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The Bangladesh Economy
Navigating the Turning Point

Kaushik Basu

Professor of Economics and Carl Marks Professor of International Studies
Department of Economics and SC Johnson College of Business
Uris Hall 422
Cornell University
Ithaca, NY 14853

Email: kb40@cornell.edu

Abstract

From a 'basket case', in the early 1970s, Bangladesh's economy has grown at a pace that beat all expectations. Especially from 2006, it has had a '15-year gallop,' which enabled it to become a lower-middle income economy, and the run seems to be continuing. This paper has two tasks: first, to assess the drivers of Bangladesh's economy which can explain how the country got to this remarkable perch, and, second, to argue that there are pitfalls ahead, as the global economy changes in response to new technology and the COVID-19 pandemic, and to comment on how Bangladesh ought to navigate the post-pandemic global economy.

Key words Bangladesh economy, economic growth, women's empowerment, labor regulation, the 15-year gallop

The Bangladesh Economy: Navigating the Turning Point

1. Bangladesh's Unexpected Arrival

That the Bangladesh economy at 50 would be a cause for celebration was unthinkable, certainly in 1971 at the time of the nation's independence and even for at least two decades after that. A region of grinding poverty, for much of 1971, Bangladesh (then East Pakistan) was engaged in a brutal war for independence. With the US President, Richard Nixon, standing firmly behind the Pakistan President, Yahya Khan, as his army tried to crush the independence movement by resorting to genocide, destitution and hunger stared in the face of millions of Bangladeshis and a large number poured into India as refugees.

The first years were a period of trial for the nation, made worse by a devastating famine in 1974 that began in Rangpur district, and then swept through the nation (Sobhan, 1979). Matters got worse when in the midst of this, the Nixon administration, still smarting from Bangladesh's independence which the US government had resisted, suddenly cut off food aid to Bangladesh, on the ground that it was earning some money by exporting jute bags to Cuba.

Today, celebrating fifty years of independence, it is worth recalling that, while Bangladesh was born out of a grand idealism[1] of building a just, humanitarian, and inclusive society, at the time of its birth it was one of Asia's and in fact the world's poorest nations. Many observers were reconciled to it being a basket case[2] that would have to be supported with food aid and propped up with money from international organizations.

When the economy grew rapidly in the mid-1990s, this was viewed as a freak interlude. It is a remarkable turnaround in defiance of all expectations that Bangladesh today is a middle-income country with a per capita income significantly higher than that of Pakistan and in a close jostle with India. This is especially true after the COVID-19 pandemic that hit the Indian economy harder than many other nations.

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[1] This comes out beautifully in the prison diary of the nation's founding father, Sheikh Mujibur Rahman. The diary begins with how his friends urged him to write a diary and finally one day his wife, visiting him in prison said, "You are idling anyway. Write your life story." And he begins by pleading that he is no writer and has few achievement to write about. Then adds, "The only thing I can say is that, I have been ready to make personal sacrifice for the sake of justice and idealism." (my translation from Bengali, from Sheikh Mujibur Rahman, 2012, ***Oshomapto Atmajibani***, The University Press Ltd, Dhaka, 2012.) The same book quotes his later "Personal Notebook": "As a man what concerns mankind, concerns me. As a Bengalee I am deeply involved in all that concerns Bengalees. *This abiding interest is born of and nourished by love, enduring love, which gives meaning to my politics and my very being."* (my italics).

[2] 'Basket case' was the expression used by Henry Kissinger, who was then the US National Security Adviser. As Sen (2013, p. 1966) noted, "Self-assured commentators who saw Bangladesh as a "basket case" not many years ago, could not have expected that the country would jump out of the basket and start sprinting ahead even as expressions of sympathy were pouring in."

On a personal note, I may mention that there are few countries for which I have had the privilege of as close a view as I did for Bangladesh, from its birth in 1971, when I was a college student in Delhi, and volunteered to work for the refugees flowing into West Bengal, to the day in 2015, when I was at the World Bank and our cross-country data showed that Bangladesh had graduated unequivocally from a low-income country to a lower-middle income one.

It is worth adding that, in terms of standard of living indicators, such as life expectancy and literacy, Bangladesh, akin to what was earlier seen in Sri Lanka and Kerala, has done better than its per capita GDP level would lead us to predict. The average life expectancy at birth in Bangladesh is 73 years, higher than in India (70 years) and Pakistan (68 years). In terms of adult literacy, Bangladesh at 73.9% is much ahead of Pakistan at 59.1%, and close to India at 74.4%.

All this was topped up in 2020, when Bangladesh had a growth rate of 3.8% during a year when the world was mired in the COVID-19 pandemic and stood in the 5th place among the 194 nations in terms of GDP growth computed by the International Monetary Fund. This was a little bit of silver lining for the nation amidst gloom.

All this good news is no guarantee of sustained development. The world's history is replete with examples of nations that took off only to turn around and slow down, of middle-income traps, and of failure on the brink of success. Bangladesh still has a large segment of the population living below the extreme poverty line of US$1.90 per day, inequality is rising, and the future trajectory has many uncertainties. Climate change and rising sea levels continue to pose significant dangers, and political instability could yet re-emerge and disrupt economic progress.

This short paper has two tasks: first, to assess Bangladesh's economy and how it got to this remarkable stage proving all skeptics wrong, and, second, to peer into the future and comment on the challenges Bangladesh is likely to face, along with a few suggestion of how it should navigate the new, post-pandemic global economy.

2. The Drivers Behind the Rise of the Bangladesh Economy

The trajectory of the economy of Bangladesh is captured well in Table 1 and Graph 1. Both of them show the path of per capita income measured in current US dollars, over time. Table 1 shows the data for some select years, chosen for reasons that will be clear below. The graph completes the picture by showing the full trajectory from 1960 to 2020.

Clearly, independence was good for the Bangladesh economy. Over the decade preceding independence in 1971, the region was abysmally poor, with shockingly low per capita income, with hardly any sign of improvement. In 1962, its per capita income was $100.1. At the time of its independence its per capita income was $133.6. The turmoil of four or five years just after Bangladesh got independence from Pakistan is visible in the graph. As the table shows GDP per capita had inched up to $141.2 by 1976. It crossed the 200-dollar mark for the first time in its history in 1979. After that there was growth, steady but slow, with the 300-dollar mark being breeched for the first time in 1990, even though the global slowdown triggered by the Gulf War, made the country dip briefly below the 300-dollar mark in 1991.

Table 1. Bangladesh's GDP per capita, current US $, selected years

Year	GDP per capita, $
1971	133.6
1976	141.2
1979	200.1
1990	306.3
1996	394.7
2001	415.0
2006	509.6
2014	1119.0
2020	1968.8

Source. World Bank https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IN

In the year 2001 Bangladesh's economy crosses the per capita $400 mark. It is arguable that the half decade preceding this, roughly from 1996 to 2000, are the "incubation years" for Bangladesh. On the surface, little happened. Per capita income was rising, but slowly. The nation faced foreign exchange shortages and worked around it. Poverty was declining very gradually; the percentage of population below the poverty line fell from 46% in 1995 to 44% in 2000 (Sen, 2003). But beneath the surface there was a lot that was happening, which would yield results over the next two decades. Bangladesh's telecom sector was putting down roots. The manufacturing sector was gathering strength and, interestingly, was playing a role in women empowerment. By 2001, garment exports reached $3,125, 52% of all exports, and, more importantly, 1.5 million people were working in this sector, and a majority of them were women (Hossain, Kabir, and Latifee, 2019). There was a sharp increase in high yielding variety of rice (Sen, 2003).

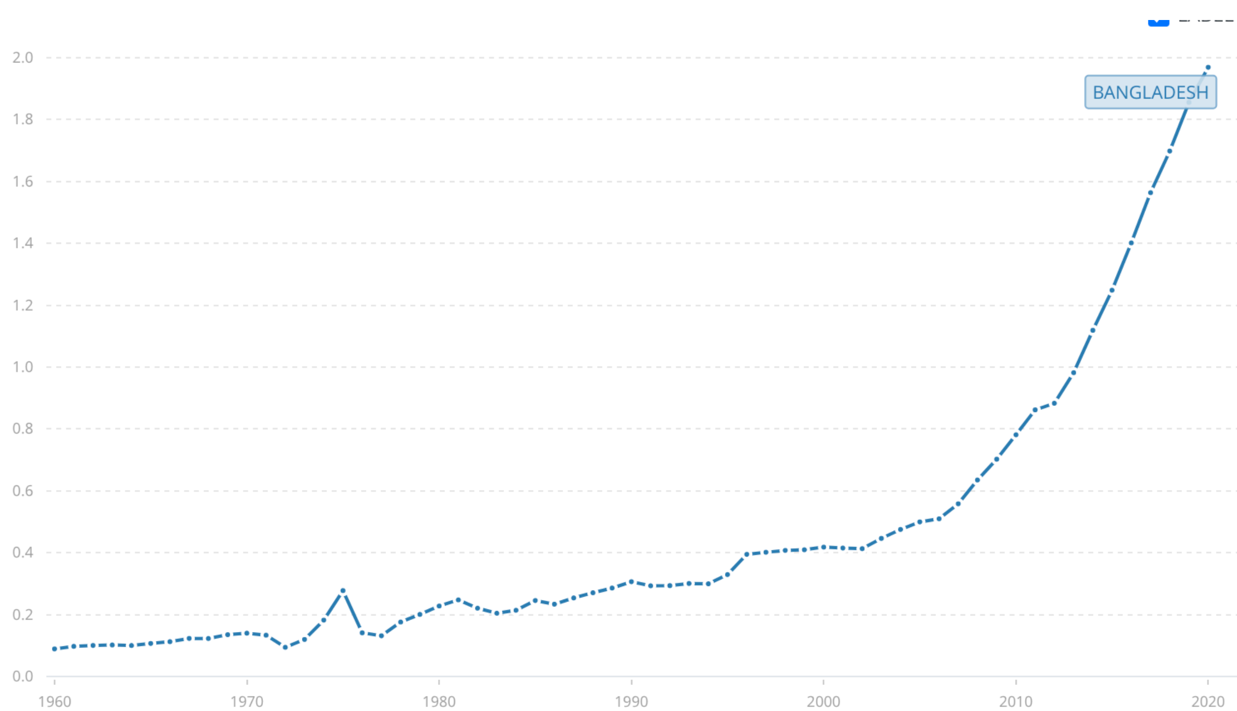
These were critical long-run drivers, even though not much happened immediately after that. There was initially a slow pick up. Then, from around the middle of the first decade of the twenty-first century, real change began. From the year 2006 the benefits of the incubation years were loudly visible. The years that followed from that year, till 2020, may be described as the economy's '15-year gallop'. Per capita income crossed the 500-dollar mark for the first time and that year, 2006, Bangladesh grew faster than the much richer Pakistan. This this initially treated as an aberration, but Bangladesh outpaced Pakistan every year since then.

In 2014, Bangladesh had a per capita income of $1119.0, and soon it overtook Pakistan in terms of per capita income in current US dollars. Bangladesh's GDP per capita now closely rivals India's and significantly exceeds that of Pakistan. What hit the headlines in early 2021, was the fact that, according to World Bank data, in 2020 Bangladesh's GDP per capita overtook that of India's. It was higher by $68.8. It is arguable that this is an aberration because 2020 was a dismal year for India. India's growth plunged in ways seen in very few countries; but it is expected to pick up again in the near future.

Bangladesh's growth slowed in 2020 but that was in keeping with what happened the world over. The COVID-19 pandemic caused the whole world to go into a recession. In fact, as pointed out above, in comparative terms, Bangladesh has extremely well.

This was a brief history of the Bangladesh economy. The country is now a leading global exporter of ready-made garments, and other sectors are taking off, too. Bangladesh's pharmaceutical industry, for example, is surging ahead. With 300 pharmaceutical companies and several of them doing research, the nation now produces 97% of the domestic demand, and is beginning to export to other nations.

Graph 1: Bangladesh's growth trajectory, 1960 to 2020.



Source: World Bank https://data.worldbank.org/country/BD

What are the drivers behind the remarkable performance of Bangladesh's economy? As with all countries, Bangladesh's rise is a story of both deliberate intervention and chance. Let me begin with an important non-economic driver of economic progress, which was an unexpected byproduct of progressive social experiments in Bangladesh.

The country owes a large part of its success to progressive Non-Governmental Organizations (NGOs). Bangladesh has for long been a veritable hub for NGO experimentation. This was in many ways a partnership with the government, which had the far-sight to create the space where these NGOs could experiment and flourish. One particular intervention that emerged from this brew and played a larger role than anyone expected was the early effort to distribute microfinance credit mainly through the senior female member of the household, in contrast to the more traditional practice in most developing countries of lending mainly to the male head of the household. I argued in Basu (2006) that giving money to women, was hugely empowering for women and gave women greater voice and say in the home, which, in turn, helped direct greater household expenditure toward child welfare.

There is evidence from around the world that in two households with the same total household income, more expenditure gets diverted to the well-being of children in the household in which a larger share of the total household income comes from the wife instead of the husband[3]. Bangladesh's NGO activism contributed to this in a big way. This translated into better nutrition, greater female literacy and, ultimately, higher productivity. As Rahman (2010) noted, Bangladesh's NGOs and micro-finance institutions "brought about a major breakthrough in reaching out to the rural poor. …Their programs were designed with some degree of gender bias favoring women, in the presumption that women's enhanced financial standing and stature in the traditionally male-dominated families will lead to better upbringing and education to their children."[4] Further, it can be shown that the education of one person in a household can increase the productivity of the entire household, because of the positive fall-out of education (Basu, Narayan and Ravallion, 2001). These drivers, along with the high female labor participation in the garment and leather goods sector, ensured that women's empowerment has been a key to Bangladesh's development. Furthermore, the increase in female labor force participation, pretty much across the board in the economy, has been a striking feature of Bangladesh and this seems have gone hand-in-hand with the higher GDP growth (Rahman and Islam, 2013). This early NGO initiative to put more women in the driver's seat has helped also to nurture entrepreneurship, and female entrepreneurship in particular, which subsequently became an important driver of growth for the entire Bangladesh economy.

The large and progressive NGO sector in the country also worked with a cooperative government sector to push other kinds of social development, whether through fostering schooling especially for girls, or by facilitating large scale improvements in health by co-opting local communities in a bottom up action. As reported in Amin and Basu (2004), rural interviewees in Bangladesh (and West Bengal, India) 'unambiguously perceived major declines in infant and child mortality and attributed these declines to factors that are consistent with the assessment of experts'. Public

[3] One of the early studies on this was by Desai and Jain (1994), based on evidence from India. In the context of Bangladesh, see Rahman (2000).

[4] A new body of evidence from carefully controlled statistical studies show that giving women greater control over their earnings can influence gender norms and labor force participation (Field et al, 2021). This sheds indirect light on why in India despite recent increases in better-paying jobs women have not been attracted into the labor market and also on why Bangladesh had greater success in drawing women into the labor force.

understandings of the causes of poor child health were remarkable even among the old and the uneducated[5].

Further, Bangladeshi pioneering microfinance institutions enabled households to break out of the debt trap and start their own small businesses. Using a computable general equilibrium model, Raihan, Osmani, and Khalily (2017) showed that microfinance did more than just help the households that received money. By bolstering fiscal and monetary policies, it boosted the country's GDP by 9-12%.

Turning to more conventional causes of growth, it is worth noting that the most vital variable in mainstream, neoclassical economics, namely, the rate of capital accumulation or the investment rate, that is, the share of the total national output that is not consumption but different kinds of investment, from roads and ports to machines and factories, saw a steady rise in Bangladesh. As Osmani (2010, p. 37) notes, "the growth acceleration that has occurred in Bangladesh since about 1990 has been underpinned by a faster rate of capital accumulation." From less than 10% in the 1970s, the investment rate rose to 20% in the nineties. As of June 2020, this has reached 31.8%.

The sudden withdrawal of businesses from Bangladesh at the time of independence, had left an entrepreneurial vacuum in the 1970s. This had to be filled in by new local talent, and the country has seen a flourishing of small businesses since. Now, with the higher level of investment available, these businesses are becoming more productive. But this in itself would not be enough.

Whether one likes it or not, this is the age of large returns to scale and some of Bangladesh's exporting firms are large, which has helped them to reap the benefits of scale. For this, I believe, there was an unexpected driver in Bangladesh, which had a lot to do with luck and which is not widely acknowledged. As is well-known, the Indian subcontinent has complex labor laws, most notably the Industrial Disputes Act 1947, which, contrary to common perception, dates back to a few months before India and Pakistan's independence in August 1947. This law has played a role in thwarting the emergence of large manufacturing firms able to realize economies of scale.

Pakistan repealed the law in 1958, but for the wrong reasons, to enable big corporations to control workers, especially the workers of East Pakistan. Moreover, it did so in a ham-handed way, thereby contributing to labor exploitation and crony capitalism. Bangladesh having once been part of Pakistan was born without the baggage of the 1947 law. But, unlike Pakistan, the country went on to develop its own labor regulations that were flexible without giving corporations unfettered power. This played an important role in Bangladesh becoming a successful global manufacturing hub, and especially the flourishing of its garments sector.

There is still work to be done, in protecting worker safety and other dimensions of labor rights, but it cannot be denied that this unexpected turn of history enabled Bangladesh to have greater

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[5] Indeed, there is some suggestion (see, for example, Amin, Basu and Stephenson, 2002; Basu and Amin, 2000) that the cultural attribute of 'Bengaliness', a strong sense of language identity that transcends religious and political differences , may have also contributed to social development through greater transborder interactions between Bangladesh and West Bengal and thus greater exposure to new ideas on both sides. The role of such language commonality across borders has been well described in descriptions of historical demographic change in Europe (Watkins, 1986).

flexibility in the manufacturing sector, thereby facilitating the creation of large firms with large returns-to-scale that could be used to out-compete many other emerging nations. Some of the garment producing firms resemble manufacturing corporations in advanced economies.

I had first-hand experience of some of these at the end of 2015 when I visited Bangladesh (Basu, 2021a). Manufacturing units such as Viyellatex Garment Factory in Gazipur, outside Dhaka, embody a lot of these new strengths. It is a pioneer in terms of its modern facility, providing workers a safe and pleasant work space. The factory is designed to use sunlight and cut electricity use and purchased an abandoned tea garden where trees are planted to offset its carbon emission. It has made a pledge to be carbon neutral within a few years. The factory also stood out for its wage payment system. This is done via mobile banking, operated via an indigenous electronic payment and money transfer platform. Salaries of workers paid via mobile banking makes it easier for workers to keep tabs on their payments and reduces the transaction costs of transferring money. This has increased worker productivity.

In conversation the workers told me how they could now instantaneously transfer money to their homes and relatives, whoever they wished to, because of the ease of mobile banking. This was also a gain for the firms where the workers did not lose the time they earlier would on pay day, trying to deposit and then send their money home. Of course, the Gazipur factory is a special case but even as a special case it stands out because few developing economies have such “green” factories.

Alongside reforms concerning labor regulation, Bangladesh also conducted vital reforms around exchange rate management and trade policy from the late 1970s, which created the space for the initial vacuum in entrepreneurship in the nation to be filled in by a newly emergent class of small indigenous entrepreneurs, along with the arrival of capital in the form of remittances by the large number of Bangladeshi migrant workers, who were driven out of the country to all over the world because of the initial years of poverty and famine. Trade and exchange rate liberalization alongside the fortuitous turn of history created a lucky brew. By 2010, it was evident that Bangladesh had got in the mode of export-led growth. And the money flowing in as investment and also as remittance fueled the economy.

World Bank data show, that, by 2020, in terms of personal remittance inflow, Bangladesh was 7th in the world, behind (in that order) India, Mexico, Philippines, Egypt, Pakistan and France, and ahead of China, Germany and Nigeria. These are the 10 largest remittance-receiving nations in the world. India, as the world’s largest recipient of remittances, received $83.1 billion in 2020. Bangladesh received $21.7 billion in the same year. For India the inflow of remittance was 3.2%, for Bangladesh it was 6.7%. This naturally made a big difference.

It is important to recognize that a large inflow of remittance is not necessarily good for an economy. There are nations that have become sluggish, with the economy dependent on the inflow of remittance. That is what basket cases are supposed to be like. Much depends on the antecedent conditions of the economy in determining whether these large inflows will be beneficial for the nation. In the case of Bangladesh, thanks to the reforms that had already taken place, pertaining to labor markets, and also the adoption of flexible exchange rate regime and trade liberalization, the large inward remittance played a positive role. An econometric study by Paul and Das (2011) shows that, while remittance did not have a short run impact on growth, one way or the other, in Bangladesh, it has played an important positive role in the long-run.

The resilience built up during the foothill years and the early phase of the 15-year gallop was evident during the global financial crisis of 2008. Bangladesh's economy navigated the crisis rather well. While in the immediate aftermath of the financial crisis most emerging economy exports to United States saw a setback, Bangladesh was among the few nations that saw positive growth. The main advantage of Bangladesh was its ability to cut cost in terms of US dollars during this period (Murshid, et al, 2009). This happened arguably because of the exchange rate and trade policies that had already been put in place, and also because of the greater flexibility in its labor laws, which neighboring India did not have.

Another sector that has played an important role, often beneath the surface, providing a foundation for other sectors to flourish is the telecom industry. Mobile subscriber penetration in Bangladesh has now reached nearly 94%. It was 30.6% as recently as 2008 and the telecom sector now employs 760 thousand people. This is the direct employment, but since this is a sector that provides the essential infrastructure beneath many other sectors, the indirect job creation caused by this sector far outstrips the direct effect. This sector once again owes a lot to public private collaboration. There was a big expansion that took place in 1996, with license being given to new private firms and operators to enter the mobile industry. And there has been no looking back since then.

Much of what I am arguing here is borne out by the remarkable trajectory of the total foreign exchange reserves of Bangladesh, that is, the reserves held by Bangladesh Bank. The total reserves held were almost flat all the way up to 2012. There was some rise in reserves before that but most of that was caused by interest rate arbitrage, since the US held its interest rates very low, whereas Bangladesh showed little downward flexibility in interest rate. In terms of global adequacy benchmarks Bangladesh's reserves were considered adequate, but barely so (Islam, 2009). But the effect of the nation's trade and fiscal policy became clearly observable after 2012. That year Bangladesh Bank had reserves worth approximately \$10 billion. After that the curve that had seemed stubbornly horizontal changed dramatically and in 2017 the nations breeched for the first time the \$30 billion mark. Earlier this year, in May, it was big news, when the reserves crossed \$45 billion, creating flexibility and space for the nation's economy that was unthinkable even a decade ago. It is usually considered adequate if a nation has enough reserves for 6 months of normal imports. In the case of Bangladesh this has now reached enough for 10 months of normal imports.

Finally, we need to step beyond economics in looking for causes. A crucial political factor underpins Bangladesh's economic success. The current government has been criticized for intolerance of dissent and shrinking of space for critical media, and that is unfortunate. But it has made one essential contribution to the country's upward trajectory. Although Bangladesh's constitution guarantees religious freedom, it has been challenged by fundamentalist groups that renounce what the prominent Bangladeshi commentator Abul Barkat described as the "liberal and humanistic origin of Islam in East Bengal" (see Barkat, 2013). The current government has kept these destructive forces at bay. Many countries have succumbed to religious fundamentalism, with disastrous consequences for their economies. Bangladesh has resisted this thus far.

There is a connection between political polarization, most often caused by religious fundamentalism, and economic performance. There is evidence from cross-country studies to laboratory tests on the close connection between the level of trust in society and economic progress (Fukuyuma, 1996; Fershtman and Gneezy, 2001).[6] The broad argument is the following. Trade and exchange are facilitated by a host of standard assumptions that economists make explicitly, concerning fiscal and monetary policies and also the extent of externalities generated by trade and production and laws pertaining to how these are handled. However, in addition to these, there are assumptions that are often not explicitly made but nevertheless are important for economic activity.

Certain social norms, such as respect for other people's rights, the propensity to live up to the promises one makes, and trust and trustworthiness (Basu, 2021b) are important. Not every contract can be backed up by the law. Often there is a time lag between a job being done and the payment being made. Thus when we ride a taxi, we usually take the ride first and then pay up after that. A society lacking in trust has a huge handicap. Many of these transactions do not take place at all and several markets do not develop because of the risk of cheating.

It is therefore no surprise that societies that have developed trust, have more active trade and exchange and, as a result, greater growth and development (Fukuyama, 1996). The general idea that to understand economic development we need to trespass boundaries and examine the political and sociological foundations of economics has a long history (see, for instance, Hirschman, 1981), but since these ideas are difficult to formalize, the propensity among economists has been to ignore them, and then let them gradually fall out of their consciousness. Bangladesh is a striking example of this lapse in the economics profession.

Political polarization and the heightening of divisiveness erodes trust across people. This often causes trade and investment to decline, businesses to falter and growth to slow down. These socio-political drivers of growth lie beyond the concerns of mainstream economics, and are not fully understood. But it is folly to dismiss them for that reason. We should in fact make a greater effort to understand them because so much of economic development and growth is predicated on them.

3. The Challenge of a Post-Pandemic World

Despite this remarkable progress and the 15-year gallop, the tale is by no means closed. Bangladesh's trajectory hereon is not a forgone conclusion. Nations have stalled at different stages of development. Economists talk about the low-income trap and the middle-income trap, and in truth there is an every-income trap. Bangladesh is now a middle-income nation but not out of the woods yet. It has its own geo-political challenges. Climate change can blight its prospects. Further, thanks to the COVID-19 pandemic and its dramatic impact on the global economy, the ground beneath our feet is shifting (Basu, 2021b) and there will be new winners and new losers. Some of these tectonic shifts are such global matters that Bangladesh may have

[6] For a discussion of the vital role of ethics, morals, and institutions for economic development, with illustrations from Bangladesh, see Mahmud (2021, Chapters 3 and 4).

little control over them. At the same time, for many of these coming changes, a lot will depend on how Bangladesh navigates the new world.

My assessment is that the world economy will see two major shifts over the coming years. The first pertains to globalization. There is a lot of talk about how the major disruptions in global supply chains that occurred during the pandemic is going to result in de-globalization or a retreat in globalization. I expect de-globalization to be a short-run effect of the current turmoil. In the long-run it will be swamped by a speeding up rather than slowing down of globalization.

The main reason is the learning-by-doing that occurred over the last year and a half. Digital technology has been on the rise over the last two or three decades. What happened during the pandemic was like a novice swimmer being pushed into the deep end of the pool. Ordinary people with no training in the use of digital technology have suddenly become conversant with it. We have learned to use Zoom and Webex to give lectures, hold meetings, take intricate decisions, often sitting at home. This is bound to give a boost in the use of these technologies over the next years. Even when the pandemic is gone we shall be giving long-distance lectures, working for office while sitting at home. This in turn means outsourcing and global connectivity will in all likelihood increase. This creates a huge potential for developing countries and there are bound to be new winners and losers. Bangladesh's telecom sector which has been enormously successful, starting from the incubation years of the Bangladesh economy, provides the nation a good foundation for this new global economy. Indeed, policymakers will do well to bolster this sector further.

The second major change will be the speeding up of the displacement of mechanical and routine labor by machines, robots and artificial intelligence. This will mean a rise in unemployment of workers who are unskilled or skilled only for mechanical work. With the rise of technology, human employment will shift to more creative activities and nations that are able to capitalize on this shift will be in the forefront. In keeping with this, the content of GDP is likely to undergo a fundamental change, with the consumption of standard luxuries like cars and homes and hotels being displaced in part by the acquisition of better health, greater consumption of healthcare, and more art, music and learning. Once again this will imply a shift in the kind of work that human beings will do in the future. Nations able to capitalize on this will do well and others will be left behind.

In the case of Bangladesh much will depend on the education sector. There will be a need to step up on modern education that equips the population to move away from mechanical work to more creative work. There needs to be a huge emphasis on modern education and higher education that nurtures creativity. For developing and emerging economies, both the low-income ones and lower-middle income ones, such as Bangladesh and India, there is scope for staying on the traditional path for another five or ten years by simply taking advantage of their abundance of cheap labor. As the world becomes more connected, digitally and otherwise, nations with cheap labor, and a modicum of peace, law and order, and good connectivity, will be able to grow with work moving from advanced, high-wage economies to them. But business as usual is unlikely to work for too long, as the demand for traditional labor declines the world over, as is bound to happen, especially with the learning-by-doing boost given by COVID-19.

This is where education, especially creative higher-education will play a major role. Even over the last few years we have seen the dramatic effect of good education on society and the economy, such as from the experience of South Korea. It will be critical for Bangladesh to nurture its universities and institutes of higher education. It is a region of Asia, which has historically valued education, learning and literature. It is important for Bangladesh to harness this proclivity for not just some steps to better and greater higher education but to move on this front in leaps and bounds. Given its success over the last 15 years, an initiative of this kind can potentially power the economy ahead in the way some East Asian economies had done in the past.

The word 'potentially' is deliberate here. For one, there are no certainties in economics (and for that matter in life), but secondly, there are other pitfalls that Bangladesh has to be aware of. Needless to say, it is important for a nation to get its fiscal and monetary policies right, trade and exchange rate policies right, and other standard matters of economics. Fortunately, on these Bangladesh seem broadly on track.

The larger danger arises from outside of economics. As briefly pointed out above, the success of an economy depends, apart from the explicitly-discussed assumptions and axioms, on many implicit assumptions which are so taken-for-granted that we do not spell them out explicitly (Basu, 2021b). These are best described as 'assumptions in the woodwork'. An example of this is what I mentioned above--trust. A successful economy needs a minimal amount of trust among its citizenry. Likewise, just as the drive to earn more and do better is important, having a moral compass, such as ethical lines that we refuse to cross, simply through self-monitoring, without the need for the nation's legal machinery, is critical (Basu, 2018).

The trouble with these assumptions in the woodwork is that we do not know well enough how they can be preserved and nurtured. But minimally, we know that a nation's leadership plays an important role. There is enough evidence from around the world that religious fundamentalism that partitions society and damages trust across anonymous individuals, damages trust and ultimately hurts the economy. Likewise, top-down authoritarianism, generally hurts creativity and progress. Most leaders have a natural propensity to stamp out dissent because that is always uncomfortable.

There can be no denial that the world has examples of authoritarian regimes that have been successful. But in general, authoritarian control hurts the economy. And in the modern world where creativity is likely to be ever more important, a failure on this score is likely to do even more damage. Hence, for a nation's success we need far-sightedness on the part of the political leadership whereby it is willing to put up with the discomfort of dissent, contradiction and criticism, and with the stresses that arise from the newspapers and television that is combative and ready to debate and contest the government's decisions. The larger and the long-run good of the nation depends on this. Given the critical stage Bangladesh has reached, one hopes that the leadership at the helm of politics and economic policymaking will have the wisdom not to snatch defeat from the jaws of victory.

To close on a personal note, I remain optimistic for Bangladesh. Despite occasional setbacks it has managed to keep its society relatively open and inclusive. Its economic policies have been reasonably balanced and mature. Its civil society and non-governmental organizations have played a hugely positive role. And, as for the future of higher education and creativity, my hope arises from my personal experience when I visited Dhaka in December 2015 in my capacity as Chief Economist of the World Bank. As I noted at the end of my "Dhaka mission" in my diary from my policy years, which involved travel across the world, "I have never been to a country where I was given more books than in Bangladesh. Every other person seemed to be thrusting a book into my hand that he or she had written." (Basu, 2021a, p. 332). There was more than one occasion when, at the end of giving a lecture, I discovered new books in my possession, which had been thrust into my hand by the authors, while my mind was focused on my lecture. The key will be to adapt this intellectual and creative enthusiasm to the new age.

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