Restarting the Economy: A Seven-Point Framework

ASIA’S PATH FORWARD

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INTRODUCTION

Bangladesh requires economic restructuring to address both the damage caused by the Covid-19 pandemic and pre-existing structural problems. The non-pharmacological intervention (general holidays) enacted to contain the virus was formally lifted in May in an effort to revive the economy. However, recovering from a crisis of this magnitude requires long-term prudential planning. This paper proposes a three-year plan to restart and reconstruct the economy. There is no time for lengthy deliberation; this crisis demands decisive action to reinforce the sectors severely hit by the pandemic. New thinking rather than conventional orthodoxy should be the new paradigm. There follows a seven-point agenda to achieve this.

The economy was already in shambles before the onset of the pandemic. Other than remittance earnings, all the macroeconomic indicators encountered decline. The poverty rate declined by 1.2 percentage points between 2010 and 2016 compared to 1.8 between 2000 and 2010. Poverty is at 24.3% in Bangladesh, 21.4% of the population are vulnerable to multidimensional poverty and are at risk of falling into poverty due to economic shock. The Gini index of inequality which declined to 0.321 in 2010 has risen to 0.324 in 2016. Illicit capital outflows have been on the rise, revealing frailties in financial regulations.

Covid-19 intensified pre-existing weaknesses in the economy. Income erosion caused by Covid-19 might cause 43.5% of the households to fall below the international poverty line.1 Exports plummeted in April, with earnings less than half a billion dollars, 82.9% lower than the previous year. According to the Unnayan Onneshan, growth will fall to 4.4% as opposed to the rate of 5.2% estimated by the government.

From Unemployment to Employment Retention and Creation

Covid-19 and the resulting lockdown has forced both large and small firms to adopt austerity measures like job and salary cuts. The unemployment rate is expected to rise from 4.3% to 7.3%.2 According to the Ministry of Foreign Affairs, around 29,000 undocumented workers are expected to return in the coming days from the Middle Eastern countries. Around 200,000 Bangladeshi migrant workers returned home

1 CPD estimates poverty rate of 35% and SANEM estimates poverty rate of 40.9%
between mid-February and mid-March, including 41,000 from Saudi Arabia, 38,000 from the UAE, and 20,000 from other Gulf countries. The ready-made garments sector, the single largest export industry, fears around 0.4 million workers might lose jobs due to order cancellations. The government hurriedly provided a stimulus package of 235 million USD to cover worker salaries. Instead, the utmost focus should be on job retention in all sectors – both formal and informal. Creating new jobs will largely depend on how the sectors cope with the shock, and how fiscal and financial stimuli are targeted towards creating employment.

Income erosion from the lockdown has severely damaged the daily earnings of those employed in informal sector, around 85% of the total population. A large part of the population dependent on daily wages to run their families will face brunt of the economic impact of lockdown and may fall deeper into poverty. Emergency cash transfer programs and inclusive social security measures could lift consumer goods spending and thus raise the living standard.

Health, Education and Social Security for Shock Absorption

Faults in the health sector have been exposed by the Covid-19 crisis as the hospitals are overwhelmed with patients. Out of pocket expenditure (OOP) in the health sector is 67% and remains high. Only 15.44% receive treatment from qualified doctors. Health care thus requires a radical change in the face of the pandemic. Universal health service should be promoted to ensure accessibility and affordability, with reforms beginning to ensure primary healthcare. Health cards based on the National Identity Card may ensure access to healthcare.

Bangladesh remains a low-skilled economy with only eight percent employed in high skilled jobs and a

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5 Around 98 percent of the internal migrant women workers have lost jobs during the lockdown, majority of them involved in informal work like domestic help, vendors, and cleaners. A study conducted by the LightCastle BD estimates that the income of informal workers will shrink by 34 percent in Dhaka and 30 percent countrywide.

staggering 74% employed in medium-skilled work according to ILO. Vocational education should be prioritized. Bangladesh ranks 116th out of 129 countries in innovativeness (WEF, 2019). Funding for research and development in universities must be increased. The current pandemic has brought to the forefront another mode of inequality, that is, internet access while several institutions are taking class virtually. Most students residing in rural areas are unable to attend online classes.

The existing social protection and social safety nets do not work effectively as there remains selection bias and exclusion. A lifecycle based social security system comprised of income support, national health services, child benefits, housing benefits, disability living allowance, invalid care allowance, state pension, job seekers’ allowance has to be put in place to reduce the shock on the growing vulnerable population. A Social Security Commission can be put in place to implement the program.

From Fiscal Drag to Multiplier Effect

Public spending can create economic multiplier effects, provide public goods and address externalities — both negative and positive. Operating expenditures like salaries and pensions for government officials fail to create a multiplier effect. Under-utilization and cost overruns of public expenditure remain a major concern. Cost overruns in megaprojects limits the spending capacity of the government. For example, the government paid a subsidy of 94 million USD last fiscal year to the Power Development Board as capacity charge due to lower demand of electricity put the quick rental plants idle.

Agricultural and manufacturing sector employs 61% of the population and has a sectorial share of less than 50 percent of GDP. The real change in budget allocation in agriculture sector is only 0.3% which indicates the government’s incapacity to resolve the downturns in this sector. The farmers have incurred losses worth 6.65 billion USD during the 45-day general holidays announced by the government. Financial subsidies for fertilizer, seeds and pesticides ought to be continued along with

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8 Ministry of Finance, Budget 2019-20 and Budget 2020-21
debt relief to maintain the cycle of production for the Aus and Aman paddy seasons. The manufacturing sector is also set to suffer from the shutdown. 68% of SMEs will exhaust their cash reserves and may face permanent closure if the lockdown persists for more than 4 months. Investment, both public and private, should be transformed to result in job creation and hence should be promoted.

Mission Oriented Programs for Diversification and Competitiveness

The SMEs contributed to one fourth of GDP, the value of which was 79 Billion USD in 2018 and accounted for 40% of total manufacturing output. SMEs represent 7.8 million individuals and 31.2 million people's livelihoods.

Mission oriented policies can accelerate growth. Labor and capital productivity and profitability are higher in small and medium enterprises. These deserve import attention for accelerating manufacturing growth in the economy. To address the massive changes of the post-COVID era, mission-oriented programs involving mobilizing enterprises with the objectives of employment creation, product diversification, value addition, greening and alternative export creation, are needed.

From Fossil Fuels to Greening for Sustainability

While most nations are moving towards clean energy, according to the Ministry of Finance, Bangladesh has embarked on creating a fossil fuel-based energy sector. Fossil fuel still accounts for more than 85% of total generation whereas renewable sources generate only 1.34%. Fossil fuels as an energy resource is now much costlier than renewable sources. The cost of installing one MW solar power plants has fallen to 1.3 million USD in 2018 from 4.1 million USD in 2010. Installation cost of one MW onshore wind turbine has come down to 1.41 million USD in 2018 from 1.76 million USD in 2010. Yet the government opted for

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13 IRENA, 2018.
costlier coal and LNG to replace natural gas in electricity generation. There is a need for a green deal recovery.

**Fiscal Prudence and Active Citizenship**

Active citizenship plays a crucial role in restoring the economy by ensuring accountability through checks and balances. Restoring the economy to a pre-COVID scenario will require a concerted effort and mix of both monetary and fiscal policy measures. The goal is to create new employment and increase the earnings. The government will need to look for alternative sources for financing as revenue earnings from tax and VATs will face steep decline due to income losses and declining consumption spending.

According to the IMF, the fiscal gap will widen in the next fiscal year to 0.6% of GDP as revenue collection will decrease significantly. NBR projects tax collection of 29.4 billion USD in the next fiscal year looking at the current scenario. Vacuuming funds from the banking sector for deficit financing may leave private sector credit growth in peril as private investment is crowded out, reflected in the growth of private investment becoming as low as eight percent in March and April compared to an average of 14.45 percent in last 10 fiscal years. Borrowing from external sources will raise the debt-to-GDP ratio. Thinning fiscal space will require the government to cut spending mainly from operational expenditure. Widespread corruption must be kept in check.14

Furthermore, dependence on the banking sector in meeting 44.72% of the borrowing target of 9.9 billion USD in deficit financing in the budget for FY2020-21 is likely to aggravate the problem.15 Although the liquidity position of the crisis-ridden banking sector has been improved by easing regulatory requirements from, and refinancing schemes by, the central bank and by creation of new money,

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14 During the Covid-19 crisis, medical supplies were issued with 5 to 10 times higher prices according to TIB study

https://tbsnews.net/economy/budget/government-rides-banks-source-deficit-financing-92173?fbclid=IwAR0sRS9qjZVMLE0lnxFT3383FAlIUDgQIpkVxe6oy6LgKrrVWwVqQbl
standing at 6.5% of GDP, an increase in the excise duty on deposits higher than 11,765 USD is likely to curb deposits which may prove to be harmful in the face of withdrawal pressures on banks. The ramifications may be further exacerbated as banks were denied a reduction in corporate tax. Yet there is reluctance to support the SMEs in the banking sector.

One striking strategy for the financial and capital market proposed in the budget has been allowing undisclosed money in the capital market. There are concerns regarding the effectiveness of this initiative as the government lock-in on capital market investment is likely to deter investment into safer options such as bank deposits, savings certificates and real estates.

International Cooperation and SDGs

Developed nations and international financing agencies have ramped up LDC debt refinancing and debt cancellation to reduce the debt burden. Bangladesh has failed to take advantage of this as the government has yet to take the debt relief opportunity declared by the G-20 nations. Negotiating with financing agencies for lower rates of interest, longer repayment and grace period should be the priority to ease debt servicing, besides seeking relief, writing-off and deferrals of debts.

Gaps in the current account balance will hinder financing for implementation of sustainable development goals (SDGs). The progress made so far may reverse as poverty has increased, education and health sectors are badly wounded from the pandemic. SDGs must be reassessed after the pandemic slows down. Attaining the targets in time will require increased financing from global agencies.

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17 The Business Standard, Government rides on banks to source deficit financing, Accessed on June 17, 2020 https://tbsnews.net/economy/budget/government-rides-banks-source-deficit-financing-92173?fbclid=IwAR0sRS9q7ZVMLEOLnixFFIt33x3FA4lUdQgQkKXxe6oy6LqKrRfNwVqjob
This is no time for smaller government. Rather, the government should ramp up public spending as the biggest spender in order to boost consumption spending. Money should reach the poor and needy. At the same time the government needs to act on the spread of the virus, including concentrating on investing in, the mobilization of, primary healthcare. The ongoing first wave will hit harder unless such measures are taken. The economy may come to a halt again if the casualties from the virus keeps rising, thus pushing back the recovery period.

This Asia’s Path Forward paper addresses Restarting Economies. Visit CIPE.org for further Asia’s Path Forward papers on the six essential themes for an economic recovery roadmap:

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- Combating Corruption
- Authoritarianism and Challenges to Democracies
- Economic Challenges for Women and Marginalized Groups
- Chamber and Association Responses and Strategies
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Dr. Rashed Al Mahmud Titumir is a Professor of Economics at the Department of Development Studies of the University of Dhaka. He has worked in diverse constituencies, namely, academia, governments, think-tanks, international organizations and media. He is engaged in research for pioneering approaches to developmental public policies and innovative solutions on the ground. He has led numerous projects for diverse organizations including governments, development partners and international organizations at home and abroad. Prof. Titumir holds Ph.D. in Economics from the University of London, M.Sc. in Development and Financial Economics from the University of London, Certificate in Trade Policy and Commercial Diplomacy from the Universities of Carleton and Ottawa, BSS (Hons.) from the University of Dhaka, and HSC and SSC from Jhenidah Cadet College. As a senior staff member and a senior advisor, Dr. Titumir has working experience with international organizations, civil society and NGOs in multicultural, multinational and diverse environments at home and abroad. He has provided advisory services to governments on multilateral negotiations such as WTO, UNFCCC, UNCBD. He has been contributing as a member of committees of experts of different UN bodies. Professor Titumir is on boards of different organizations and is the founding Chairperson of the Unnayan Onneshan, a multidisciplinary independent think-tank. He served on the Syndicate, the decision-making body of a university, and was Joint Secretary General of Bangladesh Federation of University Teachers' Association. He also has taught at the Royal Holloway, University of London and the Bangladesh Open University. He also acts as an Independent Director in publicly traded private companies and Member of Board in different social welfare organizations. He has written books and articles on implications of structural adjustment, poverty reduction strategies, world trading system, regional economic cooperation, climate change, and in the areas of state formation, macroeconomic and sectoral policies, agriculture, biodiversity, education and health. Prof. Titumir is currently researching on ideas of state and policymaking in developing countries, focusing on five areas, namely expansion of productive capacity, fiscal and monetary policies, social policies, natural resource management, and agrarian transition.