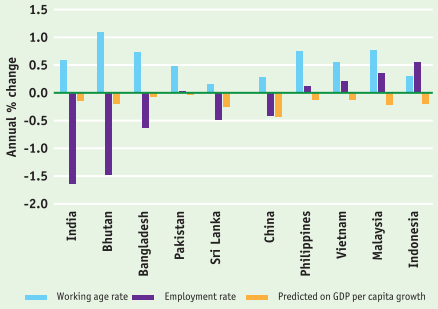
In the short term, growth can boost employment rates as greater labour demand pulls people out of unemployment and inactivity. Growth can also lead to better jobs, for example when farm employment is replaced by work in factories and offices. In the long term, on the other hand, growth could reduce employment rates. As countries become richer and living standards improve, families can afford to keep their children longer in school, the ill and the disabled can stay home and women may withdraw from the labour force. In assessing whether growth is jobless or not, it is therefore important to distinguish between these two effects.

When comparing employment rates across countries with different levels of income per capita, a U-shaped curve emerges (see Chart 1). Many of the poorest countries in the world have very high employment rates. In these countries, people start working young and do not have the means to be unemployed or retired. Not only adult men but also women, the young and the elderly are part of the labour force. As countries become richer, school enrolment increases, old-age pension programmes are put in place and not every adult in a household needs to be at work. But this downward trend reverses at higher levels of income per capita. In richer countries, a growing number of youth reach tertiary education, and they are keen to work in the field of their study. Higher wages, safer transportation and workplaces and more easily available

Low employment rates in Bangladesh are entirely the result of women working less than in other countries.

Chart 2

Increases in working-age population offset by declining employment rates, 2005–2015



Source: World Bank South Asia Economic Focus (2018)

If Bangladesh is serious about increasing its employment rate, more jobs will need to be created for every percentage point of growth.

childcare also bring large numbers of women back into the labour force.

In Bangladesh, the employment rate is much below what is predicted, given income per capita and that the gap between the actual employment rate and the estimated U-shaped curve is 8.8 percentage points. Low employment rates in Bangladesh are entirely the result of women working less than in other countries. Employment rates among men are above the estimated U-shaped curve. But employment rates among women are consistently below, and the gap between the actual and predicted employment rate of women in Bangladesh is disturbing at 24.3 percentage points. A little over half of the women are predicted to be employed, but only a little more than a quarter actually find themselves employed.

So far, a foregone dividend

South Asia's rapid demographic transition results in declining dependency ratios, offering an opportunity for faster economic growth. The dependency ratio compares the number of dependants, aged 0–14 and over the age of 64, to the working-age population, aged 15–64. In South Asia the dependency ratio decreased from 63% in 2005 to 55% in 2015, and it is expected to decrease further to 50% by 2025.

This change of the population's age structure creates an opportunity for fast economic growth and rising living standards. Potentially, there could be more people earning an income for every child and elderly person needing support. Even if the productivity of those at work were to remain unchanged, income per capita would increase, because there would be more working people per capita. However, to reap the benefits of this 'demographic dividend', sufficient new jobs need to be created.

Not all countries have transformed their demographic transition into a demographic dividend to the same extent, however. The comparison between South Asia and East Asia is revealing in this respect (see Chart 2). In both cases, the U-shaped curve suggests employment rates were bound to decline with economic growth. But in East Asian countries employment rates declined less than the U-shaped curve would have implied, whereas in South Asian countries they declined more than could be anticipated.

Because of the decline in employment rates, the number of people at work in South Asia has not increased in line with the working-age population. For example, between 2005 and 2015, the share of the working-age group in the total population increased by around 0.5% in Bangladesh. But the employment rate decreased by on average more than 0.5% per year during that same period. Rapidly declining female employment rates in some South Asian countries are the main explanation for the difference with East Asia.

However, there is a silver lining in Bangladesh's case. While male employment has declined by close to 1% per year, female employment has remained roughly constant. This establishes a sharp contrast between Bangladesh and other fast-growing South Asian economies. Understanding why Bangladesh has done better than its neighbours in this respect is important for research. The answer may well lie in the country's success at developing labour-intensive manufacturing sectors that are intensive in their use of female labour, as is the case with the ready-made garment industry.

The employment response to economic growth

Estimating the short-term relationship between economic growth and employment rates has been the subject of a vast literature in advanced economies. There, the consensus is that rapid economic growth does indeed reduce unemployment rates in the short term, while slowdowns are associated with increases in unemployment. The literature is much scanter in developing countries, partly because of data limitations. Indeed, the unemployment rate is not very informative about the labour market situation in countries where few people can afford to remain idle.

Photo by Stéphane M. Grueso

Chart 3

Quarterly changes in employment and growth correlated in Bangladesh (%)

Source: World Bank South Asia Economic Focus (2018)


Photo by Ray Elliott

An alternative, relative to the literature for advanced countries, is to study the relationship between economic growth and employment rates, rather than unemployment rates. But even then data gaps and inconsistencies muddle the analysis. Employment charts are seldom available with high frequency, and labour indicators differ in subtle but important ways across statistical instruments. Population censuses, economic censuses, household surveys and labour force surveys often define employment in different ways.

The implications of the gaps between definitions are amplified in economies where self-employment and casual work are the norm. A nine-to-five job, with a written contract and benefits attached to it, is easy to recognise. But relatively few jobs match this description in South Asia. In many cases, it is hence difficult to tell whether people are working, unemployed or out of the labour force, and the answers vary depending on the statistical instrument considered. The difficulty in measuring employment is exacerbated for women, as they tend to engage even more than men in activities falling in the grey area between work, unemployment and inactivity.

Comparing employment charts across sources without 'standardising' them first can be misleading. For example, in Bangladesh, the employment rate for 2016 is 53% according to the Labour Force Survey, but only 44% based on the Household Income and Expenditure Survey. Removing 'extended work' (e.g. fetching water, collection firewood, etc.) brings the two rates closer together. To address these concerns, in our report we extracted employment data from over 60 surveys from 2001 onwards in a fully transparent and replicable way.

Quarterly employment and gross domestic product (GDP) data are needed to rigorously assess the short-term response of employment to economic growth. In Bangladesh, annual employment data from the Labour Force Survey can be disaggregated by quarters based on the month of the survey. And annual GDP data can be interpolated with quarterly industrial production. Even though both resulting series are 'noisy', a positive correlation between them emerges (see Chart 3) – in other words, if growth accelerates so does employment generation.

More distant points in time need to be considered to assess how much employment is created overall per percentage point of growth. We follow a four-step procedure in this respect. First, employment rates are computed from every 'standardised' population census, household survey or labour force survey. Second, the estimated employment rates are applied to consistent demographic estimates of the working-age population. The advantage of using demographic series is that they are comparable over time. Estimates of the working-age population generated out of household surveys and labour force surveys show more erratic movements by comparison. Third, annual changes in employment are computed for all pairs of employment points available for each country. And fourth, all the annual changes in employment are divided by the annual percentage change in GDP over the corresponding period.

This four-step procedure is bound to lump together the short- and the long-term impacts of growth on employment. Given the many pairs of employment points, the procedure generates an array of estimates of the number of jobs created per percentage point of GDP growth, rather than a single number.

In Bangladesh, six of these estimates can be computed. They imply that 90,000 to 120,000 jobs have been created on average for each percentage point of GDP growth. But again, from a longer-term perspective, the focus should be on the more distant pair of employment points available for each country. By this metric, Bangladesh generates 110,000 jobs per percentage point of GDP growth.

Rapid growth alone is not enough

Having established that growth is not jobless, the question is how fast growth would need to be to address the job creation challenge. The answer depends on what the target for the employment rate is. One rather unambitious target would be to accept a gradual decline of the employment rate, as long as the decline is not faster than the U-shaped curve between employment rates and living standards would predict. In this case, the gap between the national employment rate and that of other countries at a similar level of development would remain constant. A slightly more ambitious target would be to keep the employment rate constant at its current level. And a truly ambitious target could be to catch up with the employment rate of other countries with similar income levels over a certain period – say, over 20 years.

These three targets for the employment rate – unambitious, status quo and catch-up – result in three different numbers of jobs 'needed' every year. Once a target employment rate is set, it can be multiplied by the forecast of the working-age population in the following year to obtain the target level of employment. The difference between that target level and the current employment level is the net job creation 'needed'.

Setting the target for the employment rate is easy in the constant case, because it simply involves maintaining the current employment rate unchanged. Calculations are slightly more demanding in the unambitious and the catch-up cases, as it becomes necessary to use the estimated

Table 1

More than a million new jobs need to be created in Bangladesh every year

Bangladesh	Annual jobs needed depending on employment rate target ('000s)		
	Unambitious	Constant	Catch-up
	980	1,100	1,610

Source:World Bank South Asia Economic Focus (2018)

U-shaped curve described above. For the unambitious target, the target employment rate is allowed to decline according to the slope of the U-shaped curve; for the catch-up case, the target employment rate is set higher to fill some of the gap with other countries.

Proceeding this way, the net number of jobs to be created every year in the unambitious and the constant case in Bangladesh is not too far off the recent experience (see Table 1). But in the ambitious case the number is much higher than the region's historic record.

Based on the estimated employment response to growth, very high but not totally unrealistic growth rates would allow for addressing the jobs challenge in the unambitious and constant scenarios. If the employment rate were allowed to decrease further, Bangladesh would need to grow by 9.3% per year. The growth rate needed to keep employment rates constant would be higher, at 10.3%. Again, this growth rate is high and above current performance, but could conceivably be attained if there was a concerted effort to boost economic performance.

However, growth alone will not be sufficient for employment rates to catch up with those of comparable countries. Even allowing for a 20-year transition period for the catch-up, the number of new jobs needed every year would be gigantic. Bangladesh would have to create over 1.6 million jobs every year. Assuming the same job creation per percentage point of growth as before, a growth rate of around 15% per year would be needed in Bangladesh. This growth rate is of course implausibly high, implying that rapid growth alone will not be enough. If Bangladesh is serious about increasing its employment rate, more jobs will need to be created for every percentage point of growth.

The nature of the jobs created is not fully encouraging

As economies develop, it is expected that individuals will move out of agriculture into more productive, non-agricultural employment. The transformation is notable in Bangladesh, where the agricultural employment rate decreased by 8 percentage points between 2005 and 2015 while manufacturing employment increased by 3 percentage points. From a sectoral point of view, it appears that structural transformation has been slower in the other South Asian countries, with the exception of Bhutan, where there was a clear shift in employment from agriculture to services.

Another important employment breakdown is by type of employment. Regular wage jobs are generally seen as better jobs, compared with farming, self-employment or casual work. But the news on this front is not particularly encouraging in South Asia. No doubt shares of casual work and unpaid employment declined across the board, but regular wage employment did not increase in a commensurate way. Again, Bangladesh does better than its regional peers in this respect. But still, the share of regular wage jobs in the working-age population increased by only 4.5 percentage points between 2005 and 2015.

If anything, recent developments in Bangladesh are worrying. In his op-ed, Selim Raihan shows that, despite strong output growth of 10.4%, manufacturing jobs declined by 0.8 million between 2013 and 2016/17. This is a disturbing annual average decline of 1.6%. What is worse, male manufacturing employment increased – so the decline is entirely the result of less female manufacturing. The number of women working in manufacturing in Bangladesh has declined by 0.9 million from 3.8 million to 2.9 million. This suggests that Bangladesh's relative good performance during the past century has reversed most recently and many achievements may be at stake.

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Photo by Solidarity Center

Do garment workers earn a legal wage for a legal day of work?

Guy Stuart

The Garment Worker Diaries (GWD) study collected detailed data on hours worked, factory earnings and workers' spending, saving habits, borrowing and lending and transfer payments and receipts from 180 workers in four research sites – Dhaka city, Gazipur, Savar and Chittagong – over the course of a year between August 2016 and August 2017. The resulting data suggest that factories routinely violate Bangladesh's labour laws relating to work hours and wages. About half the time women workers participating in the GWD study worked more than the legally allowed 60 hours per week and routinely were at work for more than 12 hours per day. The data also suggest that, although almost all women received a monthly salary above the legal minimum, this was only because they worked extensive overtime hours for which they were not correctly compensated according to Bangladesh's labour laws. Specifically, women participating in the GWD study earned, using an hourly rate calculation, below the minimum wage in about half the pay periods covered by the study. In addition, the average worker earned about Tk. 8,500 per month but should have earned about Tk. 10,100 given the amount of overtime they worked.

Why Garment Worker Diaries?

The GWD used an adapted version of the Financial Diaries (FD) methodology, which captures basic earning, spending, savings, borrowing, lending and cash transfer data from respondents every week over an extended period of time. It employed the core module of the FD methodology but added on a garment worker-specific module that captured data on the amount of time workers spent

...the average worker earned about Tk. 8,500 per month but should have earned about Tk. 10,100 given the amount of overtime they worked.

on different activities, including time at the factory, as well as data on any pain they were experiencing and any injury and/or harassment they had experienced while at work.

The intent behind implementation of the GWD study was to gain an in-depth understanding of the economic lives of women garment workers. Given this, the GWD methodology was an ideal research methodology. First, the GWD methodology collects in-depth data on workers' economic lives but over time, allowing researchers to build up a dynamic picture of workers, not just a one-off snapshot. This is especially important in the case of garment workers, who are paid monthly and so must manage their money between paydays to ensure they can cover their basic needs. In addition, the repeated interviews involved in a GWD study (on average about 50 per worker in the case of the Bangladesh study) result in more accurate data, as workers become familiar with the methodology and keep better records. This is a common positive feature of high-frequency panel surveys.

Pertinent sections in Bangladesh's labour laws

Given the data collected during the GWD study, there is an opportunity to evaluate whether workers who participated in the study are being employed and compensated according to Bangladesh's own labour laws. Specifically, the analysis that follows evaluates the situation of workers participating in the study against pertinent sections of the Bangladesh Labour Act of 2006.

Paraphrasing Section 102, this Act states that:

- A typical work week should last 48 hours.
- If someone works between 48 and 60 hours (legal overtime), then he/she should receive overtime for these hours.
- A work week should not exceed 60 hours (illegal overtime), and workers should not work more than 56 hours per week per year, on average.

Furthermore, Section 105 of the Act stipulates that the maximum 'spread over', which is the time spent at work, 'inclusive of his (sic) interval for rest or meal', should not exceed 10 hours in a day, making it clear that the maximum of 60 hours per week is inclusive of any break time given to the worker.

The 2006 Labour Act also stipulates minimum salaries for workers of different skill levels working in the ready-made garments (RMG) sector. These amounts have been adjusted periodically to take into account inflation and workers' demands for better wages. Currently, the minimum salary schedule is as shown in Table 1.

Table 1
Wage grades and minimum salaries (including housing and other allowances)

Designation	Wage grade	Minimum salary
Master operator	Grade 1	13,000
Chief master	Grade 2	10,900
Senior operator	Grade 3	6,805
Operator	Grade 4	6,420
Junior operator	Grade 5	6,042
Ordinary operator	Grade 6	5,678
Helper	Grade 7	5,300

Source: The Circle (2017) 'Fashion focus, the fundamental right to a living wage', May, p. 54

Furthermore, Section 108 specifies that workers receive an overtime rate of twice their 'ordinary rate of basic wage and dearness allowance and ad-hoc or interim wage, if any'.

It is on the basis of these sections of the Bangladesh Labour Act of 2006 that this article assesses the wages and hours worked of women workers who participated in the GWD.

Hours worked

On average, the women participating in our study were at work 60 hours per week, or about 10 hours per day. In almost all cases (90%) they had a break of about an hour. But, as noted above, the law is very clear on the question of what counts towards the legal maximum of 10 hours per day and 60 hours per week: it includes all time at work, including time off for breaks. Given this clear legal standard, the GWD data suggest that, in over half the work weeks covered by the study, workers worked more than 60 hours per week. This varied by research site. In Chittagong only about a quarter of the weeks covered by the study were longer than 60 hours, whereas in the other three research sites it was about 60% of the weeks. Digging deeper into the data, there are a few factories in Chittagong that required very little overtime from their workers and this helped drive down the numbers for that research site.

Minimum salary and minimum wages

The GWD data strongly suggest that all the workers participating in the study were earning more than their legally mandated minimum salary. We were able to determine this through a comparison of the workers' monthly salaries with the minimum salary required for each worker's work designation. But most workers were only able to achieve this minimum salary through many hours of overtime. Once this is taken into account, workers received less than the minimum wage in more than half the pay periods covered by the study, taking into account the fact that they were supposed to be earning double pay for any overtime worked.

As with overtime data, there was a clear difference in the share of pay periods when workers were earning below minimum wages in Chittagong in

Chart 1
Distribution of hours worked per week by region and overtime status (% of total count of weeks)

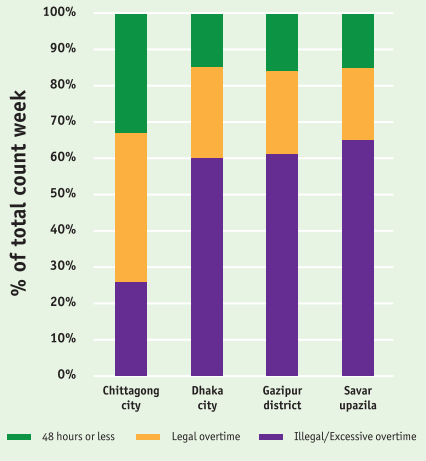


Chart 2
Share of pay periods (% of total number of records)

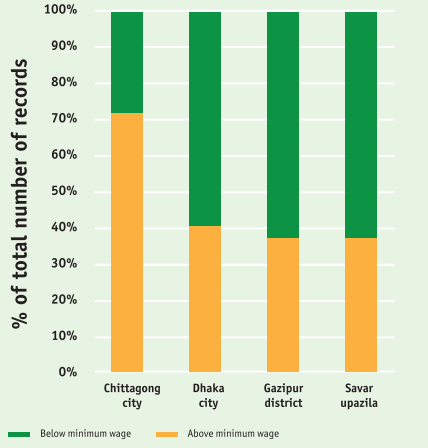
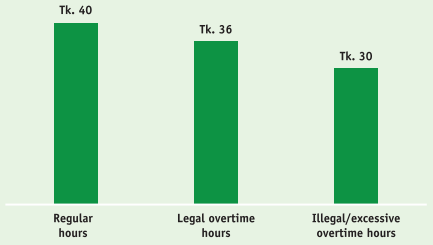


Chart 3

Hourly wage rate by hours worked in a pay period



comparison with the other research sites covered by the study. In the former, 28% of pay periods were below minimum wage; in the latter about 60% were.

It is also worth noting that this is a conservative estimate of the likelihood that workers earned below the minimum wage because it assumes that the workers' labour contracts stipulate that breaks are unpaid. We do not know if this is the case for sure, and, if we assume all breaks should be paid, then the number of pay periods when workers earned less than the minimum wage jumps to over 60%.

Missing salaries

The differences in both hours worked and minimum wage outcomes between Chittagong and the other research sites

Hourly wage calculation

As previously mentioned, the law states that a typical work week lasts 48 hours, and also that a garment worker should receive a minimum monthly salary according to their role within the factory. This means that a worker has a basic minimum wage of:that follows evaluates the situation of workers participating in the study against pertinent sections of the Bangladesh Labour Act of 2006.

Basic minimum wage = (minimum monthly salary) / 208

Lastly, the law states that workers should receive an overtime rate of two times their basic minimum wage times their overtime hours:

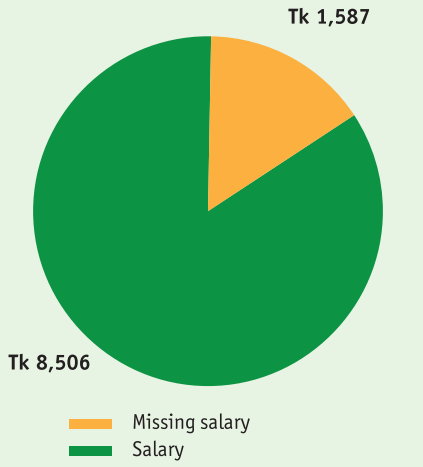
Overtime amount = 2 * (basic minimum wage) * (overtime hours)

Using the gross earnings and work hours that participants reported to us, we then used this information to calculate a worker's hourly wage in the following way:

Hourly wage = (gross earnings) / [(regular hours) + 2 * (overtime hours)]

Chart 4

Average worker's missing salary



suggest there is something amiss in the way workers are being paid for their overtime work. Further evidence of this lies in a very simple calculation of total salary earned divided by hours worked in any given pay period – the workers' raw hourly wage rate. In pay periods when, on average, workers worked a regular, 48-hour week, they earned about Tk. 40 per hour. When they worked, on average, somewhere between 49 and 60 hours per week during a pay period, they earned about Tk. 36 per hour. When they worked, on average, illegal/excessive hours per week during a pay period, they earned Tk. 30 per hour. This is despite the fact that they were supposed to be earning double pay for overtime.

Another way of looking at these data is to calculate what a worker should have earned if they were paid their monthly salary for their regular hours of work plus double pay for overtime and compare that with what they actually were paid. Again, using the most conservative assumptions that workers' contracts did not require that they be paid for breaks and that their contracted monthly salary was the minimum monthly salary for their work designation, the average worker in our sample should have been paid about Tk. 10,100 per month but was paid only about Tk. 8,500 per month.

Policy implications

The data suggest that factories are not complying with Bangladesh's labour laws. This should be of concern to all stakeholders in the RMG sector, but it will require concerted, effective action by the government to ensure all factories are complying with the law. Absent such action, it will be incumbent on brands that source from these factories to conduct due diligence on their suppliers' practices to ensure they are, at the very least, complying with the law. But it is clear that brands find it difficult to ensure compliance with a number of standards they would like to impose on their suppliers because there is a lack of transparency in factories' employment practices. One way to address this is to increase transparency through independent, third-party verification of the hours workers are working and the amount they are being paid. One such effort is about to begin in Bangladesh with the scaling-up of the GWD study to 1,300 workers. We will wait to see what the new data this scaled-up GWD study will produce can do to ensure workers are paid their due.

But it should be noted that simply enforcing current laws is not enough. The GWD study was also implemented in Cambodia and India. Workers in Cambodia were paid the most per month in comparison with others, and workers there worked, on average, just under 48 hours per week. A Bangladeshi worker would need to earn at the highest grade of Tk. 13,000 per month for 60 hours per week and receive her mandated double pay for overtime, to earn the same amount that the average Cambodian worker earns working less than 48 hours per week. And this is before the latest raise in the Cambodian workers' wage, which took effect in January 2018, and taking into account differences in the cost of living across the two countries. This is something that the Minimum Wages Board, which is due to meet some time this year, should keep in mind as it determines the new wage schedule for the RMG sector. PI

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Photo by Asian Development Bank

Revisiting the balance of payments and liquidity crisis

Ahsan Mansur

Bangladesh's ongoing external balance of payments (BOP) and the liquidity problem of the domestic banking system are dominating the discourse on economic developments and policy response. Following a long period of surpluses in the external current account and the overall balance of the BOP, since FY2017 the external accounts have weakened significantly, causing a loss of reserves and a slow but steady depreciation of the Bangladesh taka. In the first nine months of the current fiscal year (FY2018), the external current account deficit reached a record high level of more than $7 billion. At this pace, the current account deficit is likely to reach or even exceed $10 billion in FY2018. This level of current account deficit has never been seen in the history of Bangladesh and is likely to pose challenges in managing exchange rate stability in the coming months. The imbalance in the external current account and pressures on foreign exchange reserves are likely to be accentuated in the coming months, since outstanding letters of credit (LCs) opened but not settled are still showing 55% plus growth over the corresponding period last year.

The liquidity situation of the commercial banks appears to have improved, at least temporarily, as a result of the easing of macro-prudential conditions related to the Cash Reserve Requirement (CRR) and the increase in the limit on the government deposits to be held with private commercial banks. While the two measures have brought some relief to some banks – which is temporary and also reversible – it would be interesting to observe whether we will experience any sustainable improvement in the liquidity situation of the banks.

This article assesses the appropriateness of the measures taken by Bangladesh Bank in response to the two problems. It analyses developments in the BOP and the money market following or in response to the measures adopted by Bangladesh Bank and suggests in passing some remedial measures that are appropriate in the current context.

Imbalances on the external front

Imbalances on the external BOP front are increasing steadily. The external current account deficit, which traditionally used to be in sizeable surplus, turned negative in FY2017 and has further deteriorated throughout FY2018. As of end-March 2018, the current account deficit stood at $7.1 billion, which is much higher than the deficit level of $4.3 billion projected for the full year in Bangladesh Bank's Monetary Policy Statement of January 2018. By the end of this fiscal year, the current account deficit is likely to reach $10 billion, equivalent to almost 3.75% of gross domestic product (GDP) – a level that is not sustainable over the medium and long term.

A sharp increase in import payments (26% growth during the July–March period) against slow export growth of about 6% has contributed to a record deficit in the trade balance. Based on current trends, the trade account deficit is likely to reach $18 billion, almost double the level of last year and almost three times the deficit level of FY2016. As the external current account deficit approaches $10 billion, there may be a permanent shift in Bangladesh's BOP structure – we have moved to a new normal. This new normal will continue to be characterized by a sizeable current account deficit. The years of sustained surplus positions in the current account are probably gone for the foreseeable future, if not permanently.

This significant shift in the structure of the BOP in itself is not a problem as long as it is funded from capital and finance account inflows. Since the surge in imports owes at least partly to large import payments associated with implementation of foreign debt-financed mega-projects, the payment obligations are to a large extent funded by accumulation of foreign debt. However, concerns are deepening about Bangladesh Bank's capacity to maintain exchange rate stability, when outstanding LCs opened but not settled stood at $56 billion as of March 2018, an increase of 56.9% over the corresponding month last year. A surge in LC opening of this magnitude has never been seen in the history of Bangladesh. Except on two occasions, in FY2008 and FY2010/FY2011, when growth in outstanding LCs surged by 40% and 34%, respectively, growth rates in LC opening have usually ranged between -10% and +20%, generally growing in line with the actual level of imports. The 40% surge in LCs opened in FY2008 was associated with an increase in imports in the aftermath of cyclones Sidr and Aila and two rounds of major floods that caused widespread damage to homes, crops and infrastructure. The surge FY2010/FY2011 was the result of overheating of the economy owing to lax monetary policy. In FY2008, since imports associated with relief and rehabilitation were funded to a large extent from external sources, there was no pressure on the exchange rate and the loss of reserves was manageable. During the FY2010/FY2011 episode, the reserve loss was contained by allowing the exchange rate to depreciate by about 14% in one go.

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Based on the discussion of past developments, it would be interesting to observe how the exchange rate depreciation pressure is being managed currently and whether this is the right approach. In view of elections and other considerations, Bangladesh Bank is trying to maintain exchange rate stability through a combination of direct sale of foreign exchange on the interbank market and putting pressures on authorised foreign exchange dealers to keep buying and selling rates stable. However, despite the sale of almost $2 billion on the interbank market by Bangladesh Bank, authorised foreign exchange dealers are facing a serious imbalance between supply and demand of foreign exchange. Many authorised dealers are misreporting the true the exchange rate to Bangladesh Bank by understating the extent of taka depreciation and charging the additional costs to other operational expenses. Given the outstanding level of opened LCs, the pressure is likely to increase further in the coming months. This is despite the fact that a large part of the LCs are related to ongoing mega-projects that are being debt-financed from external bilateral and multilateral sources.

The way the exchange rate is being managed has a number of problems:

1. Compared with one-step significant devaluation of the taka, the current approach does not address the root cause of the problem with full force and thus imbalances persist.
2. Since a major correction in the exchange rate of the taka is perceived to be overdue, the exchange market remains unsettled and many exporters are delaying repatriation of export proceeds and under-invoice exports, contributing to slower growth in exports.
3. Importers are rushing to banks to open LCs and lock the exchange rate with a view to avoiding the costs associated with a significant depreciation in the near future.
4. Foreign investors tend to cash out of their portfolio investments in Bangladesh and wait on the sidelines to come back to the market after a major step devaluation, which is also depressing the stock price index.
5. Bangladesh Bank has failed to build up reserves and is slowly drawing down its reserves, implying a sharp decline in its import coverage, which still remains respectable at about six months of the current pace of annual imports.

The essential question is: should Bangladesh Bank prolong the pain of BOP

Table 1

Balance of payments, FY2013–FY2017/2018 (July–March projected) ($ millions)

Items	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018P July–March
Trade balance	-7,009	-6,794	-6,965	-6,460	-9,472	-13,202
Current account balance	2,388	1,406	2,875	4,262	-1,480	-7,083
Overall balance	5,128	5,483	4,373	5,036	3,169	-1,408

Source: Bangladesh Bank

Table 2

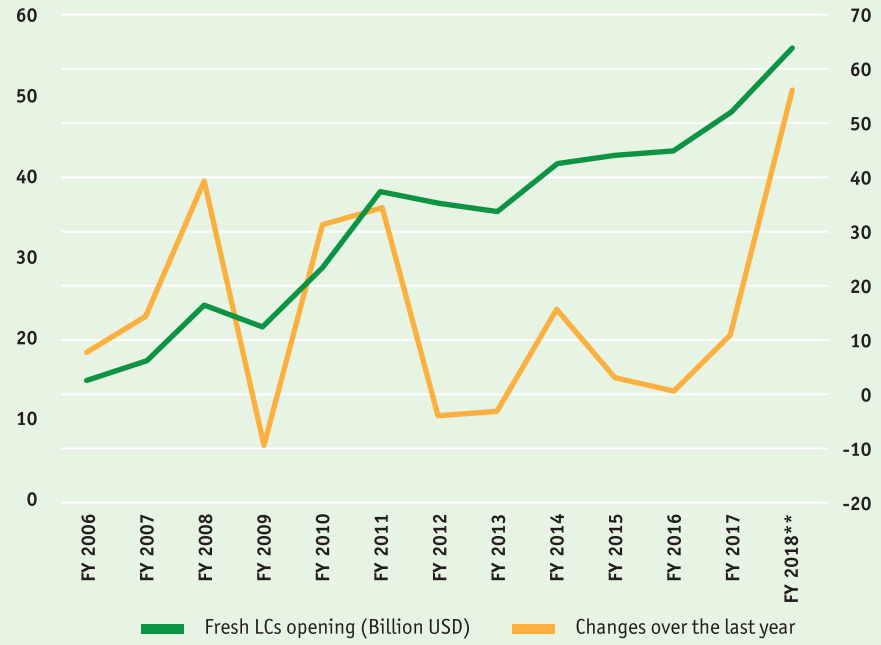
Outstanding stock of NSD certificates, June 2012–December 2017 (Tk. billions)

	Outstanding stock of NSD certificates (Tk. billions)	Flow
June 2012	639.2	4.8
June 2013	645.1	5.9
June 2014	764	118.9
June 2015	1,051.3	287.3
June 2016	1,388.2	336.9
June 2017	1,912.4	524.2
December 2017*	2,150.6	527.7 (July-Dec)

Source: Bangladesh Bank

Chart 1

Fresh opening of LCs, FY2006–FY2017/FY2018



Note: **Jul-Mar projected Source: Bangladesh Bank

Chart 2

The Bangladesh banking system's year-on-year deposit growth, FY2012–February 2018

Source: Bangladesh Bank

adjustment over a long period and perhaps until after the election? Or should it bite the bullet now and go for a major one-step devaluation of the currency to restore BOP equilibrium? Certainly, the first approach, which is the current one, is costly for the economy and for Bangladesh Bank, and also entails higher risk of an uncontrolled exchange market in the months just before the national elections. The decision lies with Bangladesh Bank, and only time will tell whether it will really succeed in its efforts to contain the pace of the exchange rate depreciation until the end of the year, and at what cost to the economy.

Liquidity problem of the domestic commercial banks

Two major and one minor factor have contributed to the current liquidity crisis in the banking system and the consequent upward surge in the interest rate structure.

The first is a sharp decline in the growth of deposits in the banking system, from 19.4% in FY2012 to the lowest point of 9.5% in September 2017, thereafter remaining at around 10%. Certainly, a deposit growth rate of 10% cannot sustain private sector growth rates of 16–18%, which are needed for the economy to grow at more than 7% per annum.

The second factor is the high amount of non-performing loans in the banking system, which severely restricts the amount of new loanable funds and undermines the revolving nature of banks' pool of such funds. Although, according to Bangladesh Bank statistics, the amount of non-performing loans represents more than 10% of the assets of the banking system, it is widely believed that the actual amount is more than twice the published figure.

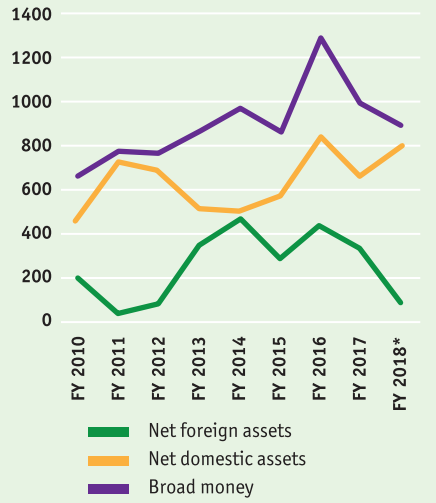
The third, relatively minor but still important, factor is the sale of US dollars by Bangladesh Bank on the interbank foreign exchange market. For every US dollar Bangladesh Bank sells, it also withdraws liquidity from the banking system of about Tk. 83. Selling $2 billion on the interbank market has led to at least Tk. 166 billion-worth of liquidity being withdrawn from the banking system.

The sharp decline in deposit growth in the banking system is attributable to two major factors: 1) diversion of funds to National Savings Directorate (NSD) deposit instruments lured by markedly higher interest rates; and 2) drying-up of the injection of liquidity through the BOP accounts, represented as increases in net foreign assets (NFA) of the banking system, owing to the current imbalance in the BOP. The NSD instruments attracted only about Tk. 5–6 billion during FY2012/FY2013, when the spread between the NSD and bank interest rates was modest.

The sharp decline in deposit growth in the banking system is attributable to two major factors: 1) diversion of funds to National Savings Directorate (NSD) deposit instruments lured by markedly higher interest rates; and 2) drying-up of the injection of liquidity through the BOP accounts, represented as increases in net foreign assets (NFA) of the banking system, owing to the current imbalance in the BOP.

Chart 3

Contribution of NFA inflows to broad money, FY2008/FY2009–FY2017/FY2018 (Tk. billions)



Note: *Flow of Mar 2018 Source: Bangladesh Bank

However, as the spread in interest rates has widened since FY2014, more and more household and institutional savings have been diverted to NSD instruments. The cumulative amount of funds going to NSD instruments is estimated to be almost Tk. 1.8 trillion during FY2014–December 2018. By the end of F20Y18, the amount could increase by Tk. 200 billion, taking the cumulative amount over the past five years to Tk. 2 trillion. This massive diversion of funds has contributed significantly to the massive slowdown in deposit growth in the banking system.

While the decline in deposit growth has broadly followed the pattern of diversion of funds to NSD instruments, we might raise a question as to why the banking system's deposit growth and liquidity position deteriorated so fast in early FY2018. The answer to this lies in the fact that money supply in Bangladesh was being driven significantly by the inflow of net foreign assets deposited in the banking system through surplus positions in the BOP. As the BOP position deteriorated, the injection of liquidity and deposit growth through NFA tapered off, turning negative in recent months. During the period FY2013 through FY2017, cumulative inflows through NFA amounted to almost Tk. 1.9 trillion. It is no surprise that, when such a major source of liquidity in the money market dries up as a result BOP difficulties, this leads to an overall shortage of liquidity in the money market and, in particular, in the availability of foreign currency.

It is quite normal, when NFA inflows go down, for the net domestic assets (NDA) of the banking system to go up. At the same time, when NDA account for most of the expansion in money supply, the economy tends to face scarcity of foreign exchange. This happened during FY2011/FY2012, when on average more than 90% of broad money expansion was on account of NDA and the money market experienced a serious shortage of foreign exchange and the exchange rate depreciated. As the share of NFA in broad money expansion increased to 30% during FY2013–FY2017, the market was well supplied with foreign currency and there was no pressure on the exchange rate. The exchange rate of the taka against the US dollar remained stable throughout this period. Importantly, in FY2018 monetary expansion has been primarily on account of NDA, which is accounting for more than 90% of broad money expansion. Thus, it is no surprise that there is a crunch in the foreign exchange market.

The decision on increasing government deposits with private banks will have a redistributive impact but no overall impact on the level of deposits held by the banking system. This policy, without any investment guideline, may put government deposits at risk, as happened in the case of the illiquid Farmers' Bank.

The government and Bangladesh Bank announced a number of measures in April 2018 to alleviate the liquidity problem faced by the banks. These measures included 1) a reduction of the CRR by 1 percentage point to 5.5% of assets; 2) postponement of the reduction of the lending to deposit ratio (LDR) of banks by 1.5 percentage points to 83.5% till end-March 2019; and 3) allowing government ministries and agencies to increase their deposits with private commercial banks up to 50% of their total deposits. The reduction of the CRR made available for the commercial banks an amount up to Tk. 12,000 crores (0.9% of banking system assets), which is easing the liquidity situation for certain banks that have put themselves in a corner by violating macro-prudential conditions in their efforts to maximise profits while taking unacceptable levels of risk. Unless households are attracted back to the banking system and the BOP conditions ease, leading to a resumption of inflows of NFA into the banking system, there will be no sustainable improvement in the situation. Meanwhile, depositors are exposed to undue risks as a result of the shaving of the CRR ratio.

The decision on increasing government deposits with private banks will have a redistributive impact but no overall

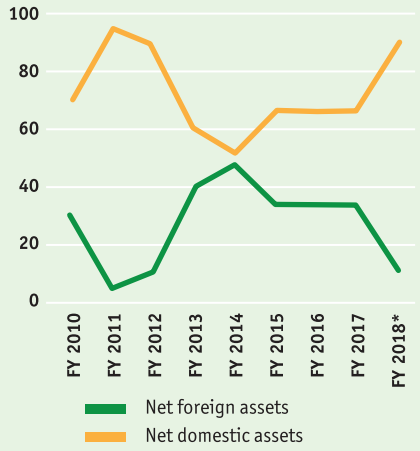

Photo by A.Saber91


Photo by Asian Development Bank

impact on the level of deposits held by the banking system. This policy, without any investment guideline, may put government deposits at risk, as happened in the case of the illiquid Farmers' Bank. The reduction in the LDR should have some tightening effect on the monetary situation, which could help contain import demand pressure and support external sector adjustment. Overall, the measures announced by the authorities are short term in nature, and do not provide a sustainable solution to problems faced by the banking system. And if anything, they further enhance the risks to the banking system and to depositors. These kinds of measures are sending the wrong signals to market participants and also raising moral hazard issues by bailing out errant financial institutions.

Chart 4

NFA & NDA as percentage of broad of money



Note: *Flow of Feb 2018 Source: Bangladesh Bank

Concluding observations

Problems remain in Bangladesh with regard to external sector imbalances and tight liquidity in the banking system. Interest rates have already shot up, and there is absolutely no reason for the interest rate structure to come down under the current situation of tight liquidity. If the government is serious about bringing down the interest rate structure, it has to start with a significant reduction in the NSD interest rates. At the same time, an early resolution of the imbalance in the external accounts – primarily through adjustment of the exchange rate – will also be important if we hope to restore normal inflows of liquidity into the banking system through the NFA channel.

As long as these external sector imbalances are allowed to persist, uncertainties will prevail about the impending depreciation of the taka. Because of this lingering uncertainty, exporters will hold on their export earnings by delaying their repatriation, importers will try to rush to book their imports at the prevailing exchange rate, and workers remitting from abroad will continue to hold onto their financial assets. Under these circumstances, inflows of NFA will not resume, pressures on the exchange rate will intensify and the liquidity situation of the banks will not improve. PI

Ahsan Mansur is the Executive Director of Policy Research Institute.

Bangladesh must adopt a green growth strategy

Sadiq Ahmed

Bangladesh has made important progress in several areas relating to environmental management, but this has not matched its progress on the growth and poverty reduction agenda. Importantly, Bangladesh is yet to adopt formally a 'green growth strategy' that fully reconciles the development agenda with protection of the environment. In the absence of a green growth strategy and associated regulations, policies and institutions, the costs of environmental degradation have grown over time. Additionally, the adverse effects of climate change are mounting and creating substantial downside risks and vulnerabilities. Against this backdrop, the government's preparation of Vision 2041, under which Bangladesh is envisaged to reach the World Bank-defined high-income threshold by FY2041 and eliminate absolute poverty, provides an important opportunity to take a fresh look at environmental degradation and climate change risks. Unless required regulations, policies and institutional reforms are undertaken to fully reconcile the growth and poverty reduction agenda with environmental protection needs, there is a substantial risk that the income and poverty targets of Vision 2041 will not be achieved.

Evidence suggests that environmental degradation- and climate change-related risks and vulnerabilities have intensified in Bangladesh. According to UN Food and Agricultural Organization (FAO) data, the area under forest cover has fallen significantly owing to a rising population and competing demand for land. A global ranking of per capita forest cover prepared by NationaMaster.com for 2005 puts Bangladesh at the near bottom of the list of countries compared (186th out of 192).

Loss of forest land, the degradation of land, sea and river water pollution, indiscriminate filling of water bodies for land acquisition, unsustainable use of ground water and fishery resources in ponds, lakes and rivers and unsustainable methods of shrimp farming have collectively taken a huge toll in terms of degradation of the ecosystem and a consequent loss of biodiversity. Global ranking of country performance in protecting the natural habitat and biodiversity by the Yale Center for Environmental Law and Policy (YCELP) and the Center for International Earth Science Information Network (CIESIN) at Columbia University for 2014 puts Bangladesh 123rd out of 176 countries.

Land degradation presents a special challenge for Bangladesh given the low per capita availability of land, which has gradually been shrinking as a result of population growth. According to a 1999 study by the Bangladesh Agricultural Research Council, an estimated 23.6 million ha of land suffers from various extents of degradation. The same study estimated the cost of land degradation from water erosion, fertility decline, salinisation and acidification at about $2.3 billion for 1997, or about 5.2% of 1997 gross domestic product (GDP).

Owing to unregulated use of air pollutants, the urban air environment in Bangladesh is among the most polluted in the world. Air quality monitoring by the World Health Organization ranks Bangladesh the fourth most air-polluted country out of 202 countries in 2014 when urban pollution is measured in terms of annual mean concentration of fine particulate matter (PM 2.5). Dhaka is the third most air-polluted city when compared with top 15 mega-cities; only Delhi and Karachi have worse air pollution.

Growing water demand from rapid urbanisation and industrialisation; rapid depletion of groundwater owing to over-exploitation in many areas; arsenic poisoning of ground water; and a range of water quality issues emerging from industrialisation and urbanisation all combine to make water management a massive development challenge. Evidence suggests that all water bodies in urban areas, including rivers, ponds and lakes, are heavily polluted. The ground water of Bangladesh is heavily contaminated with arsenic. According to a survey report, out of 64 districts 60 are exposed to arsenic contamination in drinking water.

The urban centres of Bangladesh are highly vulnerable to economic losses emerging from a host of natural disasters and climate change factors. Many are highly vulnerable to flooding owing to poor drainage. The most damage in terms of economic losses happens to the Dhaka Metropolitan Area as a result of its high population density and huge concentration of physical assets.

Unhindered use of fossil fuel subsidies has contributed to carbon emissions and discouraged adoption of clean energy. For example, the penetration of solar power generation is a mere 15 MW as compared with total generation of 13,000 MW. Fossil fuel-based emissions from transport and industrial units are a major contributor to poor air quality.

Climate change exacerbates the environmental damage through several channels of its impact on natural disasters: flooding; cyclones and storm surges; sea level rise and salinity; riverbank erosion; temperature rise; and waterlogging. Evidence suggests the adverse effects of climate change are going to intensify if proper global and local measures are not put in place.

The YCELP–CIESIN composite index, known as the Environmental Performance Index (EPI), is developed based on two core objectives, nine environmental issues and twenty indicators. The 2014 EPI ranks Bangladesh 169th among 178 countries. It is obvious that an EPI ranking in the bottom 5% of the 178 countries compared puts Bangladesh at serious risk faced with the challenge of sustainable development.

At the macro level, indicative projections show that the combined effects of moderate climate change could cause an average GDP growth loss of about 1.3% per year between FY2017 and FY2041. Environmental degradation lowers growth by reducing the capital stock as well as by bringing down the productivity of capital. Unless adequate measures are taken to offset these environmental losses, Bangladesh will not be able to achieve its target to secure upper-middle-income status by FY2031 and higher-income status by FY2041. Growth slowdown also has negative consequences for the growth of employment in productive activities and progress on absolute poverty reduction in both forms: extreme and moderate. Accordingly, Bangladesh will also fail to achieve its target to eliminate extreme poverty by FY2031.

Over the years, the government's sensitivity to protecting the natural environment has increased. In 2009, it adopted the Bangladesh Climate Change Strategy and Action Plan. A draft National Strategy for Sustainable Development (NSDS) was prepared in 2008 that was subsequently updated and broadened to make it consistent with the Sixth Five Year Plan and the Perspective Plan 2010–2020. The NSDS 2010–2021 was adopted in May 2013. An impressive list of environmental laws, regulations and plans covers a wide range of environmental issues including forestry control, air pollution, water pollution, biodiversity preservation and wetland management. Additional laws, regulations and programmes related to agriculture, land, water management, fisheries and disaster management seek to safeguard environmental concerns in these areas, including those related to land degradation, sustainable management of fisheries resources, management of water resources, waste management and disaster risk mitigation.

Despite this array of policies and programmes, overall environmental management performance in Bangladesh is weak owing to several binding constraints.

First, the national sustainable development framework lacks strategic focus. The various laws, regulations and programmes did not emerge as a part of a coordinated and integrated sustainable development strategy. There are major gaps relating to how these laws and regulations interact with each other and how they connect to the overarching goal of ensuring the sustainability of growth and poverty reduction efforts. A major missing link in sustainable development policy-making relates to the use of incentive policies for environmental management. Neither fiscal policy nor pricing policies seek to achieve environmental sustainability. On the contrary, pricing policies for energy heavily subsidise carbon-emitting fossil fuels, which have not only created a tremendous budgetary burden but also contributed to air pollution.

Second, the governance and institutional arrangements for environmental management are weak. The focal environmental management ministry, the Ministry of Environment and Forest (MoEF), and its main agency for environmental management, the Department of Environment, have weak capacities, technical knowledge and staffing, owing to very limited resources. Technical data on environmental performance are scare and not regularly monitored to check progress. There is a lack of proper coordination between MoEF and other ministries that have major roles to play in determining the quality of the state of the environment. Another major institutional weakness is the absence of a role for local government institutions (LGIs) in environmental management.

Land degradation presents a special challenge for Bangladesh given the low per capita availability of land, which has gradually been shrinking as a result of population growth.

Third, at the heart of the weak performance on environmental protection is the shortage of financial resources. Direct spending by the coordinating ministry responsible for managing the national environmental programmes (MoEF) has been almost negligible (0.05% of GDP in FY2000) and, even as late as FY2016, it had barely increased, to 0.06% of GDP. Total public spending of the core ministries dealing with water- and environment-related services and the water and sanitation component of the local government division and LGIs constitutes about 1% of GDP.

Implementing the agenda for green

...the combination of a fossil fuel tax and a pollution tax on industries polluting air and water and on households polluting water should generate adequate revenues to finance many urban environmental protection programmes.

growth in Bangladesh is undoubtedly daunting, but not impossible. The 2041 Perspective Plan provides a major opportunity to jumpstart the green growth agenda and step up the policies, programmes, institutional reforms and financing that will allow Bangladesh to implement its growth and poverty agenda with environmental protection.

Macroeconomic framework: At the macro level, the growth strategy should recognise environmental protection as an integral part of the macroeconomic framework. The costs of environmental degradation should be explicitly recognised in the Base Scenario of the 2041 Macroeconomic Framework and offsetting measures incorporated in the Policy Scenario.

Adoption of the Delta Plan: One of the highest priorities is to reduce the vulnerability of the population to natural hazards and climate change by implementing the Delta Plan 2100 (BDP2100). The BDP2100 includes major policies, investment programmes and institutional reforms that, if adopted and implemented properly, will address the sources of long-term climate change vulnerability at source, thereby reducing the adverse effects of climate change on the population.

Managing air and water pollution: Bangladesh needs to adopt two major principles in the conduct of fiscal policy for better environmental management: 1) the beneficiary pays principle; and 2) the polluter pays principle. Clean air and clean water are increasingly becoming scarce environmental services in Bangladesh, partly because of limited supply but also because of continued degradation by users. Adoption of the polluter pays principle in addition to regulations is essential to reduce air and water pollution.

Removal of fuel subsidies: Fossil fuel subsidy reform can support climate change policy and goals. This can be recognised as part of a package of measures to implement Intended Nationally Determined Contributions, because reform can both reduce emissions and free up resources to invest in sustainable energy systems.

Adoption of a green tax on fossil fuel consumption: A green tax on fossil fuels can represent a tremendously useful policy in integrating environmental considerations into a growth strategy because it not only discourages the consumption of CO2-emitting fossil fuels but also provides a very attractive resource for revenue generation that can be used for investing in clean energy and other environmental programmes. A green tax on fossil fuels is also a very good example of application of the polluter pays principle.

Taxation of emissions from industrial units: Bangladesh has introduced policies for the control of air pollution from brick manufacturing kilns. Policies are also needed to control emissions from other polluting industries. The country has set air quality standards but monitoring by industrial units is difficult because of the absence of proper testing equipment and database. Once data and monitoring equipment are in place, a system of air pollution taxes could be levied to create incentives for industrialists to adopt clean technology.

Prevention of surface water pollution: Arguably, water pollution owing to inappropriate human and industrial waste disposal is among the most pressing environmental challenge in Bangladesh. In addition to laws and regulations that set preventative measures, the polluter pays principle must be applied to create a strong disincentive against illegal disposal of industrial, commercial and household waste in surface water bodies. At the same time, urgent actions are needed to launch a surface water clean-up drive, including arrangements to treat drainage/sewerage water before it reaches public water bodies. This effort should continue until the target for 100% compliance is reached.

Policies for the sustainable management of forestry resources: Adoption of the Delta Plan will have major positive implications for sustainable forestry management. A particularly important step is restoration of the Gorai River, which will return the supply of fresh water to the Sunderban mangroves and clean out the intruding saline water. Another important step will be to manage oil spillovers from shipping and dumping of shipping scraps in the Bay of Bengal area. On the policy front, however, the biggest challenge is to control the illegal poaching of forest resources and prevent jhum cultivation. Part of this challenge relates to ensuring alternative livelihoods for poor settlers in the forest areas, especially in the Sunderban locality and the Chittagong Hill Tracts. Another major part of the challenge lies in preventing corruption and ensuring good governance.

Strengthening environmental coordination: Given the need for an environmental management coordinating agency to work across ministries, the government may want to implement the recommendation in the NSDS 2010–2031 to establish a Sustainable Development Monitoring Council and Sustainable Development Board.

Strengthening MoEF: In order for MoEF to play its role as the central body in environmental management, its capabilities must be strengthened greatly. Progressive increases in its budget must be provided to reach the target of 0.5% of GDP by FY2041 to build up capacity through better staffing, including of technical professional staff, establishing a strong digital management information system based on a databank that is regularly updated and regular monitoring and evaluation of environmental compliance. MoEF needs to build strong partnerships with the private sector, non-governmental organisations and the research community in the areas of compliance monitoring and knowledge management, including data-gathering and policy research. Regular dialogue with stakeholders, including public hearings and participatory policy development, will be essential to improve policy implementation and compliance. MoEF needs to regularly come up with an Environmental Outlook Report on Bangladesh with updated information on the state of environment and an action plan for achieving milestones, to be widely disseminated with different stakeholders.

Decentralisation of environmental management: Bangladesh can learn from international good practice examples of what might be the appropriate division of responsibilities between national- and local-level environmental agencies.


Photo by Khondker Rifat Hossain

To ensure seamless implementation and avoid conflicting signals, a formal coordinating mechanism between national and local government environmental agencies must be established. The LGIs will need to be participatory in their approach and adopt proper mechanisms to enable citizen participation in all local issues, including environmental management. A policy initiative is needed to formally engage local government authorities down to the upazila level in the oversight of environmental management, linked to development activities.

Strengthening environmental concerns in planning and budgeting: Integration of environmental concerns in budgetary management requires progress on green public financial management (PFM), in terms of green accounting, procurement and auditing. Project selection must must also require full accounting of environmental degradation issues for all investment projects. Full incorporation of the green PFM agenda is a long-term endeavour and will require long-term commitment, resources and efforts. Institutional capacities in MoEF, the Ministry of Planning and concerned line ministries will need to be substantially strengthened.

Financing options: Investments needed to ensure the full integration of environmental protection within the growth strategy are estimated at around 3.5% of GDP, as compared with only 1% presently. Although environment typically is a public good, the public sector alone cannot finance it. Innovative solutions must be found to ensure a good division of financing options between the public and the private sectors.

Private financing options: There are three main instruments for boosting private financing for the environment. First, in several areas, such as forestry for timber, fisheries, ecotourism, water supply and waste management, private supply can be encouraged with proper regulatory and pricing policies. Second, legal and regulatory policies can be used to encourage the proper adoption of measures including private investment in the protection of the environment. Important examples relate to the adoption of clean air technology in industries, the installation of Effluent Treatment Plants in industries and private hospitals and prevention of land degradation through proper farming practices, including the banning of jhum cultivation while providing alternative livelihoods to the affected population. Third, the public sector can enter into co-financing arrangements on a range of environmental services through public–private partnerships, including partnerships with communities. For example, programmes for clean rural water supply and sanitation, for cleaning up rural ponds used for bathing and household cleaning and to put in place public toilet and public bathing facilities can all be implemented through public subsidies to private suppliers as well as through cost-sharing arrangements with the community.

Public financing policies: As noted earlier, currently the budget provides about 1% of GDP for water resource and environmental management. Some 2% of GDP of additional financing will need to come from tax resource mobilisation. Bangladesh has one of the lowest tax-to-GDP ratios in the world. The FY2041 Perspective Plan's Macroeconomic Framework allows for an additional tax-to-GDP ratio increase of 5% that can accommodate this additional financing. The remaining 0.5% of GDP domestic financing can be mobilised through the application of the beneficiary pays principle (cost recovery) and the polluter pays principle (green taxes). Prospects for cost recovery from the supply of water, sanitation and solid waste management are large. Presently, there is minimal cost recovery from water and sewerage services provided by WASAs and municipalities. Cost recovery is based on partial recovery of operation costs only. This pricing policy must change, both to mobilise funding for new investments and to ensure efficient use of water. The water and sewerage pricing policy must move to full operating cost recovery by FY2020 and 100% capital cost recovery by FY2031.

Regarding green taxes, the combination of a fossil fuel tax and a pollution tax on industries polluting air and water and on households polluting water should generate adequate revenues to finance many urban environmental protection programmes.

Harnessing the Green Climate Fund (GCF): Bangladesh played a leading role in helping set up the GCF, with an ambitious agenda to mobilise $100 billion per year from rich countries by 2020 to finance climate change initiatives in developing countries. As of November 2017, the GCF had raised $10.3 billion equivalent in pledges from 43 governments. So far, the GCF has authorised some $2.6 billion in projects globally. Bangladesh has had only one project approved so far – the Climate Resilient Infrastructure Mainstreaming project, worth $40 million. Stronger efforts are needed to ensure better access to the GCF resources.

Efforts should also be made to mobilise climate funding from other global programmes, such as the Adaptation Fund, the Least Developed Country Fund, the Climate Investment Funds, the Forest Investment Programme, the Global Environment Facility, the REDD programme etc. The government should set up a dedicated wing in the Economic Relations Division to effectively coordinate and access funding from these other international climate funds as well. PI

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The Rohingya crisis:

Bangladesh deserves a win-win solidarity compact

Cindy Huang, Nazanin Ash, Marcus Skinner and Kate Gough

On 25 August 2017, in retaliation for attacks on its local security forces by the Arakan Rohingya Salvation Army (ARSA), the Myanmar military undertook a campaign of violence and terror against the Rohingya people that the UN High Commissioner for Human Rights called 'a textbook example of ethnic cleansing'. Nearly 700,000 people have fled to Bangladesh since August 2017 – including more than 500,000 in a single month, the fastest refugee exodus since the Rwandan genocide. And while this campaign was most significant in terms of people displaced, it also capped a long history of disenfranchisement and abuse of the Rohingya in Myanmar. Those who fled in the autumn of 2017 joined Rohingya displaced by previous waves of violence, with the total Rohingya refugee population in Bangladesh now reaching nearly 1 million.

The government and people of Bangladesh, particularly the local population of Cox's Bazar, responded with grace and generosity, providing safety, shelter and support to a traumatised population fleeing for their lives. Prime Minister Sheikh Hasina captured Bangladesh's welcome at the start of the crisis, saying, 'If we can feed 160 million people, we can feed 700,000 more.' Bangladesh has taken this approach as many nations, including wealthy ones, are stepping back from their obligations to protect populations seeking safety from conflict and violence, meeting them instead with closed borders, forced returns and detention. With just 1.34% of the EU's gross domestic product (GDP), Bangladesh received more refugees in less than three weeks than arrived in Europe from across the Mediterranean in all of 2016. The government of Bangladesh, with support from its local organisations as well as international agencies, rapidly mobilised shelter, food, water, health and sanitation services.

Ten months after the onset of the crisis, Bangladesh is home to the largest refugee settlement in the world. Service delivery systems and infrastructure are showing signs of strain. Bangladesh and local communities are now coming to terms with the impact of the crisis, including dramatic deforestation to make way for refugee sites and to meet ongoing needs for firewood, as well as reports of depressed daily wages as a result of the increased supply of low-skilled labour.

So what comes next? How should Bangladesh and the international community respond to this new phase of Rohingya displacement in Bangladesh, of which Bangladesh is bearing far more than its fair share?

A holistic and robust response

Bangladesh is providing an immense global public good – reinforcing both national and international laws on providing protection to those fleeing persecution and violence. But this should not be Bangladesh's responsibility alone. Global actors can no longer turn a blind eye to the cruelties the Rohingya have suffered. The violence of August 2017 must be understood as part of a long-term strategy of systematic economic, social and religious persecution and discrimination against the Rohingya enacted by the government of Myanmar. Before 2017, hundreds of thousands had already fled to Bangladesh, Malaysia and Thailand, and those who remain endure conditions of extreme poverty, disenfranchisement and vulnerability. Myanmar's 1982 citizenship law, which effectively denied citizenship rights to the Rohingya, has made the Rohingya the world's largest stateless population. The citizenship law and other discriminatory policies have curtailed Rohingyas' right to study, work, travel, marry, practise their religion and access services such as health and education.

The systematic disenfranchisement of the Rohingya in Myanmar must be addressed, the most recent acts of violence independently investigated and justice served. Justice for the Rohingya people includes the right to return voluntarily in safety and dignity to their homeland. The governments of Bangladesh and Myanmar signed a Memorandum of Understanding in January 2018, defining terms for repatriation and a target of 300 returns per month. To date, however, the government of Myanmar has not taken steps to secure the conditions for safe returns. The UN Refugee Agency (UNHCR) said in April 2018 that it 'considers that conditions in Myanmar are not yet conducive for returns to be safe, dignified, and sustainable'. UNHCR and the UN Development Programme (UNDP) are continuing

negotiations with the government of Myanmar to establish a framework for creating conditions conducive for safe, voluntary and dignified repatriation. The international community, including China and other regional actors with an interest in the conflict's peaceful resolution, have critical roles to play in ensuring these conditions are achieved. The recommendations of the Advisory Commission on Rakhine State provide an important nationally and internationally endorsed framework for reform.

The international community also has a role to play in ensuring Bangladesh maintains and even accelerates its impressive development trajectory, even as it provides safety to one of the most vulnerable populations on earth. The average length of displacement globally is now over 10 years and Bangladesh may not be an exception to this trend. The Center for Policy Dialogue has determined that, under the terms agreed in the bilateral Memorandum of Understanding, Bangladesh will host thousands of Rohingya for anywhere between seven and twelve years at a cost of between $4.43 billion and $10.46 billion. These costs cannot and should not be borne by Bangladesh alone.

In 2016, the UN General Assembly (GA) unanimously adopted the New York Declaration, marking the first time the GA (including those not signatory to the UN 1951 Convention on Refugees) had affirmed commitments to responsibility-sharing for comprehensive refugee response. This responsibility-sharing should include not only humanitarian aid for immediate needs but also an ambitious package of longer-term financing, resettlement opportunities and innovative support from a wide range of partners. Such an approach – when combined with greater opportunities for refugee education, livelihoods and well-being – can support the needs of refugees, local communities and host nations.

The opportunity at hand for Bangladesh is to claim its rightful support from the international community, and to do so in ways that support Bangladesh's development trajectory and deliver benefits for both Rohingya and host communities in Cox's Bazar. A Solidarity Compact, a multiyear agreement between Bangladesh and international partners, could bring together such responsibility-sharing commitments, ranging from trade concessions, private investment and enhanced labour migration opportunities to development and climate-financing and resettlement agreements with partner nations. There is a unique window of opportunity – before the next humanitarian crisis seizes international attention – to forge a Solidarity Compact that advances Bangladesh's progress toward the Sustainable Development Goals.

With just 1.34% of the EU's gross domestic product (GDP), Bangladesh received more refugees in less than three weeks than arrived in Europe from across the Mediterranean in all of 2016.

Global responsibility-sharing: Cases and early lessons

Lessons from other protracted crises help show the way. Early planning can help mitigate negative consequences such as environmental degradation and health risks already emerging in Bangladesh. New models of international partnership recognise the critical leadership role of national governments hosting large populations of refugees, and structure longer-term support to such governments in ways that strengthen national and local development plans to support both host and refugee populations.

The first of these models was deployed in response to the refugee crisis created by the Syrian war that has resulted in over 5 million Syrian refugees seeking safety in neighbouring countries. A core tenet of the Jordan Compact – an agreement between the Jordanian government, the World Bank, the EU and others – was to drive growth and job creation for all of Jordan, from which both local and refugee populations could benefit. The Jordan Compact secured significant international support, including trade concessions and up to $1.8 billion in financing. These investments were paired with opportunities for refugees to access legal employment. For example, the Compact leveraged EU trade concessions to increase investment in special economic zones, where companies could benefit from enhanced trade terms if their workforce included refugees.

In Lebanon, the compact focused on strengthening and expanding the reach of the national education system, with investments in infrastructure, teacher training and data systems that will continue to benefit host communities, even after Syrian refugees return home. Such investments also allowed Lebanon to enrol over 200,000 refugee children, some of whom had been out of school for three years or more, contributing to increases in child labour and early marriage.

In Ethiopia, a new $500 million package to support a compact between the government and the World Bank aims to support the generation of 100,000 jobs – including 70,000 for Ethiopians and 30,000 for refugees. This will in part be achieved through investments in Ethiopia's industrial parks – consistent with the government's plans to turn Ethiopia into a manufacturing hub.

While these compacts demonstrate a new approach to responsibility-sharing, they also offer lessons on how to improve it. In each case, results could be enhanced through greater emphasis on area-based approaches that are responsive to the specific needs and opportunities of vulnerable populations (refugees and hosts). Attention to the timing-to-impact of interventions, with a mix of short-medium-, and long-term actions, would also better serve refugees and hosts. In Lebanon, for example, over 200,000 children remain out of school; adopting a non-formal education approach, regulated by the government, alongside its formal strategy would have put many more children in school. In Jordan, better design of trade concessions could have created stronger incentives for firms to invest and create jobs in geographic areas closer to vulnerable populations.

Bangladesh can learn from and improve on prior models by seeking international commitments that support key growth and livelihoods opportunities in Cox's Bazar and the broader Chittagong region to maximise benefits for local populations. And it could incorporate a central lesson – and a key ingredient of Bangladesh's own development success – that robust consultation with refugees and host communities is critical. Achieving impact require including the experience, voices and priorities of affected populations.

New approaches in Jordan, Lebanon, Ethiopia and elsewhere are based on evidence that well-designed interventions can help mitigate the negative impacts of protracted refugee crises and deliver dividends for both host and refugee communities. In taking these

Consistent with the experience in East Africa and the Middle East, historically limited service provision and refugee exclusion in Bangladesh has not prevented thousands of Rohingya from fleeing successive waves of violence and persecution in Myanmar.

approaches, host nations are increasingly contesting conventional wisdom – that including refugees in national safety nets and enabling their access to jobs and education will act as a 'pull factor', attracting refugees to countries of asylum and deterring them from returning home. The available evidence suggests differently.

Consistent with the experience in East Africa and the Middle East, historically limited service provision and refugee exclusion in Bangladesh has not prevented thousands of Rohingya from fleeing successive waves of violence and persecution in Myanmar. As with Somalis, Syrians and Iraqis, the primary motivation for seeking asylum is safety, and it is the 'push' factor of violence in their home country that most shapes decisions to leave or stay. Similarly, service provision and other policies, such as access to skills training, are aligned with an ultimate goal of facilitating safe and voluntary returns. Evidence from Kenya indicates that providing refugees with support and assistance to ensure they have livelihoods skills appropriate to the markets to which they are returning decreases the chances of secondary displacement or return to refugee camps. In contrast, when skills, education and opportunities for self-sufficiency are absent, dependence on aid and the infrastructure that provides it grows.

Limitations on service provision and livelihoods opportunities can, however, undermine the well-being of both refugee and host communities. In Jordan, for example, ever-increasing poverty among refugees and limited access to work and education resulted in an increase in early marriage and child labour rates. Multiple countries that have limited access to education for refugees within national systems have seen instead the creation of informal schools with curricula outside the reach of review and approval of national education authorities.

Bangladesh is already experiencing strain on its services and resources, and is responding earlier and better. For example, when Cox's Bazaar experienced an outbreak of deadly but preventable diphtheria – a disease previously eradicated in Bangladesh – the authorities mitigated the impact on host communities with more, not less, service provision, broadening immunisation programmes for both hosts and refugees. Similarly, improving Rohingyas' access to sustainable cooking fuels is critical to limiting further deforestation. The government of Bangladesh's approval of the rollout of UNHCR's liquefied petroleum gas initiative across settlements in Cox's Bazar, and including most vulnerable families of the host community, provides a positive example of how such initiatives are being taken up at scale.

A Solidarity Compact for Bangladesh

To provide and sustain such interventions, Bangladesh needs expanded international support and responsibility-sharing that strengthens social service delivery systems, economic opportunities and opportunity for all. This should include a protection framework for the Rohingya that provides the rights and opportunities they are entitled to under international humanitarian law and national law, and that underpin the win-win approaches described above. With all of this in mind, what could a Solidarity Compact for Bangladesh include?

Given the cost estimates of hosting the Rohingya, new financing is essential. A number of bilateral donors – led by Canada (with a recent $300 million in pledges) and the USA (with more than $200 million in pledges), as well as the UK – have provided critical humanitarian funding to Bangladesh and expressed their commitment to support the response over the medium term. But even more funds are needed to reverse the negative consequences to host communities and to improve service delivery and opportunities for both Bangladeshis and the Rohingya.

There are signs that discussions on longer-term financing are advancing. Recently, Bangladesh agreed in principle to accept grant support from the World Bank and the Asian Development Bank (ADB) to help respond to the crisis. Other donors, such as the Asian Infrastructure Investment Bank and the Islamic Development Bank, could make additional financing available. Likewise, given the shock of hosting an additional 700,000 people in an area already vulnerable to climate risks, funds such as the Green Climate Fund and the Global Environment Facility should consider favourable terms and additional financing for Bangladesh.

But, recognising the scale and likely duration of the crisis alongside Bangladesh's generosity, the international community must think beyond traditional humanitarian and development financing. We propose exploring a range of 'beyond aid' contributions, including trade concessions, labour mobility opportunities, private sector investment and new investments in regional initiatives. Targeted efforts, such as those by the World Bank and ADB, are laudable but will yield greater results if coordinated with a package of mutually reinforcing aid and beyond aid commitments.

As mentioned above, the Jordan Compact included new trade concessions with the EU intended to create new jobs and growth for Syrian and host communities. Trade concessions, bilateral and multilateral, can encourage long-term investment in Bangladesh, help increase and diversify its exports and extend or open market opportunities. To its great credit, Bangladesh has recently met the criteria to graduate from least developed country (LDC) status, which means it will graduate in 2024 and lose its duty-free, quota-free access to EU markets after a three-year grace period. In recognition of Bangladesh's role in providing the global public good of hosting the Rohingya, including the associated near-term costs, the EU could consider extending the period after graduation for one or more years. Some estimates indicate that this could represent a benefit of more than 5% of GDP per year.

Likewise, the USA could consider reinstatement of the generalised system of preferences (GSP), which was suspended after the Rana Plaza tragedy in 2013. Beyond reinstatement of the GSP, the USA could explore deeper trade relations between the two countries, such as duty-free market access to a wider range of Bangladeshi exports through the end of the grace period after LDC graduation. Whether with the EU, the USA or other trade partners, concessions could also include relaxing the rules of origin (ROO)

that govern the proportion of the export that is locally produced, especially in emerging sectors such as agro-processing, information and communication technology and leather goods. Relaxed ROO can provide developing markets an entry point to greater exports and international market access, helping build up a sector. Trade discussions should both recognise progress in health and safety standards and include robust efforts to improve labour rights and conditions, so that any new agreement serves to raise standards and conditions for all workers.

Another component of the compact could be new labour mobility opportunities for Bangladeshis to Gulf, Southeast Asian, European and other countries with unmet labour needs. Bangladesh's foreign minister recently announced more than 1 million Bangladeshis migrated abroad for work in 2017. That same year, remittances accounted for 8% of Bangladesh's GDP – the second largest source of foreign flows. As a contribution to responsibility-sharing, Bangladesh's partners could consider increased quotas for Bangladeshi migrant workers, regularising the status of current migrant workers and additions to labour mobility agreements that would amplify their benefits to workers and to Bangladesh. For example, they could include skills training that increases migrant labour productivity and measures that support ethical recruitment and decent working conditions.

Increased labour mobility opportunities, including for nationals living in Cox's Bazar, can reduce pressure on the local labour market and spur development through increased remittances at the household and national levels. It would also be an opportunity for Gulf states and others to help address a global challenge sustainably and on mutually beneficial terms. Any labour mobility agreement should come with guarantees around strict worker protections and care and also advance broader efforts to improve the conditions of migrant workers.

As part of a compact, partners should also consider multiple tools and assistance for catalysing private sector investment in Cox's Bazar and beyond. For example, they could access support through the new World Bank/International Finance Corporation window to increase private investment in low-income countries. This includes a risk mitigation facility that provides guarantees to attract private financing for large infrastructure projects, as well as risk insurance for a range of projects. Other bilateral development finance institutions, such as the USA's Overseas Private Investment Corporation and the UK's CDC Group, can use similar tools to facilitate increased private investment. Partners can also contribute technical assistance and support for improvements in Bangladesh's business climate, which are likely needed for any of these efforts to succeed at scale.

Finally, a compact should engage partners that have a strong interest in strengthening regional economic and strategic ties. Tensions between Bangladesh and Myanmar as a result of the Rohingya crisis have stalled progress on a number of regional initiatives. Renewed efforts and new commitments, both economic and diplomatic, can help reinvigorate these partnerships. For example, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), an organisation that fosters economic and technical cooperation in South and Southeast Asia, could promote trade, investment and technical assistance targeted at priority sectors in Cox's Bazar economy such as agriculture and tourism.

China's Belt and Road Initiative has already planned investments that connect Bangladesh and Myanmar, such as the Bangladesh-China-India-Myanmar (BCIM) economic corridor. As part of a compact, China could accelerate planned investments in Bangladesh and also consider new investments in Cox's Bazar. Similarly, China could consider more rapid investment in the relocation of sunset industries. Moving some of its labour-intensive and low-tech manufacturing, such as textile and garment factories, can create new and decent job opportunities in Bangladesh if supported by efforts to meet labour and safety standards. The Association of South-East Asian Countries could serve as a forum for intensive dialogue on potential bilateral commitments to a compact, whether related to trade, investment, disaster risk reduction or labour mobility policies.


Photo by CAFOD Photo Library

While this is by no means an exhaustive list, it is nonetheless indicative of the potential level of ambition Bangladesh could pursue in its dialogue with the international community. If designed well, a Solidary Compact can mitigate risks of the crisis and drive new opportunities for Bangladeshis and Rohingya alike. Key to realising this opportunity, however, is early leadership on the part of Bangladesh, while they rightly have the world's attention and support for the refuge they have provided to a most persecuted population. PI

Tensions between Bangladesh and Myanmar as a result of the Rohingya crisis have stalled progress on a number of regional initiatives. Renewed efforts and new commitments, both economic and diplomatic, can help reinvigorate these partnerships.

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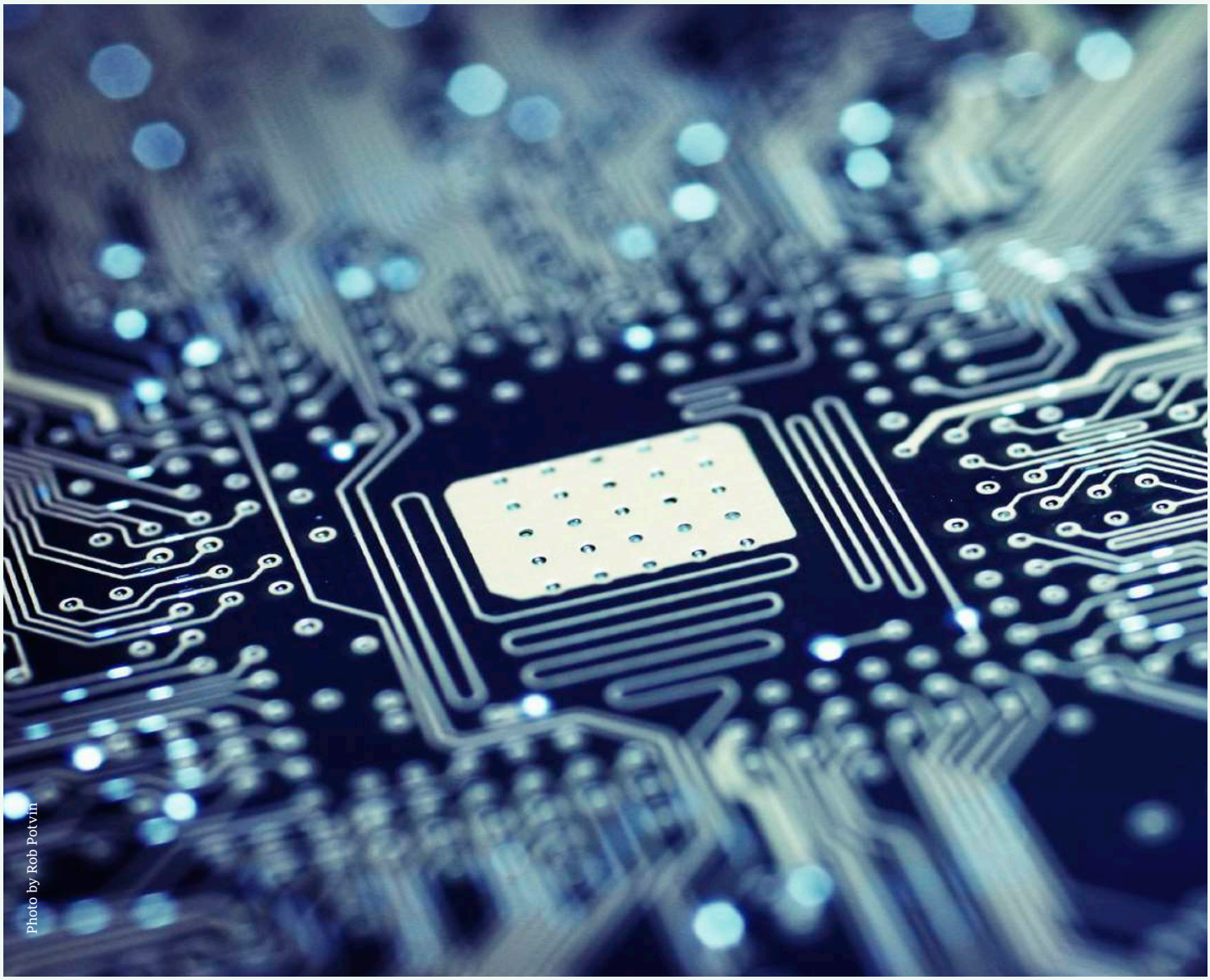


Photo by Rob Potvin

WINNERS TAKE ALL IN THIS DIGITAL TRANSFORMATION RACE

Sonia Bashir Kabir

Every organisation needs to accelerate the digital transformation of their business to effectively compete and stay relevant to customers. This requires changes in metrics, in organisational structures and in the technology platform that enables this transformation. While such a viewpoint may have been controversial five years ago, it is certainly not the case today: digital transformation is a key item on the agenda for C-suites, boardrooms and even governments.

The progress of digital transformation in Bangladesh, much like in its South Asian counterparts, is commendable. The government is leading the country's digitalisation movement, and businesses, too, are echoing the government to realise the vision of a Digital Bangladesh by 2021.

Within this vision, the government has undertaken several projects to achieve digitalisation in the public and private sector. For example, it has been working extensively on ensuring e-governance is made accessible to the public on digital platforms. From online procurement of

...the government has delivered 6 million e-services to 4.5 million beneficiaries on average per month through 407 City Corporation Digital Centres, 321 Pourashavas Digital Centres and 4,547 Union Digital Centres.

public projects, collection and submission of academic admission forms, job applications and collection of official forms, to online tax returns submission, digitalisation has spread its wings in all spheres of public services. In fact, the government has delivered 6 million e-services to 4.5 million beneficiaries on average per month through 407 City Corporation Digital Centres, 321 Pourashavas Digital Centres and 4,547 Union Digital Centres.

The race to transform

Microsoft recently partnered with the leading technology advisory firm IDC (the International Data Corporation) to assess the digital transformation landscape across the Asia Pacific. Titled 'Unlocking the Economic Impact of Digital Transformation in Asia Pacific', the study involved some 1,560 business and IT leaders from 15 economies including Australia, China, Hong Kong, Indonesia, India, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

The study clearly showed that there would be widespread disruption to the traditional business and operations models of all organisations – approximately 60% of Asia Pacific's gross domestic product (GDP) will be derived from digital products and services by 2021, created directly through the use of technologies. In comparison, only 6% of Asia Pacific's GDP today is derived from digital products and services. This is the speed of change that all organisations must grapple with.

Imagine that you are operating a fast-fashion clothing chain in Bangladesh. By 2021, half of your business will be derived from online or digital channels.

The study has shown organisations are seeing significant and tangible benefits from their digital transformation efforts today. The top five digital transformation benefits that organisations experienced include increased profit margins, productivity, customer advocacy, loyalty and retention, cost reduction and revenue from new products and services.

Winners take it all

However, discussions with many business leaders in Bangladesh do not point to a uniform sense of urgency about their digital transformation journeys. Some leaders prefer for others to be the trailblazers, and then to learn from these digital transformation pioneers. One important question is then to consider, is digital transformation a race where the winner takes all?

The aforementioned study also shows that the pace of transformation makes a difference, much like the way an efficient pace is key to raising your chances of winning a long-distance race. We have classified the organisations participating in the study as 'Leaders' and 'Followers' based on a few factors: the maturity of their digital transformation strategies; the proportion of their digital income; and the level of benefits achieved from digital transformation initiatives. With these filters applied, only 7% of organisations in this study can be classified as leaders.

More importantly, the study shows that leaders have reaped the highest digital transformation improvements – to the tune of more than double the benefits from digital transformation compared with for the followers – and the effect is expected to be more pronounced by 2020.

In fact, we are already seeing digital leaders in action in Bangladesh. For example, a trio of Bangladeshi students made it to the final of Imagine Cup 2017, showcasing immense potential. Team Parasitica, a group of students from Bangladesh University of Engineering and Technology, competed with young innovators from different corners of the world in Seattle, USA, last year with its 'fasTnosis' app, which uses Microsoft's Artificial Intelligence (AI) tools to more accurately diagnose patients via inputs of microscopic images. The medical diagnosis app can screen tuberculosis, malaria and intestinal infections, helping millions of affected people. This shows that, with the right tools and platforms, our youth are able to transform the way people access medical diagnosis.

Learnings from winners

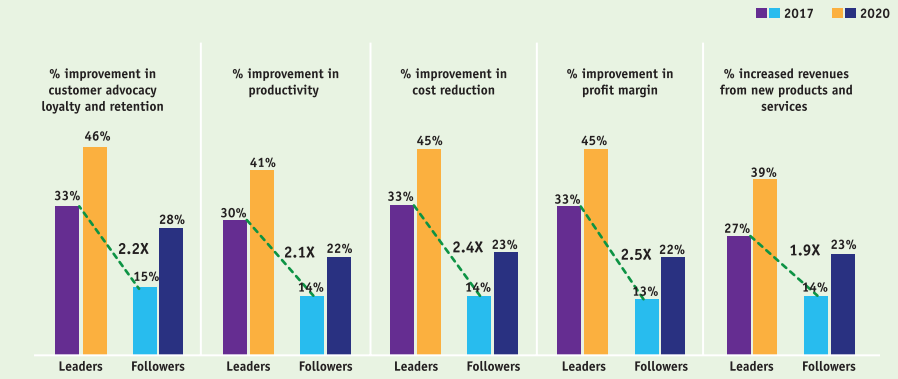
So, what lessons can these digital transformation leaders from this study provide? These are four recommendations for organisations to help them succeed in their own digital revolutions:

1. Create a digital culture: Culture is the multi-layered core at the heart of every successful organisational digital transformation. In an increasingly digital world, a digital culture cannot thrive if an organisation operates in silos with disconnected or under-connected

Chart 1

Leaders reap the highest digital transformation improvements

Leaders experience double the benefits of followers, and these improvements will be even more pronounced for leaders by 2020



Source: Microsoft and International Data Corporation (IDC)

...approximately 60% of Asia Pacific's gross domestic product (GDP) will be derived from digital products and services by 2021, created directly through the use of technologies. In comparison, only 6% of Asia Pacific's GDP today is derived from digital products and services.

business functions. Importantly, digital transformation will not be optimised if organisations do not collaborate with external customers and partners. The study shows that leaders benefit most from a full digital transformation strategy in an ecosystem of customers, partners and employees working together. Data must be embraced as part of every piece of work done in an organisation. Data analytics can be used to take products and services to the next level. Companies that emphasise big data analytics, as the leaders are already doing, will build strong foundations for emerging technologies like AI and Internet of Things (IoT) to accelerate their respective digital transformation efforts.

2. Build an information ecosystem: In a digital world, organisations have access to more data than ever before from both internal and external sources. Both the opportunity and the challenge are to bring all these data together, to analyse them and then use them in ways that contribute to better decision-making and better outcomes. Data capitalisation is key to success in the digital economy – to convert these data into capital assets and monetise them, there needs to be data-sharing and collaboration not just within the organisation but also externally, with customers and partners, in a trusted manner. A proper data strategy that produces real and measurable datasets allows organisations to start taking advantage of the power of AI in identifying connections, insights and trends that are not yet obvious.

3. Embrace micro-revolutions: In most cases, digital transformation efforts do not start with an organisation-wide plan of change, but rather with a series of micro-revolutions. These are small, quick wins that deliver positive business outcomes, and at the same time accrue to bigger and bolder digital transformation initiatives. We see this digital momentum in leaders, who are less risk-adverse and even often embrace both fail-fast and learn-fast approaches. This mindset will ultimately enable organisations to be at the forefront in reaping benefits from emerging technologies such as AI.

4. Develop future-ready skills for individuals and organisations: Organisations today must relook at training and reskilling their workforce so that talent is equipped with future-ready skillsets such as complex problem-solving, critical thinking and creativity for the digital economy. At the same time, they need not only to put in processes to retain and attract key digital talent but also to be open to creating a flexible work-source model that lets them tap into skills-based marketplaces.

The study has shown us that, in this high-stake digital transformation race, leaders reap the greatest rewards, and will command stronger positions in the exciting digitally fuelled world we are heading towards.

History has also shown that, during these industrial paradigm shifts, old business models often become extinct, taking out entire organisations and even industries at the same time.

If there were only one question that you should ask yourself as a business leader, it should be this: Is your organisation in a position to be a digital transformation leader today? PI

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Photo by Beyond Access

Photo by Christian Lambert

Assessing the impact of the trade war between China and the U.S.

Yingkang Lyu, Jingliang Xiao, Badri Narayanan, Pankhuri Bansal and Vishakha Gandhi

Background

Since early March 2018, the trade war between the USA and China has been through two rounds.

Round 1: US imposing tariffs on steel and aluminium imports

President Trump's imposition of tariffs on steel and aluminium imports works to fulfil his campaign promise to 'direct the Secretary of Commerce and U.S. Trade Representative to identify all foreign trading abuses that unfairly impact American workers'. Mr Trump signed the order on 8 March 2018, using Section 232 of a 1962 US law that allows safeguards based on 'national security'. The United States offered Canada and Mexico a tariff waiver to 'ease the NAFTA path', in an effort to 'reach a deal on a new NAFTA before a string of elections make it difficult'.

China's retaliation

As a countermeasure, on 24 March 2018 a spokesperson of the Chinese Ministry of Commerce made remarks on China's release of a list of discontinuation concessions against US steel and aluminium imports under Section 232.

This list tentatively contains 128 tax products across 7 categories. According to 2017 statistics, it involves US exports to China worth $3 billion.

Round 2: US levying of an import tariff on Chinese products

Following the US Trade Representative's Section 301 investigation, President Trump announced that the USA would impose tariffs on approximately $50 billion-worth of Chinese imports. On 4 April 2018, USTR published a proposed list of products imported from China that could be subject to additional tariffs. Sectors subject to the proposed tariffs include industries such as aerospace, information and communication technology, robotics and machinery.

China's retaliation

On 5 April 2018, the Chinese Ministry of Commerce described the tariffs imposed by the USA as clearly violating the China's legitimate rights and interests under the rules of the World Trade Organization and threatening China's economic interests and security. China thus decided to impose tariffs on products such as soybeans and other agricultural products, automobiles, chemicals and airplanes originating in the USA at a rate of 25%, involving about $50 billion-worth of China's imports from the USA in 2017.

Post the tariff treats from the U.S. on April 22, officials from China are renegotiating the trade terms with the U.S. Several rounds of discussions have taken place and the early-stage results declared by the U.S. Treasury, Secretary Steven Mnuchin stated that U.S. would be putting the trade war on hold. In return, China promised to cut import duties on U.S. passenger vehicles from 25% to 15%, and to "significantly increase" purchases of U.S. goods and services.

However, on May 29, Trump administration announced that the United States would impose a tariff of 25% on $50 billion worth of Chinese imports. Additionally, new investment restrictions and export controls on "industrially significant technology" will be announced by the U.S. before June 30.

The trade war between the two biggest economies of the world could have detrimental effects not only on U.S. and China but also the other parts of the world including Bangladesh. This article aims to quantitatively assess the impacts of U.S.-China trade war, and to provide an ex ante analysis for potential traders and policy makers.

Methodology

The GTAP (Global Trade Analysis Project) model is a multi-region general equilibrium model showing bilateral trade flows between regions and economic linkages between sectors. Its 10th database contains over 140 regions, and each region has 57 sectors. GTAP utilises neoclassical economic theory on firm and household behaviour, with Armington-based imperfect substitution between domestic and imports as well as imports from different sources. Among other aspects, it evaluates efficiency gains from the reallocation of endowments (land, capital, labour, natural resources) across sectors. We made some augmentations to the standard GTAP closure (which is a listing of variables that are fed into the model and those that are determined by the model) to predict the impact more accurately. The standard GTAP model uses a long-term economic closure by default, with the total amount of labour and capital fixed in every region. However, to model the trade war, whose impact emerges right after the tariff changes, a short-term closure is more appropriate. Hence, we fixed the capital in sectors and maintained the real wage for labour as stable to introduce the 'sticky wage mechanism' into the model. In this way, employment remained flexible in each region, to represent how an economy performed in the short term.

For Bangladesh, most sectors will suffer from a comprehensive trade war, especially meat, dairy, textiles and apparel and some other light manufacturing sectors. Impacts will be as large as 20–30%.

Simulation design

To calculate the impact of the tariff changes between the USA and China, as well as among other countries, we simulated four scenarios using the GTAP model:

Scenario A: The USA imposes a 10% additional tariff on all trading commodities from China

Scenario B: The USA imposes a 10% additional tariff on all trading commodities from China, with China retaliating

Scenario C: The USA imposes a 10% additional tariff on all trading commodities from all countries

Scenario D: The USA imposes a 10% additional tariff on all trading commodities from all countries, with all countries retaliating

Simulation results

The USA levying tariffs is a lose-lose game; China's retaliation makes the situation even worse.

If the USA levies a 10% additional tariff on Chinese imports, the US economy will experience a drop in gross domestic product (GDP) of 0.7%. China will suffer a GDP loss of 0.45%.

If China's retaliation is implemented (Scenario B), the US GDP loss increases to 1.10%, while China's enlarges to 0.64%.

An increase in the price of Chinese goods to the USA will lead to a shift in demand from China to Canada and Mexico, and total imports from China will decrease by 3.59% and 5.91%, in Scenarios A and B, respectively.

The US GDP loss will lead to a 3% investment loss and nearly a 1% increase in unemployment levels.

China's exports to the USA will drops dramatically in Scenario A because of the additional tariff, which will reduce imports by 0.79%.

In Scenario B, China's exports will decrease by 1.76%, and its imports will drop from 2.77% to 3.84%.

Since China is the largest trading partner of Bangladesh, China's losses in the trade war against the USA may slightly influence Bangladesh's exports: Bangladesh's GDP could drop by 0.03% and 0.07% in Scenarios A and B, respectively.

As for trade, Bangladesh's exports could drop by 2.54% in Scenario A and 3.51% in Scenario B but imports could rise by 1.43% and 1.59%, respectively, as a result

Table 1

US import changes under Scenario A

Sectors	Total	From Bangladesh	From China
Textiles	-8.21%	10.89%	-35.89%
Apparels	-6.45%	11.32%	-33.17%
Leather products	-6.40%	29.48%	-24.56%

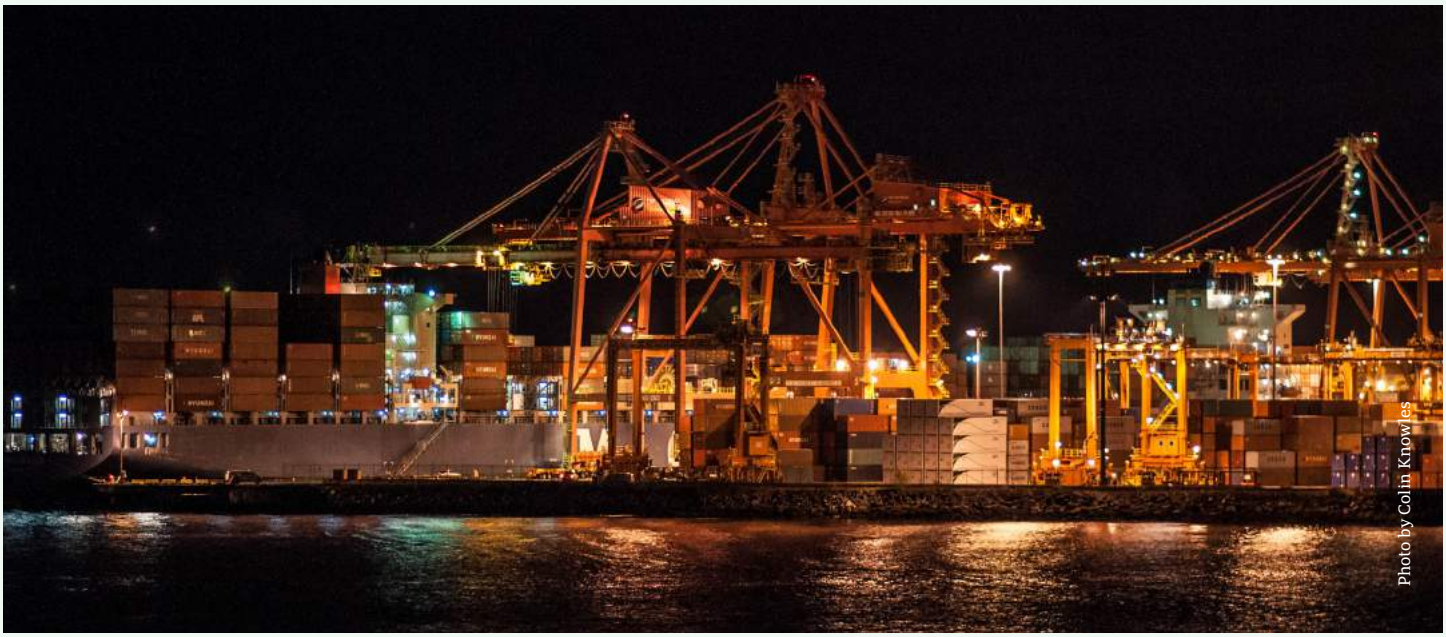
Photo by Colin Knowles

of decreasing global prices.

A comprehensive trade war will be disastrous for the USA but not so detrimental for China. Bangladesh will also suffer as a result of a 30% decrease in exports.

If the USA levies tariffs on all other countries, it will lose 3.51% of its GDP, and the loss will enlarge to 9.09% if all other counties retaliate.

Its investment will drop by 14% and 41.74% Scenarios C and D, respectively, as a result of lower capital rates of return. Private and government consumption will drop by 3.67% and 3.64% as a result of decreasing regional income.

If the USA levies an additional tariff uniformly on all counties, China's situation may not be affected that adversely.

On the contrary, its employment will increase by around 0.8% and 1.8% in Scenarios C and D, respectively; investment will also increase by 2.77% and 6.74%. China's GDP will rise by 0.44% and 1.09%, respectively.

For Bangladesh, most sectors will suffer from a comprehensive trade war, especially meat, dairy, textiles and apparel and some other light manufacturing sectors. Impacts will be as large as 20–30%. While trade diversion away from China and the USA might have benefited Bangladesh in other markets, the destruction of trade as a result of the trade war between the world's two largest economies will dominate any positive diversion effects.

In Bangladesh, light manufacturing sectors such as meat, dairy, textiles and apparel will feel more impacts than other sectors.

Leather products' output will drop by 4.35% in Scenario B and 28.50% in Scenario D.

Meat products will drop by 3.3% in Scenario B and 20.27% in Scenario D.

The main reason for this is that, in Bangladesh, these sectors are export-driven: global trade protectionism largely hinders the prosperity of international trade and will hurt the economy of Bangladesh by reducing its manufacturing exports.

If the trade war does not expand to be comprehensive, Bangladesh's sectors that are in competition with China, such as textiles and apparel, will increase their exports to the US market as a result of the USA limiting the imports from China (as Table 1 shows, US textiles imports will transfer mainly from China to Bangladesh and other counties). This is the so-called positive 'trade diversion effect', from the Bangladesh perspective. However, the US GDP loss will lead to decreased overall import demand from Bangladesh, which will hurt Bangladesh's economy; this is the negative 'trade creation effect'.

Conclusion

Our results indicate that a trade war between two of the world's largest economies, U.S. and China, is likely to have a profound effect on the global economy. China's retaliation on U.S. imposing tariffs makes the situation worse. A comprehensive trade war will impact the U.S. more than China. Bangladesh could stand a chance to benefit from the trade war as a result of trade diverting away from the two countries but negative effects of the distorted markets outweigh the positive effects. Our results indicate that Bangladesh will suffer from the trade war mainly due to a loss of exports and the sectors that would be impacted the most are meat, dairy, textiles, and wearing apparels. PI

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Photo by Sudipta Arka Das

Pension Insights:

Is a universal scheme an option for Bangladesh?

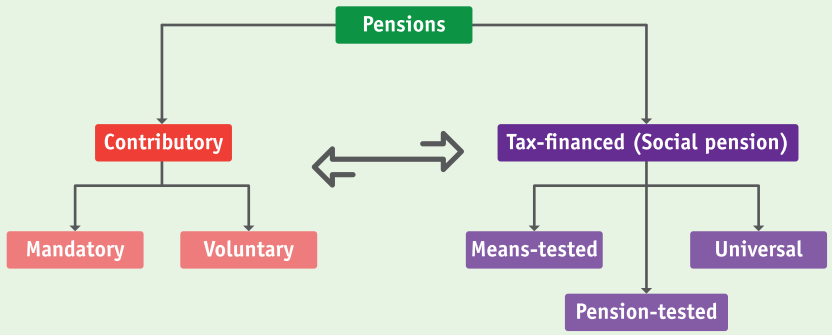
Bazlul H. Khondker and Mohammad A. Razzaque

Old-age pensions: Global context

Currently almost 8.5% of the world population is over the age of 65 years. This figure is projected to increase to about 17% by 2050. Older people are less likely to work, and traditional sources of support from children and other family members are declining. This means the asset base of the older population is not adequate to

...more than half of Organisation for Economic Co-operation and Development countries have old-age poverty rates of more than 10%.

Chart 1
Schematic presentation of a pension system



Source: Klien (2017)

finance their needs and poverty incidence among the older population is high. According to available statistics, more than half of Organisation for Economic Co-operation and Development countries have old-age poverty rates of more than 10%. For half of Latin American countries, the corresponding rates are over 20%. Public pension programmes have emerged primarily to alleviate poverty among the older population.

In quite a few countries, public pensions have become an important source of income for the older population. There are now two types of public pension systems. A contributory pension system comprises two streams: mandatory contributions (e.g. public sector employees are mandated to pay a certain percentage of their income into the system) and voluntary contributions. The other scheme is a tax-financed (non-contributory) pension, also referred to as a 'social pension'. This is a regular cash transfer to older people with two main functions – providing a minimum income to assist with poverty reduction and improving the distribution of resources. Eligibility criteria for such schemes include age, citizenship, residency, etc. They have three dominant forms in terms of the selection of beneficiaries or coverage: universal, means-tested (e.g. poverty threshold) and pension-tested (i.e. pension threshold).

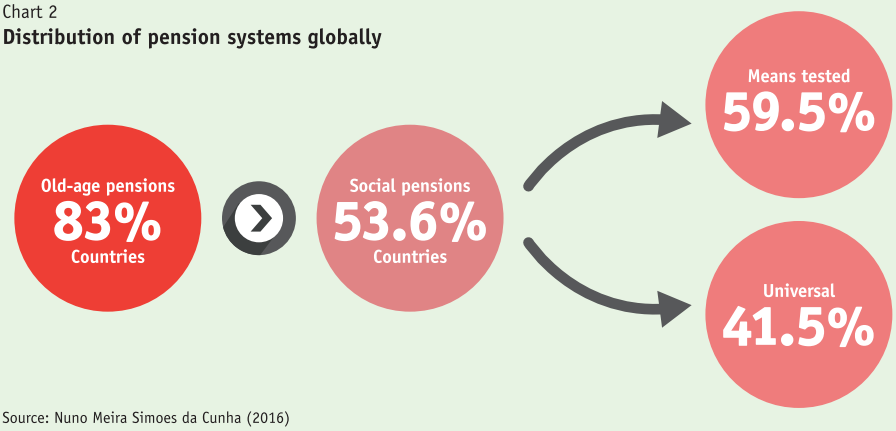
According to one estimate, 83% of countries now have a pension system, with almost half of them having established a social pension system. Almost 60% of these latter countries have opted for means-tested methods of beneficiary selection. On the other hand, almost 42% have universal coverage. Introduction of social pensions dates back to 1890, when some European countries brought them in as a way to combat poverty. Information available from HelpAge International shows that, between 1890 and 1980, only about 30 countries introduced a social support system. Since the 1980s, though, almost 50 more countries have adopted some kind of social pension system.

Old-age pensions: Bangladesh context

In terms of population structure, Bangladesh is considered a young country, passing through the first demographic dividend phase (Chart 3). The share of the 0–14 years cohort in the total population in 2018 is around 22%, and that of the working-age group (i.e. 14–59 years) is around 43%. The share of the old-age population (65+) is 7%. However, Bangladesh is going to be a rapidly ageing nation: the share of the old-age population is projected to reach 25% by 2050.

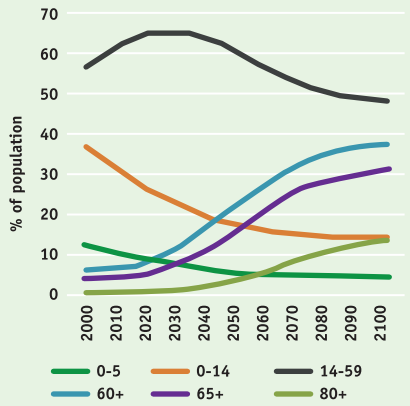
Poverty among the older population is not low in Bangladesh. According to the Household Integrated Economic Survey (HIES) 2016, using the upper poverty line (UPL), the headcount poverty rate among the 60+ population is estimated at 21.9%, against a national poverty rate of 24.3%. The elderly poverty rate increases by about 0.6 percentage points if those aged 65 years and above are considered. Incidence of extreme poverty was lower, at around 12%, among the old-age population in 2016. However, members of this group are more vulnerable than the average person, according to 2016 data. Applying the definition of 'vulnerable' groups adopted in the National Social

Chart 2
Distribution of pension systems globally



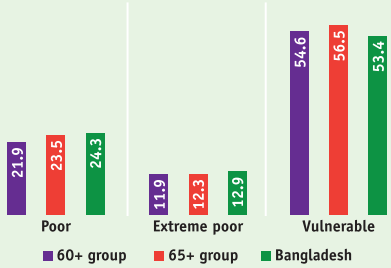
Source: Nuno Meira Simoes da Cunha (2016)

Chart 3
Population projections by age cohort in Bangladesh, 2000–2100 (%)



Source: Khondker et al (2014)

Chart 4
Poverty incidence among the elderly population in Bangladesh (%)

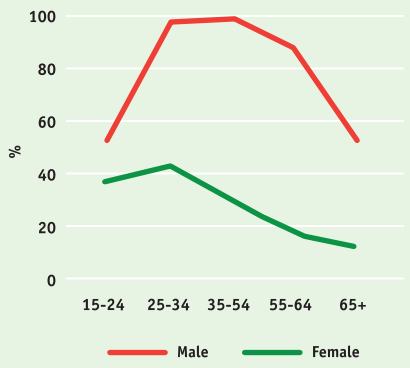


Source: HIES (2016)

Decreased ability to earn an income in old age suggests that the majority of older people have to depend on other people, personal savings or social protection for old-age income security.

Chart 5

Labour force participation rate by age in Bangladesh (%)



Source: Labour Force Survey (2013)

Security Strategy (i.e. vulnerability threshold = UPL x 1.25) shows that vulnerability rates for the 60+ and 65+ population groups are, respectively, 55% and 57%.

These estimates suggest old-age vulnerability is 2–3 percentage points higher than average vulnerability (i.e. 53%). Significant variations are observed in poverty rates between elderly males and elderly females, at 20% and 24.4%, respectively, in the 60+ group and 22% and 26% in the 65+ group. Similarly, elderly females are more vulnerable than elderly males. The vulnerability rates are 52% and 58%, respectively, for 60+ males and females and 54% and 59% for 65+ males and females.

One key factor in old-age poverty and vulnerability is the drop in labour income – as a direct outcome of their reduced participation in the labour market. Chart 5 shows labour force participation across the life course in Bangladesh, defined as the proportion of the population engaged actively in the labour market, either by working or by looking for work. The data suggest a sharp decline in the proportion of both men and women working after the age of 55. For men, the figure drops from 99.6% between the ages of 35 and 54 to just 54.6% over the age of 65. For women, who have significantly lower labour force participation rates on average, the figure drops from 43.9% between the ages of 25 and 34 to 12.5% over the age of 65. The marked dip in labour force participation after the age of 55 correlates strongly with the increase in disability around the same age. These issues have been discussed in studies undertaken by the General Economics Division of the Planning Commission. In addition to disability, discrimination against older workers is another driver of lower labour force participation. Older people can face discrimination in the labour market, such as being denied access to microcredit. A 2008 survey by HelpAge International found that only 19% of older people in Bangladesh were able to access credit, compared with 45% of poor adults.

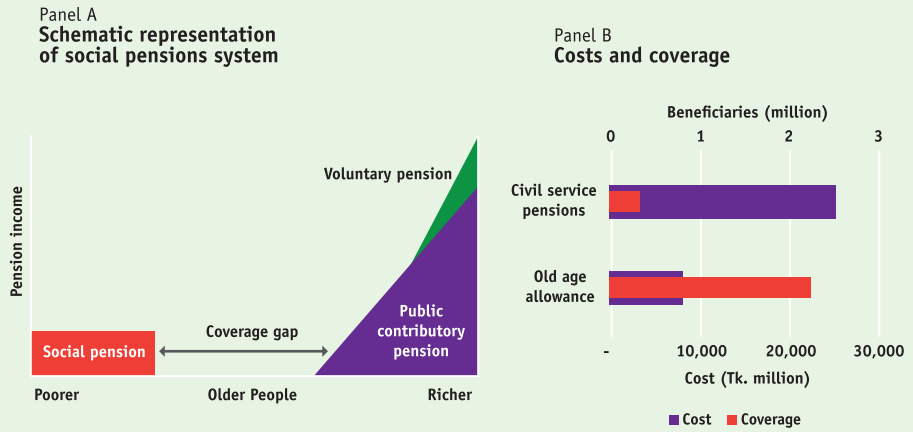
The increased incidence of disability in old age correlates strongly with lower labour force participation at older ages. Information gathered from the HIES suggests that problems with hearing, vision, mental disability and mobility (walking) are strongly correlated with ageing. Incidence of disability increases for those aged between 55 and 64 and those aged 65 and over. This is true for all types of disability, except for difficulty in meeting self-care needs.

Decreased ability to earn an income in old age suggests that the majority of older people have to depend on other people, personal savings or social protection for old-age income security. The combination of sources of such external support available to individuals will vary significantly. It is likely that most older people receive some form of support from their families, including those who have migrated to other parts of Bangladesh or abroad. Some older people may also have assets they can rely on for some irregular personal income. Barkat et al., in two studies, describe how some older people sell assets such as land and animals to contribute to dowry costs or health costs. Bazlul et al. (2014) provide important lessons that can support policy-making around social protection in old age:

1. Economic vulnerability in old age is real, with increased levels of disability and lower rates of labour force participation, with ageing leading to a reduced capacity to earn.
2. The consequences of this economic vulnerability are shared by a large part of the population. Nearly a third of the population live in the same household as an older person, while many more people in other households will be part of a web of support to and from older people.
3. Old age in Bangladesh has important gender dimensions. Most older women are widows, while most older men are married.
4. Divergence in poverty rates by gender points to greater old-age vulnerability among women.
5. Most older people in Bangladesh receive no regular income from social protection schemes.
6. The key question for policy-makers is

Chart 6

Social pensions in Bangladesh



Source: **Panel A** – based on Bangladesh National Social Security Strategy (2015); and **Panel B** – Khondker et al (2014)

The fact that benefits are generally more likely to go to poorer people is neither surprising nor particularly impressive for a programme that is supposedly limited to poor older people.

whether income security in old age can be left primarily to families or older people themselves in the context of high levels of poverty and vulnerability in Bangladesh.

The pension system in Bangladesh

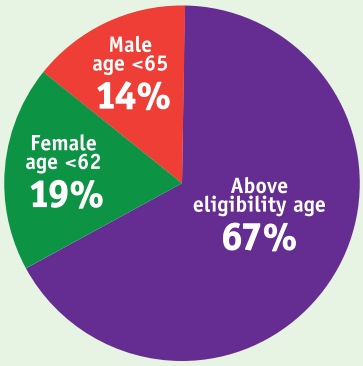
Formal social protection in old age in Bangladesh comprises both contributory and non-contributory schemes. On the contributory side, civil servants and employees of public corporations are eligible for a pension based on their working history. In reality, the civil service pension provides income security for only a small proportion of the population, with around 330,000 recipients (equal to 3.3% of the population aged 60 and over).

On the non-contributory side, the tax-financed Old Age Allowance (OAA) programme implemented by the Ministry of Social Welfare is a social pension paid to poor older people with no requirement for previous contributions. Coverage of the OAA is much more substantial than that of the civil service pension, with 3.2 million older people budgeted to receive a payment in the financial year 2016/17 (i.e. 30% of the population aged 60 and over). The OAA constitutes one of the most substantial social protection schemes in terms of budget and coverage. The scheme has expanded at a remarkable speed over the past decades. Introduced in 1998, it initially allocated benefits for around 400,000 older people, a figure that had increased by seven times as of 2017. The transfer level has also increased from an initial monthly value of Tk. 100 to Tk. 500. today. Similar poverty-targeted social pension schemes are found in countries such as India, Indonesia and the Philippines.

The public contributory pension and voluntary pensions cover the relatively better-off segment of the old-age population. Although there are no statistics on beneficiary coverage, the contributory pension appears to be small, covering around 5–6% of the old-age population.


Photo by Francesco Antonia

Chart 7
Eligibility by age for the Bangladesh OAA



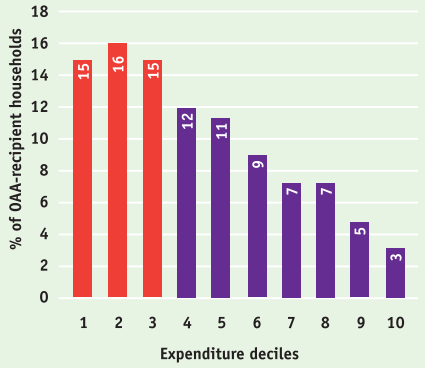
Source: HIES (2010)

In addition to its limited coverage, the main problem with the tax-financed social pensions scheme is related to accuracy of beneficiary selection using poverty data. Beneficiary selection for the OAA is inefficient in Bangladesh owing to low coverage and lack of a poverty database. Selection accuracy has two main dimensions in the case of the OAA: first whether a beneficiary meets the age of eligibility and second whether or not they are poor. To assess eligibility on the basis of age, Chart 7 presents the profile of households receiving the OAA on the basis of whether or not they have a member over the age of eligibility. Although not without its limitations, targeting by age is generally considered relatively straightforward compared with targeting that uses other benchmarks, such as poverty. Strikingly, in a third of households there is no person above the age of eligibility. In just over half of these households the oldest member is female.

Chart 8 shows the distribution of beneficiaries across expenditure deciles, from the first (the poorest 10%) to the tenth (the richest 10%). At first glance, targeting of the OAA appears to be pro-poor, with more recipient households found in the poorest deciles. Just below 15% of benefits go to the poorest 10% of older people, while around 3% of benefits go to the topmost 10%. The fact that benefits are generally more likely to go to poorer people is neither surprising nor particularly impressive for a programme that is supposedly limited to poor older people. A more useful benchmark for comparison involves asking how close targeting of the OAA is to 'perfect targeting' – that is, a situation where all benefits go to the intended target group. In the case of the OAA, considering that there are sufficient

Chart 8

Eligibility by poverty status for the Bangladesh OAA (% of ODA-recipient households)



Source: HIES (2016)

benefits to cover the poorest 30% of older people, perfect targeting would be where all benefits are confined to the lowest three deciles. The reality is quite different, with only 46% of benefits going to the poorest three deciles. The implication of this is that the majority of intended beneficiaries of the OAA are, in fact, excluded, while the majority of benefits can be considered to have been incorrectly targeted according to current eligibility criteria.

The main implications of the social pension system are as follows:

1. Lower coverage based on poor poverty data has led to high inclusion and exclusion errors – both by age criteria and by poverty criteria.

2. Generosity (i.e. the transfer amount) appears inadequate given the number of beneficiaries and compared with the public contributory scheme.

3. Actual benefits measured in terms of poverty rate and income distribution are far less than potential given inefficiency and the low level of the transfer amount.

Exclusion of deserving beneficiaries is critically dependent on beneficiary coverage: it has been argued that this problem disappears under universal coverage or reduces significantly with a higher level of coverage (i.e. at 70% or 80%). Chart 9 shows the costs of pursuing a universal social pension at different transfer amounts. Even with an assumed 2.4% annual per capita gross domestic product (GDP) growth rate, the cost of a universal social pension ranges from 0.5% of GDP in 2013 at a Tk. 600 transfer amount to 1.2% in 2050 with a transfer amount equal to Tk. 1,000. The estimated costs seem affordable at the stipulated levels of allowances. There will, however, be questions about such low levels of allowances.

What can Bangladesh do? The following need to be taken into consideration.

• Bangladesh should expand the contributory pension system for private sector employees and self-employed persons. Given the large share of informality in employment (close to 90%), this may be a medium-term option for Bangladesh.

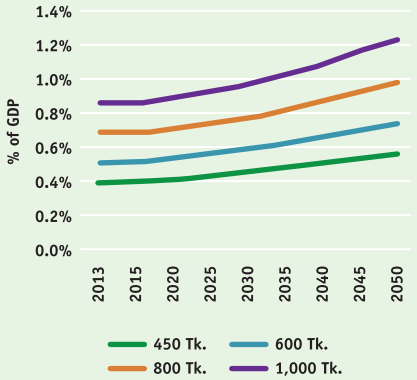
• The coverage of the social pension (e.g. the OAA) could be increased from the current rate of 30% to equate the extent of vulnerability (i.e. 56%). This would reduce inclusion and exclusion errors as well as bringing a large segment of the elderly population under the system.

• The monthly transfer amount should be enhanced to the level of the lower or upper poverty lines of 2016 to restore adequacy, and must be inflation-indexed to preserve its real value.

• There is a need to modify the current poverty-targeted social pension to a universal minimum pension, with the exception that individuals covered by contributory pension schemes are excluded. This is preferable to using a means-tested scheme as it saves on costs and is easier to implement. Such systems are in operation in Kyrgyzstan, Moldova, Thailand and Vietnam (for government pensions). PI

Chart 9

Cost of a universal OAA in Bangladesh, 2013–2050 (% of GDP)



Source: Authors estimation based on Bangladesh Costing Model

Photo by Ashok Saravanan

Bazlul H. Khondker is a Professor of Economics at Dhaka University and a Director of Policy Research Institute.

Mohammad A. Razzaque is a Director of Policy Research Institute.

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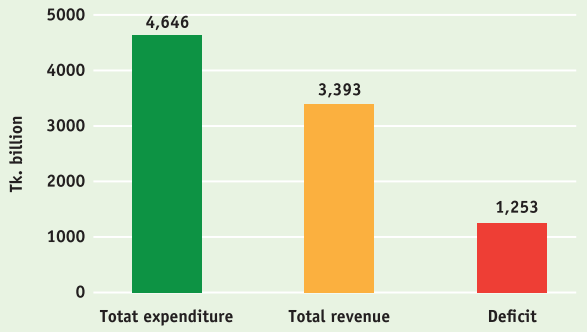
Barkat A., Poddar, A., Ahsan, M. and Ahamed, F. M., (2013) 'Impact of social and income security for older people at household level'. Dhaka: Human Development Research Centre, November.

Khondker, B. H., Charles-Knox V. and Andrea V. (2014) 'Old age social protection options for Bangladesh'. Dhaka: Bureau of Economics Research, March.

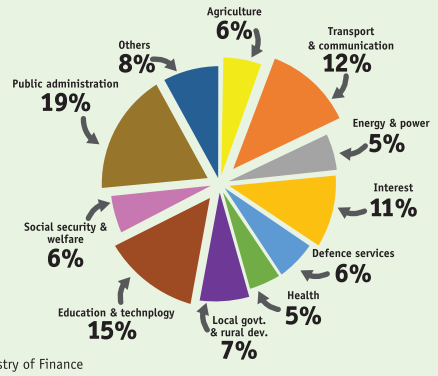
Trends in budgetary affairs

Proposed Bangladesh budget for 2018-19 at a glance



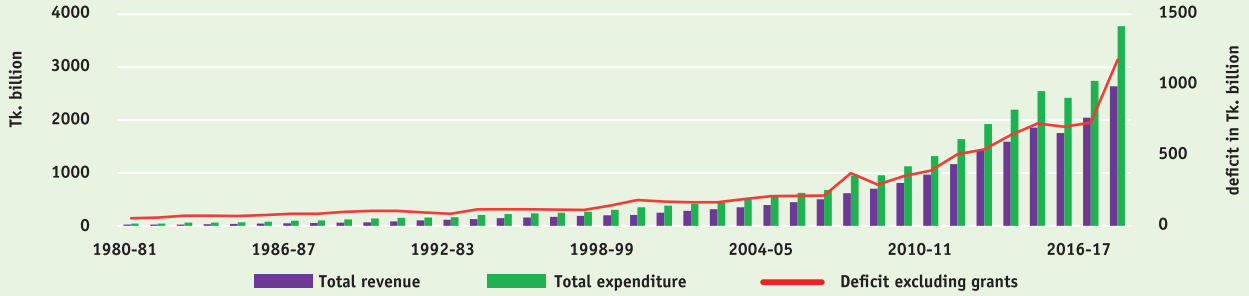
Source: Budget speech, Ministry of Finance

Allocation of total government expenditure for 2018-19



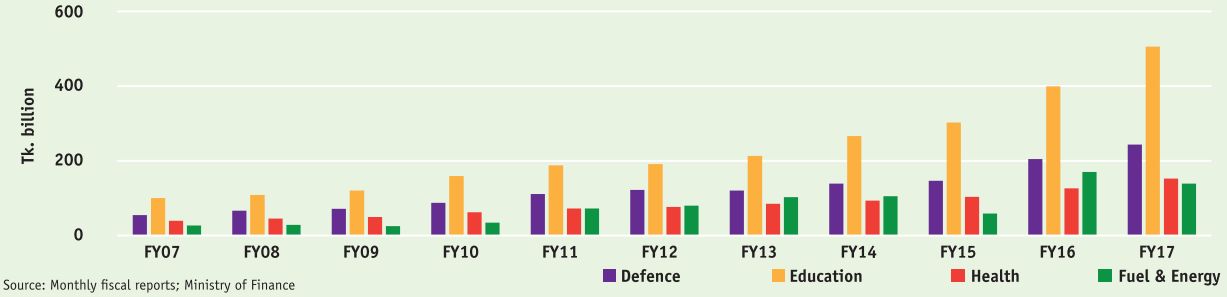
Source: Ministry of Finance

Total government revenue, expenditure and budget deficit for Bangladesh over the years



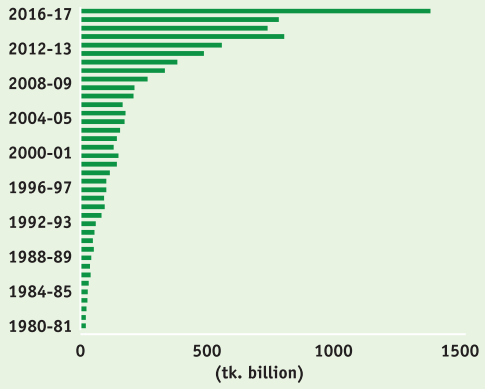
Source: Monthly fiscal reports; Ministry of Finance

Sectoral allocations of government expenditure on defence, education, health and fuel & energy sector



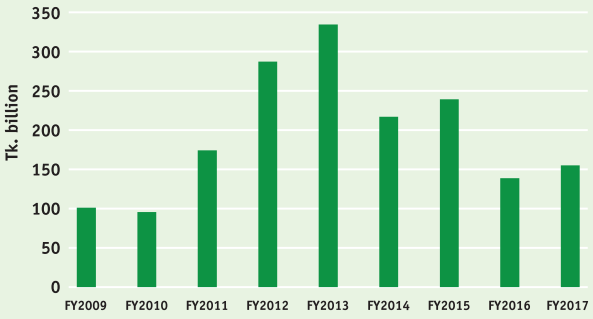
Source: Monthly fiscal reports; Ministry of Finance

ADP expenditure has increased about 7 times in past 10 years



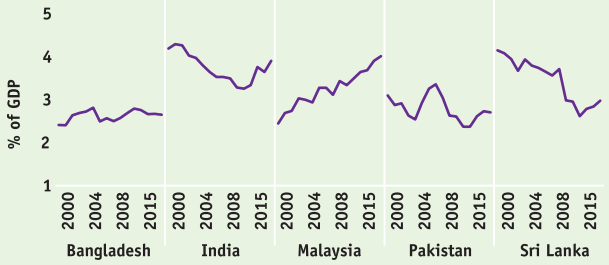
Source: Monthly fiscal reports; Ministry of Finance

Total cash loan, subsidies & incentives from the government have been reduced since FY13



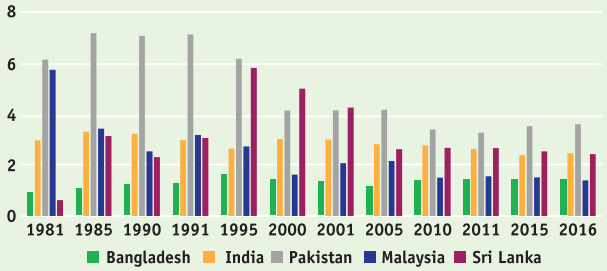
Source: MTMPS; Ministry of Finance

Government health expenditure in selected economies



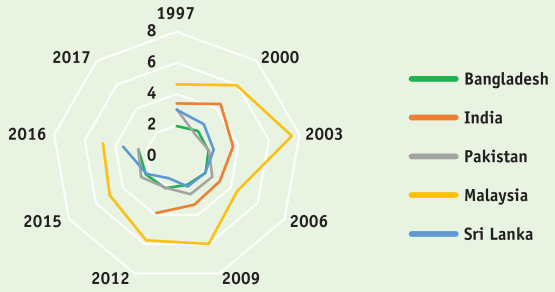
Source: World Development Indicators, World Bank

Defence expenditure as % of GDP in selected economies



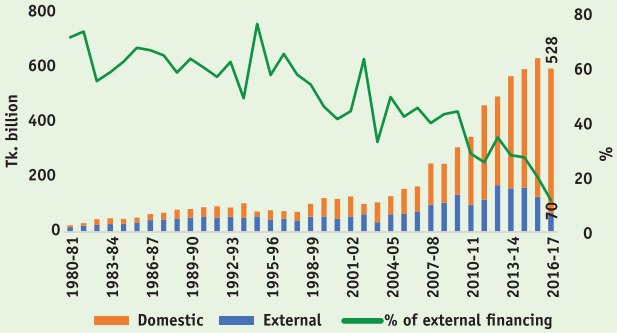
Source: World Development Indicators, World Bank

Malaysisa and Sri Lanka allocate greater proportion of their GDP on education



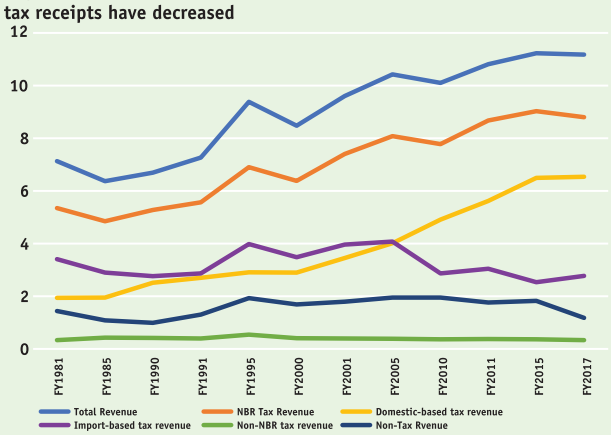
Source: World Development Indicators, World Bank

Expternal budget financing has fallen significantly



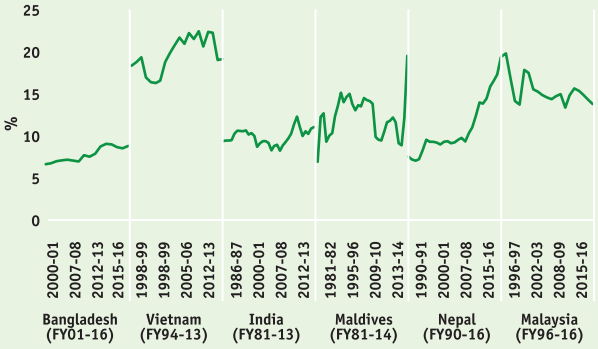
Source: Budget document, Ministry of Finance

Major revenue components as % of GDP show import based tax receipts have decreased



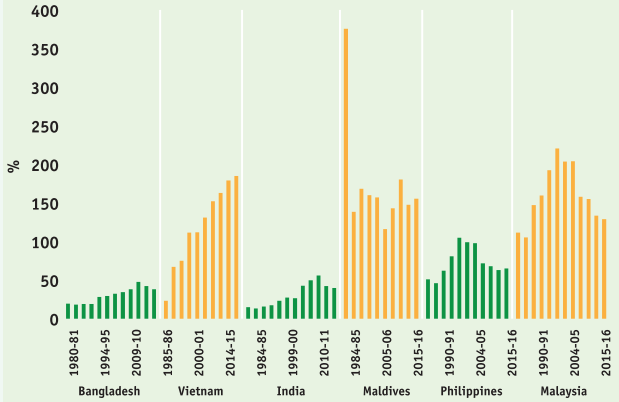
Source: Budget document, Ministry of Finance

Tax-GDP ratios (%) for selected economies



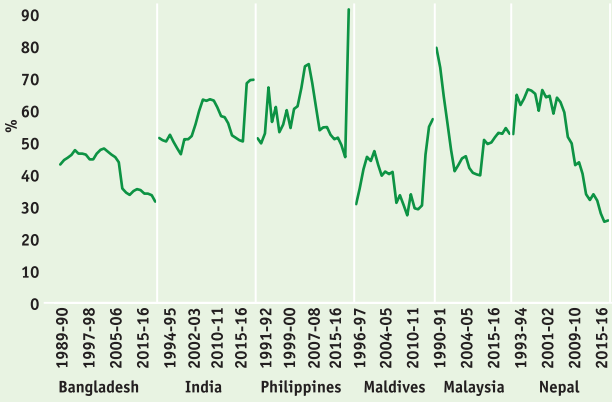
Source: World Development Indicators, World Bank

Trade-GDP ratios (%) in selected economies



Source: World Development Indicators, World Bank

Comparison of debt to GDP ratio in selected economies



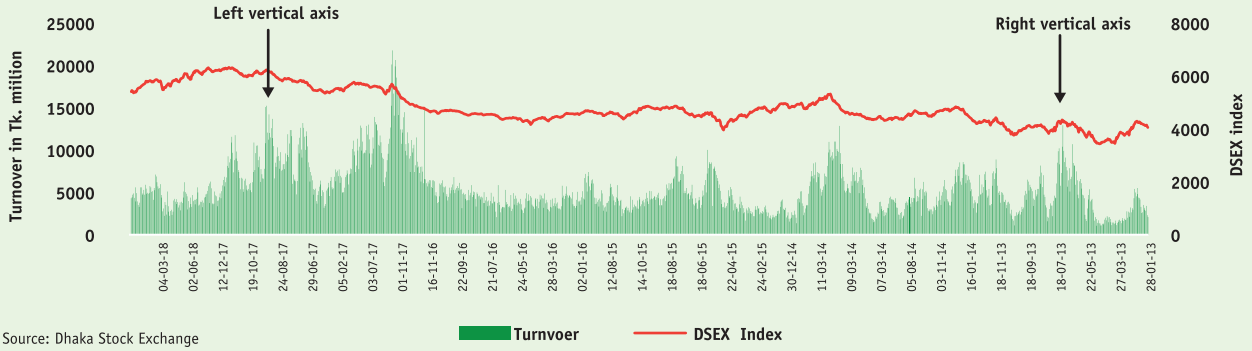
Source: World Development Indicators, World Bank

Global Competitive Index

	Bangladesh			India			Vietnam			China		
	2010	2015	2017	2010	2015	2017	2010	2015	2017	2010	2015	2017
Population(million)	155.4	159.9	161.5	1214.5	1292.7	1309.3	89	91.4	92.6	1354.1	1374.6	1382.7
GDP (US$ billion)	104.9	205.7	227.9	1538	2090.7	2256.4	103.6	191.5	201.3	5878.3	10982.8	11218.3
GDP (PPP) as a share of world total	0.35	0.51	0.52	5.4	7.02	7.23	0.37	0.49	0.5	13.6	17.08	17.76
GDP(PPP) per capita US$	638	1286	1411	1265	1617.3	1723.3	1174	2088	2173.3	4382	7989.7	8113.3
Global Competitiveness Index (Rank)	108 (Out of 142)	106 (Out of 138)	99 (Out of 137)	56 (Out of 142)	39 (Out of 138)	40 (Out of 137)	65 (Out of 142)	60 (Out of 138)	55 (Out of 137)	26 (Out of 142)	28 (Out of 138)	27 (Out of 137)
Basic Requirement (Rank)	112	105	107	91	63	63	76	73	75	30	30	31
Efficiency Enhancers (Rank)	99	107	105	37	46	42	66	65	62	26	30	28
Innovation Factors (Rank)	113	116	106	40	29	30	75	84	84	31	29	29

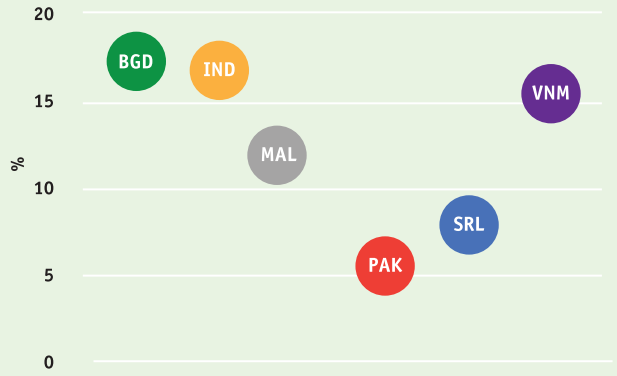
Source: World Economic Forum

DSE turnover and DSEX



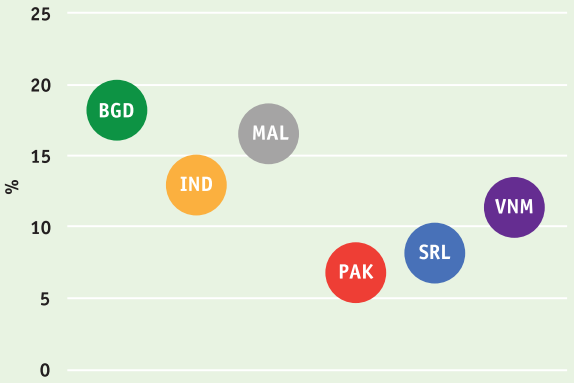
Source: Dhaka Stock Exchange

Average export growth rates (1990-2015)



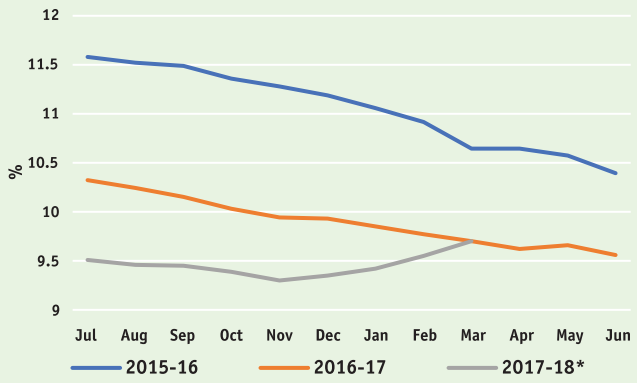
Source: World Development Indicators, World Bank, PRI saff estimation

Avg. import growth rates (1990-2015)



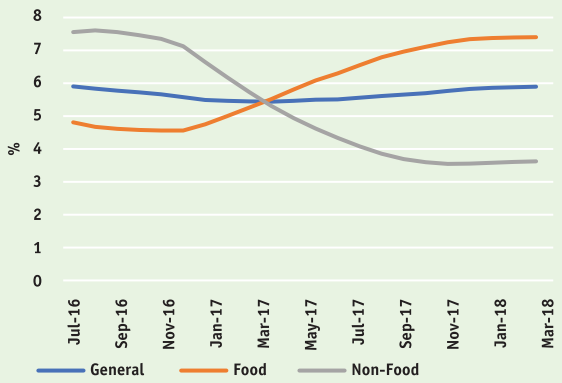
Source: World Development Indicators, World Bank, PRI saff estimation

Bank Lending Rate in Bangladesh



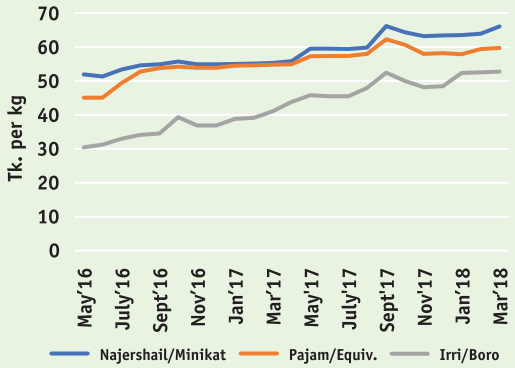
Source: Bangladesh Bank

Inflation rates:12-month moving averages



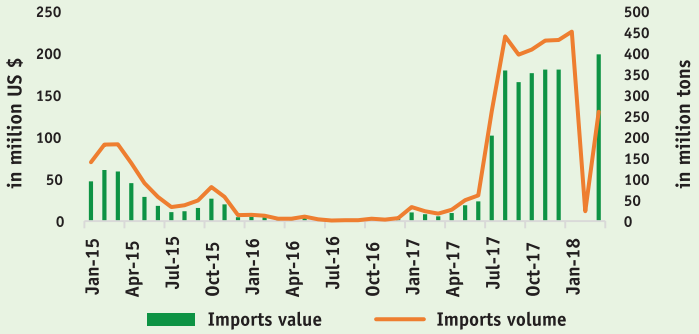
Source: Bangladesh Bank

Monthly rice price



Source: TCB and BBS

Rice imports



Source: TCB and BBS

Doing Business Indicators 2018

Economy	Year	Rank global	Rank - Starting a business	Rank - Getting electricity	Rank - Registering property	Rank - Getting credit	Rank - Paying taxes
Bangladesh	2018	177	131	185	185	a159	152
China	2018	78	93	98	41	68	130
India	2018	100	156	29	154	29	119
Pakistan	2018	147	142	167	170	105	172
Sri Lanka	2018	111	77	93	157	122	158
Vietnam	2018	68	123	64	63	29	86

Source: World Bank

Crude oil imports by Bangladesh

Year	Arabian Light Crude (thousand m. tons)	Murban (thousand m. tons)
2009	612.9	425.6
2010	620.2	654.8
2011	627.5	584
2012	68.2	583.5
2013	592.1	591.1
2014	592.9	714.7
2015	697.7	395
2016	728.3	579.8
2017	497.9	380.8

Source: Bangladesh Petroleum Corporation

Exchange rates as of June 10

Currency	Buying	Selling
EUR	98.48	98.51
GBP	112.24	112.26
AUD	63.6	63.62
JPY	0.76	0.764
CAD	64.74	64.76
SEK	9.61	9.613
SGD	62.67	62.69
CNH	13.07	13.08
INR	1.239	1.2396

Source: Bangladesh Bank

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- No Debit Card Fees
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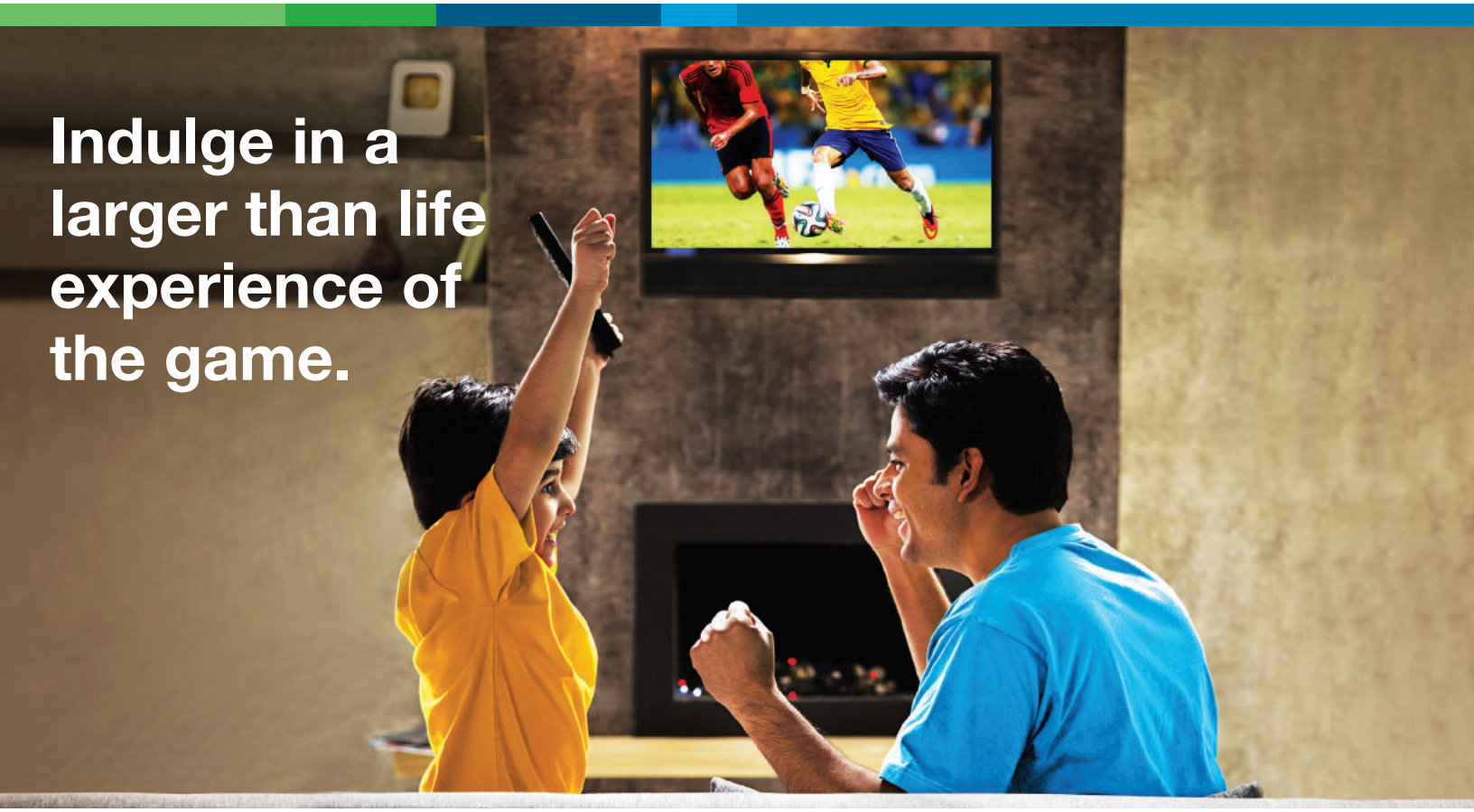

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