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A synthesis of the

Vulnerability Profile

BANGLADESH

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Notes

This publication was prepared by the United Nations Conference on Trade and Development (UNCTAD) in anticipation of the 2021 review by the Committee for Development Policy of the United Nations of the list of least developed countries.

The $ sign refers to the United States dollar.

A hyphen (-) indicates that the data are either not available or not applicable.

Introduction

This paper presents a summary of the context in which Bangladesh is expected to graduate from the least developed countries (LDC) category, based on an assessment of the country's performance against the United Nations Committee for Development Policy's[1] graduation criteria, which is supplemented with additional indicators on potential areas of vulnerability. The findings highlight complementary support needed to mitigate country vulnerabilities, as informed by the structural and development trajectory of Bangladesh.

Structural transformation is an important determinant of sustainable development and progress towards graduation from the LDC category. In Bangladesh, a steady progress in UNCTAD's Productive Capacities Index (PCI) mirrors the rapid economic growth and incipient structural transformation process, as the expansion of manufacturing and services sectors diversified the economy, making up over 1.5 per cent of yearly growth from 2010-2018. Along with the incipient industrialisation, largely driven by ready-made garments, agricultural development and growing value addition from services also concurred to accelerate economic growth and spur structural change.

In the space of 30 years, the share of employment in agriculture decreased by 30 per cent, profiting labour-intensive sectors with higher average labour productivity than agriculture. In so doing, the pattern of labour reallocation partly reduced sectoral differences in productivity, and made Bangladesh a case of "growth enhancing structural change" (McMillan and Rodrik, 2011). Despite this, a significant share of labour left low-productivity agriculture to flow to other less sophisticated services sectors, such as trade and hospitality, whose productivity is higher than agriculture, yet lower than the country's overall average. With persistent sectoral productivity gaps, this implies that there is still scope for harnessing productivity growth both within sectors and through further structural change towards higher productivity activities. This consideration is particularly important if read in conjunction with the finding that Bangladesh has been slow in developing dense input-output linkages and economic clusters that enable an economy to eventually upgrade within global value chains and benefit thereof (Mercer-Blackman et al., 2017). With labour force participation expected to grow from 71.2 million in 2020 to 80.7 million in 2030, it is important for Bangladesh to accelerate productive employment generation for new entrants, including women and youth, and sustain structural change and sustainable development. The decline in manufacturing sector employment, worsening working conditions and other existing vulnerabilities from pre-COVID-19 should be prioritised.

Areas of vulnerability based on LDC graduation criteria

The following section denotes the performance of Bangladesh according to three criteria related to LDC identification and graduation; namely income per capita, human assets index, and economic and environmental vulnerability.[2]

1. Income per capita criterion

The first criterion is the per capita income criterion, measured by the three-year average Gross National Income (GNI) per capita (according to the Atlas method), whose steady growth has been driven in part by the remarkable expansion of remittances. The country moved from being 50 per cent from the graduation threshold in 2009, to 104 per cent in 2018.[3] Despite COVID-19, it is estimated to be at 142 per cent of the applicable threshold in 2021. Gross national income (GNI) per capita figures highlight the extent of the country's growth, which began due to trade liberalisation policies in 1990, but accelerated after sustained growth in 2002 onwards. Bangladesh's growth occurred in the midst of worsening inequality, increasing from 25.6 to 32.4 between 1983 and 2016, respectively, before plateauing as rural development and employment creation made growth more inclusive. Despite these increases, the Gini index remains relatively low by international standards. Deeper observations of three dimensions of inequality reveal widening gaps between the very rich and the very poor, and urban and rural areas. Nonetheless, Bangladesh has reduced income poverty rates and incidence, halving the latter by 24.6 percentage points measured at national poverty line between 2000 and 2016 – 90 per cent of the reduction occurred in rural areas (World Bank, 2019).

2. Human assets

Similarly, the human assets criterion shows steady progress, as measured by the Human Assets Index (HAI)[4]. Starting at 26 per cent less than the graduation threshold in 2003, Bangladesh scored 111 per cent of the graduation threshold by 2018 and is predicted to reach 114 per cent in 2021. The human capital indicators measured by the HAI are the child mortality rate, maternal mortality ratio, prevalence of stunting, gross secondary school enrolment ratio, adult literacy ratio, and gender parity index for gross school enrolment ratio.

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[1] The Committee for Development Policy is a subsidiary body of the United Nations Economic and Social Council. The Committee is responsible for deciding which countries can be considered least developed countries.

[2] UNCTAD Vulnerability Profile of Bangladesh, January 2021.

[3] At the 2021 triennial review, the threshold for inclusion was $1,018 or below; the threshold for graduation

was $1,222 or above (https://www.un.org/development/desa/dpad/least-developed-country-category/ldc-criteria.html).

[4] The HAI is a composite measure of human capital comprising three indicators related to health – namely under-five mortality rate, maternal mortality ratio, and prevalence of stunting.– and three related to education (gross secondary school enrolment ratio, adult literacy rate, and gender parity index for gross secondary school enrolment).

Long-term trends in child mortality ratios confirm that Bangladesh reduced its under-five mortality rate to 31 deaths per 1,000 live births in 2019, similar to Nepal and Bhutan. Health policy reforms, including service delivery, coverage of effective interventions and socioeconomic conditions, explain the country's improvement and the reduction in urban-rural and regional disparities in child mortality rates (Khan and Awan, 2017). Save the Children (2019) showed that women's education and empowerment were the most crucial factors contributing to the reduction of child mortality in Bangladesh. The report praised the Government of Bangladesh's efforts in establishing community clinics, and its digitalization of the primary health care system, both of which are crucial to children's health outcomes.

Between 1990 and 2017, not only Bangladesh reduced its maternal mortality rate by a remarkable 70 per cent (from 574 per 100,000 live births to 173), but at 173 deaths per 100,000 live births, the country also recorded the lowest maternal mortality rate among South Asian LDCs in 2017. Effective family planning programs, improved delivery attendance and access to maternal care services, along with a reduction in the total fertility rates, were the key drivers of the maternal mortality ratio decline. By pioneering both girl's education and the empowerment of women, free primary education policies increased enrolment rates and reduced adult literacy rates, supporting maternal and child health improvements.

Undernutrition continues to be a severe problem, despite progress in reducing chronic malnutrition confirmed by a 40-percentage point decrease in the prevalence of stunting from the 1990s to 2019. The International Fund for Agricultural Development's Coastal Climate Resilient Infrastructure Project's (CCRIP) targeting beneficiaries in Bangladesh's rural coastal districts is an example of the country's efforts to improve food security by improving rural connectivity in a sustainable and "climate-proof" manner (IFAD, 2019). Indeed, the country reduced the number of severely food-insecure people from 20.7 million in 2014-16 to 17.1 million in 2017-19 (FAO et al., 2021). Despite the above progress, there is no room for complacency. According to the International Food Policy Research Institute's (IFPRI) 2020 Global Hunger Index (GHI) Bangladesh ranked 75th among 107 countries. Similarly, data from World Development Indicators (WDI) show that averaging over the 2016-2018 period 13.5 per cent of the population was undernourished. In the wake of COVID-19, feeding practices, maternal nutrition and sanitation have become key areas to focus on when attempting to reduce stunting, prevalent in low-income households.

Literacy rates have improved from 48.6 percent in 2007 to 74.7 percent in 2019, as per WDI figures. Bangladesh has the highest adult literacy rate among the three other LDCs in the region (namely Afghanistan, Bhutan and Nepal); however, it performs poorly in universal literacy. Non-governmental organizations (NGOs) and national efforts, such as universal enrolment in primary education and gender parity in school access, show Bangladesh's commitment to education and human capital development to tap it's demographic dividend.

The gender parity index for gross school enrolment ratio shows that gender disparities in access to education have reduced significantly since the 1990s. Girl's participation and educational attainments have improved faster than boys, causing the gender parity index for gross secondary school enrolment, to exceed the value of 1 since the early 2000s.[5] Government initiatives, non-formal education pushes by NGOs and formal sector employment requiring secondary education for women are among the reasons for closing the gender gap. Nonetheless, the outcome of girls in education is lower than boys. Low completion rates and grades highlight the negative differences in education quality investment for girls.

3. Economic and environmental vulnerability

The third and final criterion is the economic and environmental vulnerability criterion measured by the recently revised Economic and Environmental Vulnerability Index (EVI)[6]. Different from the previous criteria, the EVI is expected to be lower than the graduation threshold, reflecting a lower vulnerability. Since 2012, Bangladesh has constantly exceeded the graduation threshold, scoring 127 per cent in 2015 and 2018. The EVI is expected to decrease by 10 percentage points in 2021, highlighting a decrease in economic and environmental vulnerability.

Economic vulnerability indicators suggest improvements in line with the Bangladesh structural transformation changes. For example, the share of agriculture, forestry and fisheries in GDP has decreased from 31 per cent in 1990 to 14 per cent in 2018, reflecting a rise in manufacturing and services. However, the country's supply-side bottlenecks and logistical inefficiencies render its transport costs higher than other LDCs in the region, and therefore inhibit accelerated trade growth. Similarly, the country successfully embarked on a path of industrialization, becoming the world's second largest exporter of ready-made garments. However this process remains barely incipient, and the lack of export diversification – 80 per cent of Bangladesh's exports are ready-made garments – highlights the persistent dependence on a narrow range of relatively unsophisticated products. Although this is a long-term concern, the relative stability of textile and clothing exports spared the country adverse terms of trade fluctuations and attendant macroeconomic shocks.

Environmental vulnerability is high in Bangladesh, not least due to a large share of territory and population living in low elevated areas rendering them victims of disasters, but also due to unstable agricultural production. The EM-DAT (2000-2019) estimates that Bangladesh's yearly average of 7 natural disasters has affected 110 million

[5] The gender parity index for gross enrollment ratio in secondary education is the ratio of girls to boys enrolled at the secondary level in public and private schools.

[6] The EVI is a measure of structural vulnerability to economic and environmental shocks. It is a synthetic index of the magnitude of shocks and the exposure to shocks that an LDC could face.

people, claiming 11'210 lives. Lower income households dependent on natural ecosystems are often the most vulnerable. The National Adaptation Programme of Action (NAPA) estimates that over 70 million people in Bangladesh could be affected by climate change. In turn, the Government of Bangladesh has adopted measures to mitigate risk, including approving 678 projects under the Climate Trust Fund between 2010 and 2021. Nonetheless, the country remains extremely vulnerable to climate change risks, even in comparison with other South Asian LDC.

Main Findings

Bangladesh's graduation trajectory can be undermined by unaddressed structural factors, worsened by the impact of COVID-19. The following challenges should be tackled to avoid socioeconomic obstacles to development.

1. Dependence on LDC-specific international support measures (ISMs).

LDC graduation is synonymous with the phasing out of ISMs that Bangladesh has effectively employed, particularly in the trade sector, as shown by the export boom driven by LDC-specific preferential market access in ready-made garments. Upon graduation, Bangladesh should expect stricter disciplines in relation to rules of origin (i.e. double transformation) and loss of preferential market access whose impact could range between -7 and -14 per cent of baseline exports. In the context of a buyer-driven value chain, with rather circumscribed upgrading opportunities, similar prospects underscore an important source of vulnerability. Moreover, the country should also expect a lower degree of concessionality in accessing development finance, reductions in special and differential treatment provisions and available policy space. Alongside maximising LDC-specific ISMs through stakeholder negotiations before graduation, Bangladesh should also build productive capacities to manage graduation dynamics using context-specific assessments, informed long-term national development strategies and industrial policy objectives.

2. Trade and structural transformation

International trade growth, particularly in the ready-made garment industry, has supported structural change and economic growth in Bangladesh. Targeted policy and ISMs have allowed the country to grow its garment industry, diversify its market access and reduce export revenue fluctuations. However, specialisation in garment and clothing has been accompanied by sluggish progress in other industries, as highlighted by an export concentration index of 0.4 since the 2000s. The development of global value chains (GVCs) in Bangladesh has been somewhat limited, especially in comparison to Lao People's Democratic Republic, Cambodia and other Asian countries, such as China and Vietnam. The country stands out for having relatively high backward participation and low forward participation in its GVCs,

driven by textile and clothing, which account for 83 per cent of domestic value added in exports. Conversely, sectors expected to drive structural transformation, such as agro-food and low-technology manufacturing, provide minor contributions. However, the country has shown some incipient examples of diversification in technology-intensive products and service sectors. Still, limited progress in product and export diversification complements the economic structure of Bangladesh, which exhibits slow development of input-output linkages across sectors and weak economic structures.

Successful LDC graduation therefore requires the following challenges to be addressed: firstly, Bangladesh needs to aggressively pursue GVC diversification, as increased tariffs from LDC preferential treatment loss and domestic infrastructural constraints pose a threat to continued export revenue and investment flows; secondly, there is a need to push specialisation patterns towards higher levels of complexity and "relatedness" – to use the product space terminology – where knowledge and technological spillovers are higher. As it stands, Bangladesh exports products with low complexity and whose distance from other more complex products, such as vehicles, chemicals and machinery, is relatively high. The country will require "longer jumps" to develop the productive capabilities required for export diversification to take place. It is essential that Bangladesh increases its product complexity by pursuing innovation in existing products, in line with path-dependency and present capabilities; lastly, Bangladesh needs to harness technological advancements specifically in adjusting existing GVCs and sustaining export capacities. COVID-19 has triggered a process of GVC restructuring, bringing renewed emphasis to supplier diversification, dependability and regional embeddedness. In response, Bangladesh should harness further technological ventures by strengthening connectivity and logistics in reputable industries through system-wide reform. Technological and skill upgrading, and advancing innovation ecosystems to transfer, domesticate and adopt technology is key. Identifying the country's position as a "follower" of technology, the Government established a "Digital Bangladesh" initiative to enhance technology adoption across sectors. Overall, strategic industrial, trade and structural policies are needed for longer-term impact.

3. Sustainable development finance

Bangladesh needs to ramp up domestic resource mobilisation efforts, as external development finance is expected to decrease. From 2006, the country's investment-to-GDP ratio has surpassed 25 per cent of gross domestic product (GDP), reaching 31 per cent in 2019. Domestically, investment for infrastructural provision and rural development has improved, aside from low tax-to-GDP ratio of 10 per cent, 50 per cent of which is from custom duties and indirect taxes. LDC graduation is expected to reduce capital accumulation generated by external finance in light of a widening resource gap, averaging 6 per cent in the last 15 years. The gap has

largely been covered by remittances, which stood at US$18.3 billion in 2019, whereas foreign direct investment (FDI), official development assistance (ODA) and portfolio investments' contributions have been less significant. Overall, due to COVID-19, Bangladesh's decreasing external financial flows are to be expected and should push the need to develop domestic resource mobilisation and private sector investment.

4. High environmental vulnerability

Bangladesh "is one of the most climate vulnerable countries in the world" (MOEF, 2009: xv). The current state of the Paris Agreement and frequent natural distances induced by climate change make environmental policy key for smooth LDC graduation transition. On the back of "climate apartheid" hurting the livelihoods of the poor, climate change adaptation should be highlighted in all aspects of the economy. Bangladesh's high adaptation investment needs and large receipts of aid for climate change adaptation call for increased national investment in environmental policies. Priorities to reflect on include mobilising climate finance, capitalising on climate-resilient infrastructure, adopting green technology and developing social protection for vulnerable groups affected by climate change.

Conclusion and Policy Recommendations

Bangladesh is set for LDC graduation and, regardless of having weathered the COVID-19 pandemic better than many global economies, should not be complacent of the vulnerabilities to development, but rather maintain the efforts that have allowed them to meet the graduation criteria. Areas related to LDC criteria that need prioritisation are incidence of poverty and literacy rate. Outside of that, export diversification, sustainable development finance and technological adoption efforts need to be accelerated considering the threats of COVID-19.

The following policy options are relevant to ensure smooth graduation and structural transformation for Bangladesh:

- Strengthening domestic resource mobilisation by improving tax administration systems and business environments to boost public revenues and private sector investments.

- Bolstering investments in climate-resilient and digital infrastructures to improve physical and soft infrastructures that hinder transport and logistics sectors.

- Sustaining investments in human capital by improving access to education and the job market.

- Supporting technological upgrading and improvements to the science, technology and innovation (STI) ecosystem using policy space, stakeholder collaboration and strategic research.

- Continue fostering rural development through intersectoral linkages, infrastructure provision and innovative business practices.