

An Analysis of Growth Trend and Changing Structure of GDP in Bangladesh

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Introduction

Bangladesh, small state of South-East Asia with the total area of 144,000 sq km, can't still shake off the ill-reputation of being one of the least developed countries, shadowed by miserable poverty, high illiteracy rate and a gigantic population of 141, 340,476 (July 2004 est.)¹ Moreover natural disasters such as seasonal inundation, cyclones, draughts etc. constantly pursue its lot every year, which break the backbone of the economy and frustrate future planning. Economy is sick with high inflation rate.

The GDP, chief indicator of an economy, shows that for a long time, Bangladesh economy was backward. The years after independence, the size of Real GDP, Per Capita GDP and their growth rates was small. The condition improved from 1990. Yet, still the growth trend and the structural changes of GDP in Bangladesh are not satisfactory. Many problems are responsible for this unsatisfactory GDP. These are the shortage of domestic food production, narrow structure of exports, increasing growth rate of imports, failure in the invocation of much Foreign Direct Investment (FDI), a defective banking system with cumulative interest of loans, continuous loss in the public enterprises, poor infrastructure, inefficient taxation, high inflation rate, political instability and the serious deterioration of law and order situation.² If these problems are solved, dynamic changes will come in the percentages of GDP.

Objectives

There are three objectives of this article—

1. To analyze the growth trend of GDP in Bangladesh
2. To analyze the structural changes of GDP in Bangladesh
3. To give some recommendations for the improvement of GDP.

Methods

Secondary sources are used to prepare this research-article. Mainly, web-sites, national dailies, books and statistical reports collected from various sources are used.

Definition of Related Terms

The two common terms are used in this study — Growth and GDP.

Growth

Growth means 'something grown and growing'. It is 'a process of becoming larger or longer or more numerous or more important.'³

The word 'growth' has some synonyms, such as, development, growing, increase, increment, etc.⁴

Economic growth means the economic development of a country, measurable by any indicator like GDP, prevailed in an economy, and commonly expressed in statistical and mathematical numbers.

There are two common and popular measures for the estimate of economic growth rate, as Gross Domestic Product (GDP) and Gross National Product (GNP). 'The growth of Gross Domestic Product is usually a good indication of economic growth'.⁵

GDP

GDP is the abbreviation of the economic term 'Gross Domestic Product.'

'GDP is defined as the total value of all goods and services produced within that territory during a specified period (most commonly, per year).'⁶

Another definition is that 'the GDP is the market value of all the goods and services produced by labor and property located in the region, usually a country.'⁷

GDP can be estimated by two following ways---

GDP= consumption + investment + government expenditures + exports - imports

GDP=GNP—'The net inflow of labor and property incomes from abroad.'⁸

There are two types-----**Nominal GDP** and **Real GDP**. Nominal GDP, also called 'money GDP', is calculated on the basis of the current price or today's price, by which comparison between GDPs of different years may be incorrect because of the impact of inflation. Real GDP, also called 'Constant Price GDP', is estimated 'by converting current information into' a standard price of a specific year or years, for example, 1985 takas, which can be more reliable than the first one and is more acceptable to the economists.⁹

Economy of Bangladesh

A brief discussion of Bangladesh economy may help us to understand its GDP. Economy of Bangladesh is composed of three main sectors-----Agriculture, Industry and Service.

Agriculture

Agriculture sector includes crops, forestry, livestock and fisheries. Main agricultural food products are cereals, pulses, gur/sugar, milk, meat, fish, fruits, vegetables, oil etc. Major Industrial crops are jute, tea, tobacco etc. Total cultivable area was 2.26 crore acres in the survey of 1983-84, which decreased to 1.64 crore acres in 1995-96.

Long before and after independence war, agriculture was the dominating sector in Bangladesh economy. In the years after independence, agricultural products increased steadily; yet it couldn't keep pace with the rapid growth of population. Rice is the main food crop in Bangladesh. Bangladesh acquired the fourth place in the world for the production of huge rice in the middle of the 1980s, which was caused by the use of high yielding seeds, fertilizer and irrigation. ¹⁰ Yet in the 1980s, Bangladesh had to import 'an average of 2 million tons of food grains each year' to feed people. In the late 1980s, there was a progress in industrialization. But still about 50 percent of the value of GDP came from agriculture in Bangladesh. ¹¹ From 1990, industrial establishments and foreign investments increased to a great degree, and agriculture was neglected, because of which its improvement was hampered and fell down sharply.

Technological changes have come to agriculture greatly compared to those of the previous years. Use of fertilizer, irrigation equipment and high yielding variety (HYV) of rice has increased hopefully. Yet rice and wheat are being imported every year for the huge population.

Domestic production of other agricultural products, such as, pulses, sugar, milk, meat, fish, vegetables and oil never fulfilled requirements of the country, rather remained short. Fish was being quickly depleted by the arbitrary use, which has been somewhat saved by cultivation. By 1980, forest covered only 16 percent of the total land in Bangladesh, ¹² which was also being destroyed by the unwise and unlimited use. So, its contribution to GDP went down to 1.89 percent in 1999-2000.

Industry

There are three categories of industries in Bangladesh — Large Scale Industries, Medium Scale Industries and Small & Cottage Industries.

Major industries are referred in the following---

1. Food, Beverage and Tobacco
2. Textile, Apparel and Leather
3. Wood & Wood Products
4. Paper, Paper Product, Printing & Publications
5. Chemicals and Chemical Products
6. Non-Metallic Mineral Products
7. Basic Metal Industries
8. Fabricated Metal Products
9. Other Industries & Handicrafts

In British and Pakistani colonial rule in Bangladesh, industries couldn't develop much. After independence, though this sector increased, it was not satisfactory. The highest growth rate of Industrial GDP was first counted as 8.1 percent in annual average in 1991-1995 at the constant prices of 1984-85. ¹³ In these years, industrial establishments and foreign investments increased significantly by the help of the then government. 'According to **Planning Commission Estimates** there were about 32,000 small industries and 3,83,000 cottage industries in 1990.' ¹⁴ The number of **manufacture industries** was 3,356 in 1981-82, which increased in 23,752 in 1988-89. ¹⁵

Service

Recently, this is the largest sector in the percentage contribution to GDP. Its major sub-sectors are construction, utility (power, gas, water), transport & storage, trade service, housing, public administration and defense, banking insurance and other professionals.

Major Exports and Imports

Major exports are readymade garments, frozen fish and seafood, tea, chemical products, raw jute and jute goods, leather etc. Major imports of Bangladesh are scrap vessels, rice, wheat, sugar, edible oils, oil products, fertilizer, machinery and equipment, chemicals, iron and steel, etc. ¹⁶

Growth Trend of GDP in Bangladesh

Growth trend of GDP shows that there is the sign of economic development in Bangladesh. Whether this trend is slow or fast, can be realized by analyzing the growth rates of Real GDP and Real Per Capita Income assorted in different years in the following table

Table- 1:

Growth Trend of Real Gross Domestic Product (GDP) in Bangladesh during 1975-2000 (at 1984/85 prices)

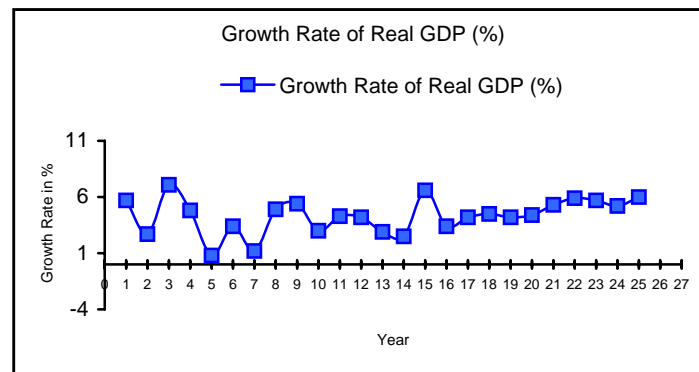
(in millions of Tk.)

Year	Real GDP	Growth Rate (%)
1975-76	293820	5.7
1976-77	301670	2.7
1977-78	323010	7.1
1978-79	338520	4.8
1979-80	341300	0.8
1980-81	352880	3.4
1981-82	357220	1.2
1982-83	374700	4.9
1983-84	395030	5.4
1984-85	406930	3.0
1985-86	424590	4.3
1986-87	442340	4.2
1987-88	455130	2.9
1988-89	466610	2.5
1989-90	497530	6.6
1990-91	514440	3.4
1991-92	536190	4.2
1992-93	560230	4.5
1993-94	583840	4.2
1994-95	609790	4.4
1995-96	642440	5.3
1996-97	680210	5.9
1997-98	718670	5.7
1998-99	756120	5.2
1999-2000 (provisional)	801710	6.0

Source: Government of Bangladesh, Ministry of Finance, *Economic Survey of Bangladesh 2000*, (Bengali), pp. 184-185.

Analysis of Table 1: During 1975-76, Real GDP was recorded as 293820 million takas, which from the next fiscal years increased slowly and it continued until 1993-94 in Bangladesh. The size of Real GDP grew twice after 20 years in 1994-95. Real GDP increased in 801710 million takas in 1999-2000.

From 1975 to 2000, the growth rates of Real GDP fluctuated from 1 to 6 percent. The highest growth rate was counted as 7.1 percent in 1977-78 and the lowest rate found as 0.8 percent in 1979-80. Most of the years, the growth rate was limited between 4 and 5 percent. During the 1990s, the growth rates of Real GDP increased more visibly than those estimated during the 1980s. This economic development was helped by the fall of the population growth rate. Population grew at 2.2 percent annually during the 1980s, while the growth rate of Real GDP was low. But population growth rate reduced to 1.7 percent during the 1990s. ¹⁷ In 1999-2000, Real GDP improved to 6 percent compared to 5.2 percent of the previous years.



GDP Growth Trend of Individual Sectors

The GDP growth trend of Individual Sectors was not very dynamic. Only industrial GDP grew at a better rate. The following table will present the real picture.

Table- 2:

GDP Growth Trend of Individual Sectors (1981-2004) (in %)

Year	Sectors			Total GDP	Per Capita GDP
	Agriculture	Industry	Service		
1981-2004	2.77	6.51	4.33	4.41	2.54
1981-85	2.68	5.70	3.83	3.72	1.54
1986-90	2.40	5.86	3.58	3.74	1.50
1991-95	1.55	7.47	4.15	4.39	2.36
1996-2000	4.88	6.44	4.81	5.21	3.83
2001-2004	2.23	7.24	5.51	5.12	3.70

Source: Iqbal Ahmed, "GDP Experience, structural changes" New age, 16 June, 2004, p.1, compiled and rearranged by professor M.Z. Abedin, Institute of Bangladesh Studies (IBS), University of Rajshahi, Rajshahi, Bangladesh.

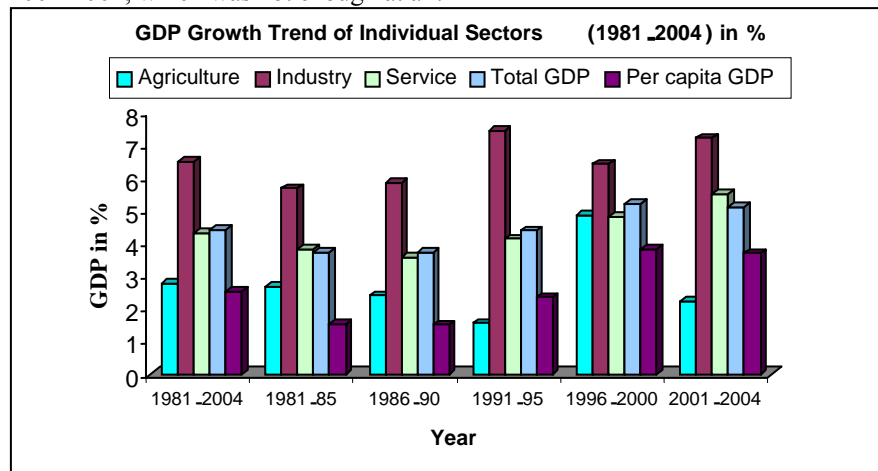
Analysis of Table 2: From 1981 to 2004, during these long 23 years, the growth rate of Agricultural GDP was 2.77 percent, which was no doubt poor. At the same time, Industrial GDP grew at the rate of 6.51 percent, which was more than two times bigger than that of agriculture. Service Sector's GDP increased at 4.33 percent, which was bigger than the agricultural percentage. In the same fiscal years, the growth rate of Total GDP was 4.41 percent and that of Per Capita GDP was 2.54 percent only.

The growth rate of Agricultural GDP was 2.68 percent in 1981-85, which was not hopeful. For the next years, the rate went down. A precipitous fall came to notice in 1991-95. The next year, it regained nearly three times increase, compared to the size of the previous years. Again in 2001-2004, the growth rate came down to 2.23 percent. In these long 20 years, the growth trend of Agricultural GDP was never shining.

The growth rate of Industrial GDP was 5.70 in 1981-85. From the latter years, the size of percentages increased slowly. Its significant growth was observed for the first time in 1991-95, the highest growth of all with the size of 7.47 percent. Though the rate came down the next years, it recovered its condition again in 2001-2004, while the growth rate rose to 7.24 percent.

Service Sector's GDP grew at the rate of 3.83 percent in 1981-85. It increased slowly over the years and went up to 5.51 percent in 2001-2004, which was rather optimistic.

Total GDP grew at 3.72 percent in FY 1981-85, which took long 20 years to grow to some degrees in 2001-2004. The growth rate of Per Capita GDP was 1.54 percent in 1981-85. It slowly rose and reached to 3.70 percent in 2001-2004, which was not enough at all.



According to S.A Safa and R. Begum, despite robust population growth, political disturbance, ‘failures of governments’, corruption and lawlessness, ‘rumble GDP and GNP of the country have increased with acceleration.’¹⁸

Changing Structure of GDP in Bangladesh

The structure of GDP changed a lot through the long years. How these changes were and whether they were good or bad will be discussed below by analyzing some tables.

Table- 3:

Changing Structure of GDP in Bangladesh (1949/50-2001/2002) (in %)

Year	Sectors			Total
	Agriculture	Industry	Service (Tertiary)	
1949/50	70	4	26	100
1959/60	62	5	33	100
1965/66	57	8	35	100
1969/70	55	10	35	100
1973/74	49	11	40	100
1974/75	49	10	41	100
1980/81	44	11	45	100
1984/85	41	10	49	100
1990/91	32	12	56	100
1994/95	26	15	59	100
1999/2000	25	15	60	100
2001/2002	24	16	60	100

Source: Statistical Pocket Book of East Pakistan, different years & BBS, Statistical Year Books, different years, GOB, Economic Survey of Bangladesh, different years.

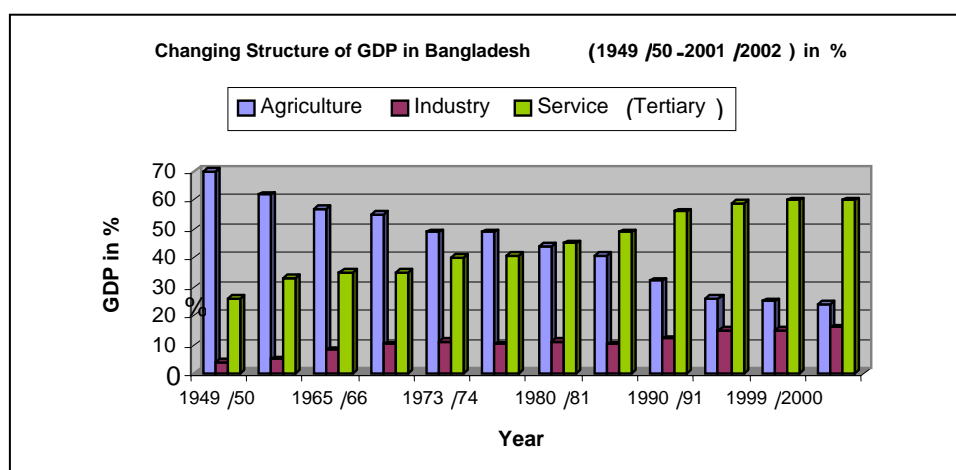
Analysis of Table 3: Major components of GDP are agriculture, industry and service in Bangladesh. During 1949-50, agriculture was the dominant sector in contribution to GDP, but changes have come over the years and service sector has become conspicuous now.

In the period of 1949-50, agricultural contribution to GDP was 70 percent. During 1959-60, share of agriculture in GDP started to fall and it continued until FY 1973-74. From then, for two fiscal years its status remained stagnant and after that the condition was not so bad as to be feared awfully, because the green revolution helped in increase in rice production in those years. But the fall precipitated from FY 1990-91, when industries started to grow exuberantly and in FY 2001-2002, the percentage of agriculture in GDP reduced to only 24, which was a matter of national concern.

In 1949-50 industrial establishments were poor because of the historical background. Under British rule, governments didn’t give proper attention in the establishment of necessary industries in East Bengal. After

the separation of Indian sub-continent in 1947, the Pakistani government was rather more eager to set up industries in West Pakistan than in the East. So, though industries were growing and their contribution was rising, it could never be very significant before independence of Bangladesh and agriculture remained the dominant sector in GDP percentage. But, after long twenty years, industry showed improvement in contribution to GDP in 1969-70, comparing with that of FY 1949-50. Industrial share in GDP percentage remained stagnant for some years from FY 1973-74 to FY 1984-85. The growth of this sector started in 1990-91, when political environment was relatively stable and foreign investment was appreciated and welcomed by the then government. In 2001-2002, though its contribution rose to 16 percent, it still remained behind compared to the other two sectors.

In 1949-50, service sector had 26 percent contribution to GDP. This share of this sector grew from the following fiscal years and this growth was stagnant for the latter two years. But soon it grew fast and then slowly again in the next years. But it reached 60 percent of GDP in 2001-2002, making this sector the largest of all in GDP contribution.



It is noticeable that all sectors couldn't contribute to GDP equally. This imbalance can't be a good sign of economic progress.

Conclusion

Dr. Debapriya Bhattachariya, Executive Director of Centre for Policy Dialogue (CPD), recommends that if the GDP growth rate of Bangladesh rises to 8 percent and sustains this position constantly, Bangladesh may develop in 2020. By raising the growth rate of exports to 20.83 percent and reducing the growth rate of imports to 17.58 percent, we can achieve this desirable growth rate of GDP. ¹⁹

With his valuable comment, the following issues can also be considered to improve GDP growth rate.

Agricultural and Industrial GDP are small in recent years, but Service Sector's GDP is swelling. This kind of imbalanced swell of one sector except other two causes inflation. ²⁰ The contribution of all sectors to GDP needs to increase equally. For this reason, modernization in agriculture, distribution of subsidies, interest-free loans among peasants and reformation of traditional land-owner law can be helpful. On the other hand, for the balance between the growth rates of Large Scale Industries and Small & Cottage Industries, it is necessary to bring them under government care. Government should increase domestic investments in proper areas with efficient hands. Two kinds of investments are prevailed, as, personal investment and bank loans. There are numerous examples of those people, who take bank loans for the establishment of industries, but don't establish any. ²¹ This kind of misuse of investment hampers GDP growth, and should not occur again before the eyes of ministers.

Poverty reduction and increase in literacy rate can be the pioneers in the economic development.

Stable political environment and good governance are also essential.

Population growth needs to be muzzled by family planning, government publicity and by law.

(First written on March 24th, 2005 and revised on September 10th, 2006)

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