The Political Economy of Change

Escaping the Middle-income Trap: Perspectives from Bangladesh

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- Bangladesh has recently attained the status of lower middle-income economy (LMIE) against a backdrop of fast-paced GDP growth, diversification of production and exports, the growing competitive strength of a number of sectors in the economy, high inflow of remittances, and overall robust economic performance.

- In the history of development, many countries after graduating to middle-income status fail to sustain their past growth momentums and, as a result, get stuck in the middle-income trap (MIT). A recent entrant to the group of middle-income countries, Bangladesh must pursue a well-articulated strategy to sustain and build upon its past growth momentum to avoid the MIT.

- For the transformative journey, Bangladesh will be required to take concrete steps towards good governance, strong institutions, rule of law, transparency and accountability, enhanced productivity and efficiency gains, structural transformation of the economy, decentralisation of the economy, efficiency in public expenditure allocation, better public sector management, and distributive justice.

- A new correlation of drivers will need to emerge to sustain and accelerate Bangladesh's growth momentum and avoid the MIT. Such drivers will be committed to democratic governance; ensuring a meaningful role and greater voice for workers and trade unions in economics and politics; a devolution of power; distributive justice; greater space for civil society; and strengthened regional and global integration of the economy. Through political processes, this coalition can play the role of change agents in this transformational journey towards higher income status by avoiding the MIT.

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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

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List of Abbreviations

ADF	African Development Foundation
ADB	Asian Development Bank
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
CUI	Catch-Up Index
EVI	Economic Vulnerability Index
EPB	Export Promotion Bureau
FDI	Foreign Direct Investment
GO	Government Organisation
GDP	Gross Domestic Product
GNI	Gross National Income
HIE	High-Income Economy
HIES	Household Income Expenditure Survey
HAI	Human Asset Index
ICT	Information and Communications Technology
ILO	International Labour Organization
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LDC	Least Developed Country
LFP	Labour Force Participation
LFS	Labour Force Survey
LIE	Low-Income Economy
LMIE	Lower Middle-Income Economy
MDG	Millennium Development Goal
MIE	Middle-Income Economy
MIT	Middle-Income Trap
NGO	Non-Governmental Organisation
NPL	Non-Performing Loan
ODA	Official Development Assistance
PRS	Political Risk Services
PPRC	Power and Participation Research Centre
RMG	Ready-Made Garments
R&D	Research and Development
6FYP	Sixth Five Year Plan
7FYP	Seventh Five Year Plan
TFP	Total Factor Productivity
UN	United Nations
UNCTADStat	United Nations Conference on Trade and Development Statistics
UNDESA	United Nations Department of Economic and Social Affairs
UNESCO	United Nations Educational, Scientific and Cultural Organization
UMIE	Upper Middle-Income Economy
VAT	Value-Added Tax
WB	World Bank
WDI	World Development Indicators

Foreword

The multiple crises crippling our societies – from climate change to financial meltdown, from rising inequality to mass migration – are shaking the foundation of the world order. Taken together, these crises go well beyond the policy level, but call into question the very paradigms that the foundation of our economies are built around.

In 2011, economic thinkers and political decision-makers from China, Germany, India, Indonesia, Korea, Poland, Sweden, Thailand and Vietnam came together to discuss how our development models need to be adapted. Later joined by Bangladeshis, Filipinos, Malaysians, Pakistanis and Singaporeans, several regional dialogues discussed how to reconcile growth and equity, find a balance between boom and bust cycles, and how to promote green growth and green jobs. The findings, endorsed by 50 prominent thought leaders from Asia and Europe, have been published as "The Economy of Tomorrow. How to produce socially just, resilient and green dynamic growth for a Good Society"(versions available in English - 5th edition, Bahasa, Korean, Mandarin, Thai and Vietnamese, at designated page for Economy of Tomorrow, www.fes-asia.org.) The EoT Manifesto calls for an inclusive, balanced and sustainable development model which can provide the conditions for a Good Society with full capabilities for all.

True to our understanding that development models need to be tailor-made, in the second phase of the project national EoT caucuses have worked on adapting these sketches to the local context. At the regional level, the focus was on the political and social challenges which needed to be addressed to encourage qualitative economic growth. The national studies carried out on the political economy of development as well as the synthesis "Mind the Transformation Trap: Laying the Political Foundation for Sustainable Development" are available on the website.

In the third phase, the EoT project will focus on specific sectors of transformation. In India, for example, the focus is on energy transformation, urbanization and digital transformation. After graduating to the status of a low middle-income country, the focus of the EoT project in Bangladesh is on economic growths and decent work as well as institutional reforms for development.

In Thailand, resilient fiscal policy is the focus of the EoT network. After its founding in 2016, a Policy Community on Taxation Reform will continue to promote taxation policy as well as look into the spending to identify needs and perspectives in the context of upcoming challenges of an aging society.

Supporting the phase-out of a resource-driven and therefore extractive economic model, while strengthening the promotion of a sustainable manufacturing sector as well as the maritime and digital economy are the main efforts in Indonesia.

Vietnam is putting emphasis on an export-oriented, FDI-driven development strategy, focusing on wage-led growth models, productivity gains and value chain improvement to find a way out of the middle income trap.

The EoT project in China focusses on the socio-economic consequences of innovation-driven changes in the manufacturing and service sectors, and explores how China can achieve growth while implementing a sustainable climate and energy policy.

In Pakistan the current focus is on institutionalising the EoT discourse by bringing together governmental and non-governmental think tanks as wells as leading individuals to develop a common advocacy agenda. A comprehensive compilation of previous research work will serve as a blueprint for political discussions during the upcoming election campaign.

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Relevance of the discourse for Bangladesh

Introduction

In recent years, the discourse on the middle-income trap (MIT) has received increased attention as a number of developing countries failed to sustain their past growth momentum after graduating to the status of a middle-income country. These countries have typically not been able to move out of this category and into the high-income status category. In 1987, the World Bank (WB) introduced a classification of countries according to per capita income status using the Atlas method of calculation[1]: low-income economies (LIEs), middle-income economies (MIEs) (lower MIEs (LMIEs) and upper MIEs (UMIEs)), and high-income economies (HIEs). The experience of the past decades shows that while a number of countries were able to reach the threshold to enter into the HIE status, the majority of countries remained stuck in the MIE category for a prolonged period of time.

This has led to questions and concerns in regards to the factors that drive economic slowdowns and about the ability of these countries to sustain their past growth momentums. This state of relative slowdown has been defined as the MIT, first coined as such by Indermit Gill and Homi Kharas in 2007.[2] However, it should be noted that when talking about 'falling into' and 'getting out' of the MIT, analysts tend not to delimit the discourse to the WB classification alone. They refer to other criteria and use different variables (which are not based on per capita income) to define the MIT (Athukorala and Woo, 2011; Cherif and Hasanov, 2015; Felipe *et al*., 2014; Aiyar *et al*., 2013; Im and Rosenblatt, 2015). For example, an alternative approach that has been presented by Athukorala and Woo (2011) uses the MIT concept in reference to the Catch-Up Index (CUI). The CUI expresses a country's per capita Gross Domestic Product (GDP) as a percentage of the level of US$ per capita GDP. Countries with a CUI score of more than 55 percent are defined as high-income countries; those with a score between 20 percent and 55 percent are defined as middle-income countries; and those with a score of less than 20 percent are defined as low-income countries. In another example, the Asian Development Bank (ADB), in one of its working papers, has come up with four distinct income groups, which are defined in terms of GDP per capita (in 1990 PPP dollars): LIEs – below $2,000; LMIEs – between $2,000 and $7,250; UMIEs – between $7,250 and $11,750; and HIEs – above $11,750.

After having achieved a fast pace of growth – reflected in a higher per capita income (according to the WB criteria) – countries in the MIT appear to hit a type of glass ceiling (Felipe *et al*., 2012; 2014). A wide range of countries, including Brazil, South Africa, the Philippines, Thailand, Malaysia, and more recently, Indonesia have faced difficulties in reaching the pace of per capita income growth required to move out of the MIE status and graduate to the HIE category. It is within this context that the discourse in regards to diagnostics of development and the examination of factors driving countries towards the MIT assumes heightened importance, both for countries that are in the MIT and those that have recently gained MIE status. This discourse has practical relevance for both groups of countries as it generates evidence and allows an insight into how countries belonging to the MIE category can avoid the trap and pursue policies that could lead to a faster pace of graduation to the HIE category.

The relevance of the aforementioned discussion, both from the diagnostic and prescriptive perspectives, is of particular significance for Bangladesh's developing economy. It may be pertinent to recall that Bangladesh only recently graduated to LMIE status – in July 2015, when its per capita income (US$1,080) crossed the WB's threshold of US$1,045 as per the *Atlas* method. This achievement is indicative of Bangladesh's impressive developmental performance over the past few years. At the same time, it also cautions Bangladesh about the need to avoid getting stuck in the MIT. Thus, the issue of avoiding the MIT through sustained economic momentum and maintained and accelerated income growth has relevance and importance as Bangladesh begins strategising its course for future development. As noted above, a number of Bangladesh's neighbours, as well as countries in other regions, have not managed to continue the same growth trajectory they had experienced in earlier years. For many of these countries, growth – fuelled by relatively cheap labour and natural resources – could not be sustained when new demands emerged. These demands included moving up the value chain, undertaking structural and political reforms, raising productivity, and sustaining a competitive edge in an increasingly competitive global environment. Countries that remained MIEs for prolonged periods of time, as a result of economic slowdown, found themselves stuck in the MIT. Even when countries had access to foreign direct investment (FDI) (with its greater flow of foreign capital and technology, and commodity-oriented development and assembling), manufacturing-oriented production processes were not able to generate the necessary pace of income growth for graduation to HIE status. Some of these countries were squeezed between cheap-labour induced competition (from relatively weaker developing economies) and productivity and increased innovation induced competitive pressure (from economies such as China). While the need for structural changes originating from highly productive and technology-intensive production processes was well recognised and reflected in the development strategies of these economies, the hoped-for developmental outcomes failed to be realised on the ground. In short, these economies were caught in the MIT.

Research approach and methodology

The motivation of the present study is to examine the factors that push countries into the MIT, and to show that if Bangladesh is able to address these factors, it will be able to avoid the trap in the next lap of its developmental journey. The study maintains the following premise in its attempt to anticipate the economic and political economy factors that could help Bangladesh to avoid a possible MIT; if the danger of the trap is recognised early on, it will be possible to design policies and pursue flanking strategies to maintain and accelerate the current momentum of economic growth in Bangladesh, and thus avoid the MIT. The rest of the paper is structured in the following manner: Part II presents a review of the relevant literature on countries' transition to MIE status and the MIT. Part III examines Bangladesh's growth trajectory towards MIE status. Part IV deals with the political economy factors that are likely to influence this journey by anticipating the drivers of the status quo and the drivers of modernisation and change. Part V concludes by proposing a coalition of the willing, which could have an interest in joining forces in a possible platform of change.

This paper is primarily based on a study of secondary literature and evidence that encompasses both the Bangladesh experience, as well as cross-country developmental experiences. In reviewing the experience of countries belonging to the MIE category, the study has considered countries that have been successful in making a smooth transition to HIE status, as well as countries that failed to do so (Felipe *et al*., 2012; Aiyar *et al*., 2013; Im and Rosenblatt, 2013). Relevant data and information was sourced from World Development Indicators

(WDI), the International Monetary Fund (IMF), the ADB, the United Nations (UN), Trade Map, UN Conference on Trade and Development Statistics (UNCTADStat), and Political Risk Services (PRS). National datasets and plan documents from the Bangladesh Planning Commission, the Bangladesh Bank (BB), the Export Promotion Bureau (EPB), the Bangladesh Bureau of Statistics (BBS), and other relevant sources were also used. To capture more recent attributes of the political economy of change in the context of middle-income transitions, a panel data analysis was carried out for 32 MIEs for the period between 1987 and 2014 using WDI and PRS data.[3]

Centre for Policy Dialogue (CPD) held a discussion where participants provided useful comments on an earlier draft of the report. The report was also presented at two international conferences. The first presentation was at an event titled '*Economy of Tomorrow: Mind the Transformation Trap*', which was organised by Friedrich-Ebert-Stiftung (FES) in Bangkok, Thailand, in December 2015; the second was at a conference titled '*Middle Income Trap: International experiences and lessons for Vietnam*', which was held in Ho Chi Minh City, Vietnam, in March 2016. The authors received very useful inputs from scholars and experts participating in both these events.

Literature review and evidence of the MIT

Failure to make the needed transition in economic praxis and political practice emerges as a binding constraint, and results in countries becoming trapped in the MIT.

Middle-income transition and the MIT

Standard growth theories in economics suggest that during middle-income transitions, economies tend to face a productivity slowdown as earlier gains from low-cost labour and competitive advantages start to decline. In other words, cost advantages in manufactured exports that once propelled growth start to decline compared to other lower-wage economies. Dividends in terms of economic growth originating from a sectoral shift from agriculture to manufacturing (à la Lewis model) and gains from technology adjustment and adoption start to wane. Wages increase and consequently, competitiveness is undermined against a backdrop of a slow rise in productivity.

Economies that at one point experienced rapid growth based on low-wage, low-skilled labour, low-value added manufacturing, and a significant reliance on exports, are not able to sustain their past momentum. GDP and Gross National Income (GNI) growth rates decelerate and the slow pace of growth in per capita income means that the path to graduation to HIE status becomes a prolonged process. In this transition period with changes in the emerging dynamics in the global, institutional, and structural environment, strategies that were once successful in sustaining the high pace of economic growth are no longer effective. Moving towards productivity and a technology-driven manufacturing sector and away from labour-intensive production processes demands innovation in terms of policies, and integration between economic factors and future political visions. New ideas, methods, processes, and technologies in production rather than imitation are called for (Aghion and Howitt, 1992). Failure to make the needed transition in economic praxis and political practice emerges as a binding constraint, and results in countries becoming trapped in the MIT.

According to the WB classification (2015), 80 economies were ranked as HIEs, followed by 53 as UMIEs, 51 as LMIEs, and 31 as LIEs (Table 1). The interest of categorising economies on the basis of income criteria is well understood since eligibility for many of the Official Development Assistance (ODA) funds, such as those disbursed by the International Development Association (IDA), the African Development Foundation (ADF), and International Bank for Reconstruction and Development (IBRD), is generally assessed primarily on the basis of income criteria. However, the fact remains that many countries have failed to make structural adjustments and have continued to suffer from economic vulnerabilities and social capital under-development. The categorisation of economies in the least developed countries (LDCs) group by the UN indeed attempts to capture this dichotomy. Table 1 shows that many middle-income countries continue to

Table 1. Cross-matching between World Bank and United Nations country classification

Countries	LIEs	LMIEs	UMIEs	HIEs	Total
LDCs	29	16	2	1	48
Non-LDCs	2	35	51	79	167*
Total	31	51	53	80	215

*Source: Authors' calculation, WB and UN 2015, (*Includes Taiwan).*

remain LDCs; LDC classification also considers the Human Asset Index (HAI) and the Economic Vulnerability Index (EVI), along with income as a criterion.[4]

There is a growing literature (Aiyar *et al.*, 2013; Beddies, 2008; Foxley and Sossdorf, 2011) that argues that the scope of the discourse on the MIT should be broadened beyond economic issues. This strand of literature, stemming from the theory of change, argues that the consideration of the political economy aspects of change is of equal importance in this context. Innovation and productivity-driven growth can be achieved only by redirecting and shifting the development path in a way that incentivises those who seek a departure from the status quo, and champion strategies and policies that support and promote accelerated growth. The idea is that change, by definition, has its potential winners and potential losers. It is thus important that the political economy of development concerning these countries factor in the effect of the drivers committed to change and drivers that are keen to maintain the status quo.

As was pointed out earlier, the developmental experiences of many middle-income countries indicate that countries tend to lose steam after their initial growth momentum. Indeed, such observations are corroborated by relevant evidence. Using a panel data (1950–2010) for 124 countries, Felipe *et al.*, (2012) estimated that to graduate from LMIE status, an economy needs a per capita income growth of 4.7 percent per annum. To graduate to HIE status from UMIE status, the growth rate needed is estimated to be at least 3.5 percent per capita per annum. Ideally, to avoid the MIT an economy should be able to come out from the LMIE category in 28 years and the UMIE category in the following 14 years (Felipe *et al.*, 2012).

Thus there is a need to make a transition from a factor-driven economy to a technology/productivity-driven economy to an innovation-driven economy to avoid the MIT has been well documented. However, the fact remains that many countries get stuck in the MIT, often for prolonged periods of time, and are unable to break free of the trap. It is here that a close examination of the political economy factors from the perspective of the *theory of change* becomes critical to understanding the nature of the trap, and ways of falling into and moving out of the trap.

An IMF working paper has made an attempt to analyse the MIT by testing the various factors that induce growth slowdown and tend to hinder a smooth transition to HIE status.[5] The study groups the factors into seven broad categories: (a) institutions, (b) demography, (c) infrastructure, (d) macro-economic environment and policies, (e) economic structure, (f) trade structure, and (g) others. The study also examines political economy aspects. It emphasises that economies can address the causes of growth slowdown by: reducing government intervention in the market; deregulating labour, product, and credit markets; and improving the legal system, contract enforcement, and property rights. The paper argues in favour of stimulating FDI; raising investment share in GDP; incentivising trade openness, intra-regional trade, and regional integration; and diversifying exports as means of avoiding economic slowdown. The study further argues that good infrastructure alone is not sufficient to prevent slowdown in the economy, which may be driven by other factors, such as demographic composition, institutional efficacy, political stability, trade structure, etc. (Aiyar *et al.*, 2013).

To capture the phenomena of economic slowdown, the WB (Agénor *et al.*, 2012) has estimated per capita income relative to the United States from 1960 to 2008. The study reveals that only 13 countries graduated from MIE to HIE status during this period. It includes countries from East Asia, the European periphery, and island countries

Innovation and productivity-driven growth can be achieved only by redirecting and shifting the development path in a way that incentivises those who seek a departure from the status quo, and champion strategies and policies that support and promote accelerated growth.

This study defines the MIT as a stable, low-growth economic equilibrium where talent is misallocated and innovation has stagnated.

blessed with natural resource endowments (Agénor *et al*., 2012). This study defines the MIT as a stable, low-growth economic equilibrium where talent is misallocated and innovation has stagnated. To help avoid the MIT, this paper emphasises the importance of improving access to advanced infrastructure, such as the development of information and communications technology (ICT), institutional capacity enhancement, ensuring the protection of property rights, and undertaking reforms in the labour markets (to reduce rigidities). This paper argues that technological upgrading and research and development (R&D) are central to stimulating innovation that in turn could help countries avoid the MIT.

A key argument against the income-centric discourse is that while the GNI per capita measurement could be a criterion for measuring whether a country has reached MIE status or not, other factors, particularly political economy factors can better explain why countries fall into the MIT. The cross-matching between the WB and UN classifications (using data from WDI, 2015 and DESA, 2015) shows that economies such as those of Angola and Equatorial Guinea belong to the UMIE or HIE categories according to the WB classification, but continue to remain categorised as LDCs according to the UN classification because of a lack of fundamental structural changes. Indeed, Bangladesh, with its lower per capita income, does better in terms of HAI and EVI compared to both countries. However, according to Transparency International's Corruption Perceptions Index (2013), all the three countries have a similar poor record in terms of their public sector corruption levels (Table 2). In view of this, it is reckoned that while the MIT essentially refers to income level, breaking the trap will also hinge on the economy's capacity to address key structural issues.

Bangladesh Context

As Bangladesh strives to move from a LMIE to an UMIE, and subsequently to the next income level status of HIE, new challenges of another order will have to be tackled. Indeed, each country needs to take cognisance of its own socio-economic, political, cultural, and historical factors in the context of which development actually takes place. These factors include elements of political economy in terms of participation in the economy and society, property rights, power relations, workings of political parties and institutions, the role of social organisations (including kinship systems, ethnic groups, and traditional authority), regional disparities, systems of exchange, market dynamics, and distributive justice (Beddis, 2008). With the increasing share of trade openness and global economic integration, countries such as Bangladesh are expected to be increasingly affected by the changing dynamics of international trade

Table 2. Income levels vis-à-vis vulnerability status

Country	Gross National Income (GNI) per capita (US$)	Public sector corruption*	Human Asset Index (HAI)**	Economic Vulnerability Index (EVI)***
Angola	5,300	153	41.9	39.7
Equatorial Guinea	13,340	163	54.8	39.3
Bangladesh	1,080	136	63.8	25.1

*Source: *Transparency International (Country Ranking, 2013), **WDI (Country Ranking, 2015), ***DESA (2015).*

and the evolving global economic situation, the political economy, and power relations. While the adverse effects of the economic and financial crisis of 2007–2008 on the Bangladesh economy was limited, such events are likely to have a greater impact in the future as Bangladesh's economy becomes more integrated with the global economy. This calls for policy reforms that could benefit certain sectors, but hurt others. These policy reforms would define the interests of particular stakeholders and also the power relations between various political and social actors (Robinson and Verdier, 2013). This in turn would induce these actors to support or oppose policies and reforms needed for greater growth. The sequencing, pacing, phasing, and timing of initiatives, associated with policy reforms could determine the level of tension and conflict within society; the success or failure of the reform process could in the end hinge on this (Hill, 2013).

This study uses a political economy lens to identify the potential change agents and their motivation to break the status quo in the context of Bangladesh. This paper will also look at the prevailing political framework in Bangladesh and how it can shape the dynamics between various actors during the transition phase.

Literature concerning the middle-income transition of Bangladesh

Economic analyses dealing with Bangladesh's middle-income transition have been rather limited, academic rigour is also wanting in many cases. The Commission on Growth and Development report (2008) is an important political economy study that has made an attempt to capture the dynamics of Bangladesh's economy.[6] The report argues that if the state of governance in Bangladesh has been barely adequate for the economy to generate growth momentum and tackle extreme poverty, it could increasingly prove to be a binding constraint in putting the economy firmly on the path of modernisation and transition to a higher growth trajectory and strengthened global integration. Indeed, some analysts (Asadullah *et al*., 2014; Sen *et al*., 2007) have termed the developmental experience of Bangladesh as the 'Bangladesh puzzle' in view of its robust economic performance against a backdrop of weak governance. Other analysts (Mahmud, 2001; Mahmud *et al*., 2008) have argued that the surplus in terms of political economy stimulus, generated in Bangladesh in the early 1990s (through the successful transition from decade-long military rule to civilian-democratic governance), has perhaps run its course. There is now a need for significant improvement in governance if Bangladesh is to sustain its past growth momentum (Mahmud, 2001). The fault lines of Bangladesh's economy are also obvious – its share of the manufacturing sector remains low, exports continue to remain highly concentrated in ready-made garments (RMG),[7] infrastructure is weak, and it is one of the most climate vulnerable countries in the world. Further success in social areas will also critically hinge on increased public sector and social spending, as well as more efficient budget allocation and utilisation, and improved quality of public service delivery.

On the other hand, Alamgir (2014) has argued that Bangladesh can continue to grow at its current pace and has the capacity to move to a higher growth trajectory and reach UMIE status by 2030 and developed country status by 2040–2050. These projections, however, are based on certain assumptions and the continuation of a number of drivers of accelerated growth.[8] The policy recommendations made have been mostly on the basis of linear trend estimation, backed by arguments derived from standard growth theories. These assumptions are in themselves justified, but the author has not outlined the underlying political economy factors that ought to be taken into consideration. One could argue that the possibilities of transition hinge critically on these factors. Several authors (Sobhan, 2007; Mahmud, 2001;

With the increasing share of trade openness and global economic integration, countries such as Bangladesh are expected to be increasingly affected by the changing dynamics of international trade and the evolving global economic situation, the political economy, and power relations.

The Bangladesh economy has experienced rapid initial progress according to many social development indicators, through increased public sector investment, enhanced participation of NGOs, GO-NGO partnerships, increased public awareness through social mobilisation campaigns, and by reaping the gains of affordable low-cost solutions. However, going forward to achieve further progress in social development indicators, the solutions are likely to be more capital-intensive.

Mahmud *et al*., 2008) have identified good governance; transparency and accountability; institutional capacity; and independence and separation of the executive, judiciary, and legislative branches as critical to Bangladesh's further development.

Shafiullah (2015) outlines the importance of setting a goal for advancing towards UMIE status and highlights the need to raise Bangladesh's competitiveness to be on par with other rapidly developing countries, particularly India, Indonesia, the Philippines, Cambodia, and Vietnam. Shafiullah also draws attention to the need for investment in human capital, systematic reforms favouring quality education, the adoption of productive technologies, increasing resilience to climate and environmental shocks, export diversification, and investment in energy, as priority areas in order for Bangladesh to make a smooth transition to the next economic status (Shafiullah, 2015). Putting emphasis on income inequality and poor governance, Ahmed (2011) highlights the need for proactive policy measures to offset the inequality in distribution, stressing the need to address the rent-seeking behaviour of the rich elites during the first phase of LMIE graduation. Hussain (2014) underpins political stability and the enforcement of the rule of law as critical to Bangladesh's future development. He also highlights the important role of productivity improvement and efficiency gains. Ahmed (2011) emphasises the importance of capital accumulation and the participation of a skilled labour force as key drivers of growth.[9] He also emphasises the significance of improving the share of investment as a percentage of the GDP.

As noted above, some authors have drawn attention to the criticality of governance and political economy factors if Bangladesh is to continue to accelerate its growth momentum. Sobhan (2007) has argued strongly in favour of strengthening both the voices and the role of marginalised stakeholders in economic governance, emphasising that distributive justice has to be ensured if Bangladesh is to accelerate its growth momentum, eradicate poverty, and promote productivity. Jahan (2014) has drawn attention to the need for the Parliament and political parties to play a more constructive role in relation to issues of economic prosperity and distributive justice. This is of critical importance if Bangladesh is to address the current deficits in terms of governance and strengthen its institutions.
Factors that emerge from various sources dealing with Bangladesh's smooth transition to UMIE and HIE status may be summed up as follows:

- Good governance, strong institutions, rule of law, transparency, and accountability;
- Productivity enhancement and efficiency gains;
- Structural transformation and decentralisation;
- Efficiency in public expenditure allocation and better public sector management;
- Distributive justice.

Following Bangladesh's independence in 1971, it took about four and half decades to graduate from LIE to LMIE status. During this interregnum, the country experienced a nine-fold increase in GNI per capita, while also experiencing a two-fold population increase.[10] A consistent GDP growth of six percent per annum and an annual 15 percent growth in remittance inflows (sent back to Bangladesh by migrant workers) over the last decade have enabled the Bangladesh economy to double its GNI per capita since 2005 (when it stood at US$540). In the process, the percentage of Bangladesh's population living below the national poverty line has decreased from 40 percent (BBS, HIES, 2005) to 25 percent (Bangladesh Planning Commission, 7FYP, 2015).

Over this period, Bangladesh's economy has been able to successfully integrate with the global economy. For example, the aid to trade ratio, which was 1:1 in the early 1990s, currently stands at 1:15. The share of agriculture in the GDP has decreased from more than 50 percent in the 1970s to less than 20 percent in recent years, during which Bangladesh has been able to attain near food security thanks to a more than tripling of food grain production. The Bangladesh economy has experienced rapid initial progress according to many social development indicators, through increased public sector investment, enhanced participation of NGOs, GO-NGO partnerships, increased public awareness through social mobilisation campaigns, and by reaping the gains of affordable low-cost solutions. However, going forward to achieve further progress in social development indicators, the solutions are likely to be more capital-intensive.

What can Bangladesh learn from the developmental experiences of other countries in view of the above? What lessons can be taken away from the growth experiences of these countries? What should Bangladesh do and what should it avoid doing? What type of political economy and political/economic drivers support or hinder graduation to the next rung? These are important questions that have practical significance from the perspective of designing appropriate strategies and policies, both in terms of avoiding the MIT, as well as sustaining and accelerating the growth momentum to reach a higher income trajectory.

Bangladesh's growth trajectory towards MIE status

The Bangladesh economy's degree of openness has increased over time, with significant compositional change in the GDP, away from agriculture and favouring the manufacturing and service sectors.

Since independence, Bangladesh has experienced several policy shifts under different political regimes (military rule, parliamentary democracy, restricted democracy, etc.). Studies have generally argued that economic reforms in Bangladesh have not been matched by the same progress in the building of political and economic governance institutions (Mahmud, 2001; Ahmed, 2011). During the years of military and quasi-military rule (1975–1990), followed by two decades of highly polarised political democracy, policy reforms have seen a progression towards an essentially liberalised, deregulated, and open market economy. In the earlier stages of Bangladesh's development, the emerging business classes took advantage of the reforms to reap economic benefits. Following the transition to democratic governance in the early 1990s, both the major political parties evinced broad commitment to the economic reform agendas.[11] Table 3 presents a summary of the major policy interventions in Bangladesh with broad-based results.

The summary in Table 3 shows Bangladesh's journey from a predominantly inward-looking economy to an outward-oriented economy, with a rising dependence on trade rather than aid.[12] The Bangladesh economy's degree of openness has increased over time, with significant compositional change in the GDP, away from agriculture and favouring the manufacturing and service sectors.

Table 3. Summary of major policy phases in Bangladesh and impacts

Policy phases	Major policy interventions	Outcomes
1972–1975	High tariff regimes and high protection; import substituting; state-centric development policies; planned form of development.	Economic reconstruction; public sector dominance; limited role of private sector; low investment levels.
1975–1990	Gradual opening up; import and tariff liberalisation; privatisation; market orientation; outward orientation.	Rise of domestic entrepreneurial class; emergence of export-oriented RMG sector; rise of the middle class; strengthening of rent-seeking class.
1990*–2000	Macroeconomic reforms: introduction of value-added tax (VAT); currency convertibility in the current account; further reduction of import tariffs; attempts at institution building; banking regulations, Company Act; further privatisation.	Parliamentary democracy; acceleration in trade openness; strengthening of private sector; acceleration in poverty alleviation; many Millennium Development Goals (MDGs) attained; increasing dominance of business class in economics and polity.
2000–till now	Deepening of import liberalisation; market-based (managed) exchange rates; political-business nexus; industrial-financial nexus; attempts at modernisation (telecommunication, digitisation); rise of the winner-takes-all politics.	Moderately high GDP growth rate of five to six percent; institutions remain weak; good governance deficits; low levels of FDI; rent-seeking; confrontational politics; rising inequality. The 'Bangladesh puzzle'; Bangladesh reaches LMIE status in 2015.

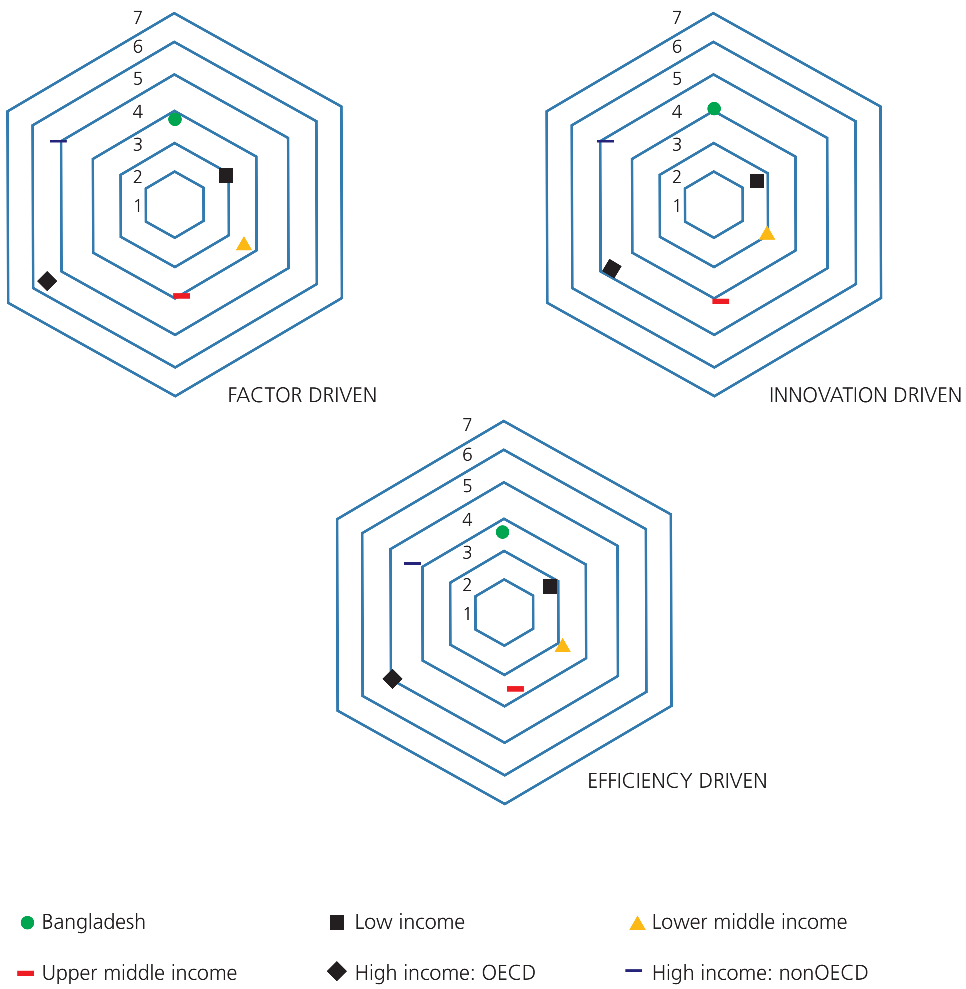
*Source: Authors' compilation from a range of government documents and published research works; *Signifies the start of Bangladesh's democratic administration.*

As can be seen in Figure 1, because of Bangladesh's high HDI score and its robust economic performance over the past years, Bangladesh's relative position vis-à-vis other LMIEs is somewhat better in terms of its scores for factor-driven and innovation-driven criteria.[13] Thus, Bangladesh is better positioned compared to other LMIE countries to take advantage of the ongoing efforts to digitise the economy, through the wider use of ICT, the introduction of e-governance, and other initiatives. These factors could help Bangladesh modernise its economy so that efficiency drivers could play a more proactive role in Bangladesh's economy and in order for the country to move towards innovation-driven production processes at a faster pace in the future.

At the same time, the consolidation of power among those with business-financial-political interests, and the strengthening of bipolar politics have resulted in a winner-takes-all type of confrontational politics. Investment, while picking up previously, has not been able to show a notable rise as a share of the GDP. Accelerating GDP growth from over six to eight percent, and then to 10 percent, as was envisaged earlier in plan documents, did not proceed as planned (Bangladesh Planning

Bangladesh is better positioned compared to other LMIE countries to take advantage of the ongoing efforts to digitise the economy, through the wider use of ICT, the introduction of e-governance, and other initiatives.

Figure 1. Scale comparison of economic factors between Bangladesh and country income groups



Source: Global Competitive Index, 2015.

Evidence also suggests the growing influence of money in politics is increasingly consolidating the politics-business nexus.

Commission, 6FYP, 2010). All of these factors call for a fresh look at the political economy of change in the particular context of Bangladesh during the transitional phase of its growth trajectory.

Status quo versus drivers favouring change

As noted above, after registering robust growth, Bangladesh has faced significant challenges in trying to achieve further growth. Despite plans to accelerate growth rates to double-digit figures, the pace of growth in Bangladesh has slowed down. Sobhan (2016) argues that till now Bangladesh has enjoyed the benefits of its democratic assets: devaluation of identity politics; a narrow social divide; emergence and advantages of a bipolar political system. He observes that in contemporary Bangladesh these assets have now transformed into liabilities and identifies the following key problems: (a) re-contesting of identity; (b) the emergence of confrontational politics; (c) a winner-takes-all political culture; (d) the role of monetary power in politics; (e) the exclusionary role of electoral politics.

This particular aspect of Bangladesh's transformation, where the power structure and production relations have failed to match the growth of productive forces and citizens' aspirations, has happened for several reasons. The ruling elites are not satisfied with the reach they have over the resources at the disposal of state itself; the group is also interested in having a share of the increasingly lucrative private sector. Command over these expanding resources can only be exercised by those who have a strong grip on political power. Hence, the bipolar politics, which were once perceived to be a positive point of democratic dispensation in Bangladesh, have gradually transformed into bipolar, winner-takes-all politics. In such a situation, institutions are subjected to political pressure and unable to work independently. Typically, strong alliances have been forged between politics-business-finance capital, which has grown stronger through favour distribution, the granting of licenses, access to credit, the granting of government contracts, etc. Evidence also suggests the growing influence of money in politics is increasingly consolidating the politics-business nexus. This nexus is also revealed by the change in the composition of members of successive Parliaments in Bangladesh.[14]

Despite measures introduced to stimulate private sector investment – through public sector investment in infrastructure and supportive fiscal-monetary measures – private sector investment has not picked up to the extent needed to accelerate GDP growth.

After three successive contested elections (1991, 1996, and 2001), Bangladesh's democratic journey was interrupted in 2006 when a non-elected military-backed civilian government assumed power. The parliamentary election in 2008, which was considered a fair election, was followed by an election in 2014 in which the main opposition party did not take part. The violence that followed the 2014 election had significant adverse effects on the Bangladesh economy, which led to considerable economic losses.[15] This has resulted in a reticence on the part of potential investors, who tend to make investment decisions based on medium to long-term predictability. Despite measures introduced to stimulate private sector investment – through public sector investment in infrastructure and supportive fiscal-monetary measures – private sector investment has not picked up to the extent needed to accelerate GDP growth. Indeed, private sector investment has hovered at around 21–22 percent of the GDP for the past few years (BBS, 2015).

The absence of a lively debate in the Parliament deprives the government from hearing critical perspectives on pursued policies and has led to a weakening of transparency and accountability. The appetite for reforms has been circumvented; business as usual consolidates the powers of those who are not willing to undertake the needed regulatory, administrative, and policy reforms. Indeed, the interests of these drivers lie in maintaining the status quo and curbing the space for debate and discussions. The lack of trust that this has created is a major impediment for Bangladesh going forward. Stiglitz (2015) has argued that nowhere is trust more important than in politics and the public sphere. Such trust is very much lacking in contemporary Bangladesh. Inclusive politics and inclusive economics are needed against this backdrop.

Bangladesh was ranked at the bottom of Transparency International's Corruption Perceptions Index for five consecutive years (between 2001 and 2005). While some improvement has taken place in this regard over the past few years, by all accounts, and according to many studies, corruption remains endemic and is costing Bangladesh several percentage points in terms of GDP growth.[16]

The weakening of oversight institutions, the political-business nexus, and political pressure have led to a number of financial sector scandals (concerning the Sonali Bank, the Basic Bank, etc.) and serious debt. Indeed, Bangladesh now has one of the highest ratios of non-performing loans (NPL) to outstanding advances anywhere in the world.[17] The government has frequently resorted to rescuing banks through the rescheduling of loans and frequent write-offs, at the cost of depositors and taxpayers. The privatisation policy implemented by successive governments has also been faltering. Such privatisation of assets owned by taxpayers and nationalisation of losses incurred by the private sector have led to the further consolidation of powers favouring the status quo.

The weakened power of the working classes and trade unions helps maintain the status quo. The power of trade unions has significantly eroded over the past years, particularly as a consequence of the weakened role of state-owned enterprises, where they had traditionally been very strong. Despite the recent amendments to the labour laws, the enforcement of workers' rights and functions of trade unions remain rather weak.[18] Against the backdrop of the slow development of trade unionism in Bangladesh's evolving private sector, workers' voices tend to be very weak in terms of their ability to influence policies. However, the rising share of the manufacturing and service sectors have meant that new workers have joined these sectors in larger numbers in recent years. The amended Labour Law (2013) provides a potential window of opportunity for workers to form trade unions to enforce workers' rights at the enterprise level. Trade unions have the capacity to emerge as a powerful voice and as a part of the 'contingent coalition' (PPRC, 2016) in support of the discourse favouring change. However, this will require both the state's support to enforce labour law and the emergence of trade unions as a strong collective force.

A weakened civil society undermines both the desire and the capacity to be an agent for change. While there are honourable exceptions, in general the voice of civil society, which is so critically important to breaking the status quo, has been subdued. For change-favouring higher economic performance to take place, a vibrant civil society is needed to stimulate debate and discussion within society.

A false dichotomy is often presented as a choice within the Bangladesh context: democracy or development. This essentially posits that some sacrifices in terms of democracy may be needed, and even necessary, for the sake of development. This needs to be considered in view of recent developments: the political field is framed in an exclusionary manner, contested politics are discouraged, the voice of civil society is muted, and the politics-business nexus is growing increasingly stronger.

Addressing and highlighting the issues of inequality and distributive justice is essential to ensuring higher growth with equity. After some improvements, inequality has remained

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There is a need for conscious policies that favour redistribution, stimulate investment in education that promotes upward mobility, and other supportive initiatives.

more or less the same over recent years.[19] As Stiglitz (2015) mentions, inequality is a product of political and not merely macroeconomic forces; with income inequality comes disparity in opportunities, with devastating macroeconomic consequences. He goes on to argue that markets do not exist in a vacuum. High levels of economic inequality lead to political inequality. In such a situation, opportunities for economic advancement become unequal as well, reinforcing a low level of societal mobility. When this happens, societal well-being and economic efficiency fall, even as officially measured wealth rises. Thus, there is a need for conscious policies that favour redistribution, stimulate investment in education that promotes upward mobility, and other supportive initiatives that could allow Bangladesh to unleash its human resource power and realise the potential benefits of a demographic dividend.

Avoiding the MIT: Learning from others, lessons for Bangladesh

A review of the literature on the MIT reveals some distinctive attributes of countries that have been able to accelerate their pace of transition from MIE status to HIE status and countries that got stuck in the MIT. What transpires from this review is that countries that successfully undertook the needed policy reforms, pursued inclusive politics and good governance, promoted strong institutions, supported inclusive growth, and encouraged social mobility have tended to grow at a faster pace. These countries have been able to take advantage of the demographic dividend, attracted high levels of domestic investment and FDI, and generated accelerated GDP growth and per capita income. In contrast, countries that failed to take such measures have not been able to sustain their growth momentum, lost their competitive edge, and have experienced faltering growth. Evidence suggests that high inequality, an unholy military-politics-business alliance, and a lack of reforms have had a devastating impact on the economic development of a number of Latin American countries. Brazil and Argentina, who were both stuck in the MIT for prolonged periods, are cases in point. In Argentina, low levels of investment in education, technological adoption, and institutional and development infrastructure, were major causes of economic stagnation (Hamilton-Hart and Jomo, 2003). In the case of Brazil, the poor quality of governance undermined initiatives aimed at improving the performance of the private sector; cumbersome bureaucratic requirements made the cost of doing business too high for the needs of complex production chains. This undermined productivity and led to a significant waste of human and material resources (Bello *et al.*, 2011). Latin American countries such as Argentina, Brazil, Venezuela, and Peru failed to improve their human capital to the extent necessary to elevate labour force productivity. In terms of infrastructure development, progress was slow, which had adverse implications for investment. In Venezuela, the high concentration of political power in the hands of land-owning elites who served the interests of domestic business classes led to high inequality.

Countries that successfully undertook the needed policy reforms, pursued inclusive politics and good governance, promoted strong institutions, supported inclusive growth, and encouraged social mobility have tended to grow at a faster pace.

In contrast, the East Asian Tiger economies pursued export-oriented strategies by targeting strategic trade and industrial policies. The blending of skilled labour and technology led to productivity gains that in turn led to higher wages and a higher per capita income. The governments of these economies reformed institutions to deliver quality services. They also developed value chains and incentivised production networks when needed, through the deepening of regional and sub-regional cooperation. Investment in quality education was a common feature, which yielded rich dividends in moving from factor-driven to technology-driven to innovation-driven production processes. These governments promoted FDI and encouraged entrepreneurship through supportive fiscal-monetary policies and incentives.

Indeed, an econometric exercise carried out for the purpose of this study (Annex 1) indicates that economies that have been struggling in middle-income transition for over 28 years are facing formidable constraints on account of political factors, domestic demand creation, and FDI. This in turn alludes to the need for the joining of drivers that support a change in the status quo.

Strategies to avoid the MIT

Now is an opportune moment for Bangladesh to learn lessons from cross-country experiences for its journey in the future and take the necessary measures to break the status quo.

As mentioned above, Bangladesh has just entered LMIE status. As has been the case for many countries, once they attain LMIE status, they find it increasingly difficult to sustain their growth momentum and graduate to UMIE status, and then to HIE status. Now is an opportune moment for Bangladesh to learn lessons from cross-country experiences for its journey in the future and take the necessary measures to break the status quo. Through a critical examination of the existing political framework and economic landscape in Bangladesh, and by learning lessons from cross-country experiences, Bangladesh will need to design a roadmap that will accelerate the growth momentum in order to become an UMIE within the shortest possible time period, and thus avoid the MIT.

Indeed, the common heritage of cultural, linguistic, and normative values within the country could serve as a strong point for Bangladesh going forward. However, Bangladesh will need to overcome the resistance from drivers that thrive on divisive politics, display rent-seeking behaviour, seek to exploit state resources, and benefit from weak institutions and bad governance. Bangladesh will need to tackle these negative phenomena head-on to realise the Bangladesh economy's potential by taking advantage of the drivers of economic growth, supported by a coalition of drivers that yearn for, and demand change.

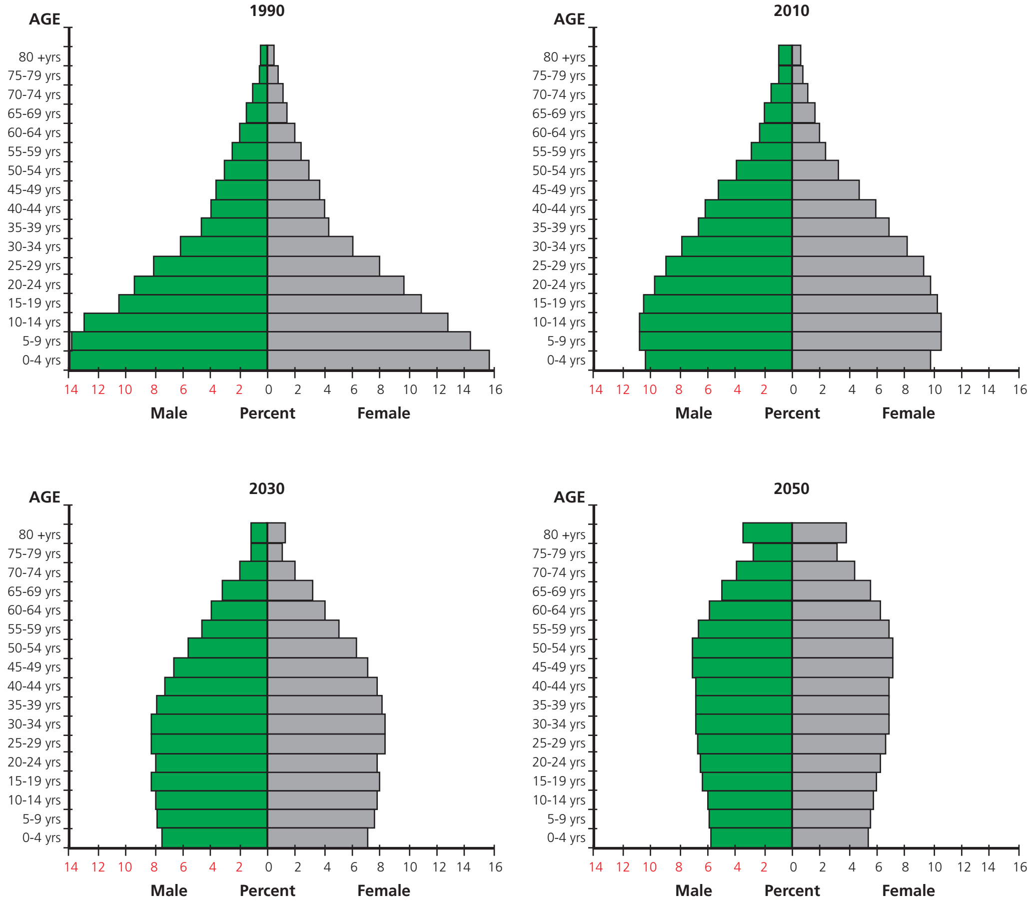
One may further develop the above idea by drawing on the findings of the Power and Participation Research Centre (PPRC, 2016) where the following is argued: within such a deficient politico-institutional milieu, Bangladesh has been surprisingly successful in driving policy reforms in certain critical sectors that went on to have larger system-wide impacts. Examples include: MDG successes in poverty, health, and education; banking sector reforms in the early 1990s and telecommunication sector reforms in the late 1990s; and policy impetus towards private sector media in the 1990s. Such reform successes were neither linear nor narrowly attributable to any one policy. Rather, they were due to a certain type of policy entrepreneurship collaboration, a 'contingent coalition' of policy entrepreneurs, social entrepreneurs, and political entrepreneurs that coalesced around a clearly focused policy goal. Such 'contingent coalitions' have been a key, if little studied, driver of change in Bangladesh's transformation to date and will potentially be so in the future too. Gradually building a broad-based coalition around a development vision – through focused and targeted discussions, dialogues, and discourse – could be a possible way to move forward in the Bangladesh context. Such coalitions of the willing on specific issues can indeed be powerful drivers of change in certain areas. However, it is reckoned that for the country to move forward at a faster pace of development, a broader systemic coalition will need to gradually evolve around a broad-based development vision.

To move forward, Bangladesh will need to stimulate investment and ensure productivity gains. This will call for policy predictability and to address the issue of the lack of political legitimacy (Khan, 2010). Inclusive governance that provides space for political opposition, is sensitive to the voices of civil society, allows for the exercise of freedom of expression, and enforces trade union rights, will be critically important in view of this. These will define both the remit and agenda of the coalition of drivers that are willing and able to bring about change.

The political framework must prioritise the developmental needs of Bangladesh in order to avoid the MIT. In order for this to happen, drivers that have an interest in supporting and promoting growth strategies need to come together. Human resource development will need to be given the highest priority if Bangladesh is to move from a factor-driven to technology-driven economy (and then to an innovation-driven economy), which is needed to translate Bangladesh's comparative advantages (both revealed and hidden) into competitive advantages. The government of Bangladesh will need to revamp curricula and encourage vocational and technical education. Of particular importance will be the need to ensure higher labour force participation (LFP) of women.[20] As Figure 2 shows, Bangladesh has a window of opportunity to take advantage of the demographic dividend over the next few years.[21] Indeed, the age profile indicates that Bangladesh is currently enjoying a demographic dividend, which will continue for about the next two decades. This period coincides with Bangladesh's ambition to become a HIE. Hence the urgency of undertaking reforms in terms of education, skills upgrading, training the workforce towards productivity enhancement, and efficiency-seeking investment. The spillover effect of these reforms are hoped to ameliorate the productivity status of the economy by bringing more efficiency into institutional procedures, and therefore should motivate concerned stakeholders as Bangladesh's economy is going to enjoy the advantages of a competitively-waged labour force over the next few years.

Bangladesh will need to overcome the resistance from drivers that thrive on divisive politics, display rent-seeking behaviour, seek to exploit state resources, and benefit from weak institutions and bad governance.

Figure 2. Demographic composition of Bangladesh from 1990–2050, by gender



Source: Authors' compilation from UN Dataset, 2015.

Trade facilitation and seamless connectivity will allow Bangladesh to be competitive and gain entry into regional markets from a position of strength.

Bangladesh's competitively-waged labour force will call for higher investment in education and human resource development. This is also needed to allow entrepreneurs to offer higher and decent wages and ensure a legally compliant working environment for workers. This will also help Bangladesh to earn higher remittance flows from the overseas job market through the higher incomes of migrant workers, whose current income level is very low. Indeed, the relatively weak will gain disproportionately more from the allocation of higher public resources to education and skills development, as this will ensure higher social mobility and help reduce inequality. Strong social mobilisation will be needed to ensure higher resource allocation to education and skills development, in line with the UN Educational, Scientific and Cultural Organization (UNESCO)'s recommendation to allocate six percent of the GDP and 20 percent of the budget to the education sector (Development Finance International, 2015).

Infrastructure has emerged as a binding constraint impeding prospects of higher development in Bangladesh.[22] The government will need to significantly invest in developing transport connectivity, in order to make energy available to country's consumers and producers, and also to take advantage of Bangladesh's closer economic integration with South Asian and Southeast Asian economies, as well as with the economies of East Asia. Trade facilitation and seamless connectivity will allow Bangladesh to be competitive and gain entry into regional markets from a position of strength. Indeed, Rahman and Jahan (2015) believe that close inter-regional economic cooperation between South Asian and Southeast Asian countries could help countries in the former graduate from LMIEs to UMIEs, and countries in the latter to come out of the MIE status. However, such investments will need to be carried out in compliance with the norms of good governance, transparency, and accountability. The need for this is of high importance, particularly since huge financial resources are involved and the risk of rent-seeking, which would lead to cost escalation and misallocation of resources, remains high. It should also be noted that Bangladesh's developmental challenges will be further accentuated once it graduates from the LDC category, when it will no longer enjoy the preferential market access enjoyed by LDCs.[23]

Women's participation in socio-economic processes will be key to attaining the developmental status hoped for by Bangladeshi citizens, as without their participation the potential of half of the population remains untapped.

Bangladesh's most precious resource is its people. Their quest for a higher standard of living and higher income, secured livelihood, and upward mobility will need to be met if the opportunities originating from the demographic dividend are to be realised. This will call for reforms and measures that advance the demands of translating human resources into drivers of change, both as a political force and as economic agents. Sobhan (2016) captures the array of multidimensional tasks involved in this process in the following way: (a) people as development resources; (b) investing in people; (c) people as a market; (d) incentivising people through inclusive policy agendas; (e) promoting inclusive politics; (f) giving people a stake in democracy; (g) people as a source of global competitiveness. The aforementioned challenges will call for new coalitions of political and social forces that will have a stake in realising the potential of the Bangladesh economy. This will also call for a rethink of the developmental role of political parties, inclusive politics that provide space for political dissent, and allowing civil society groups to function independently. As preceding analyses have shown, women's participation in socio-economic processes will be key to attaining the developmental status hoped for by Bangladeshi citizens, as without their participation the potential of half of the population remains untapped. To enhance productivity and accelerate the pace of investment, there will be a need for a skilled labour force, decent jobs, and decent living wages. Authorities will need to ensure the enforcement of trade union rights and a greater voice for workers in economic activities in general, and within enterprises in particular.

Governance institutions and public institutions dealing with development will need to be geared towards servicing the needs of the people and the developmental needs of the economy. From this perspective, institutions such as the Anti-Corruption Commission, the Bangladesh Public Service Commission, and the Election Commission need to be able to work independently. There also needs to be a high degree of decentralisation, with local elected governments vested with adequate responsibility and power to fulfil their mandate. Good governance and efficient, accountable administration is necessary for better service delivery. Strengthened ability towards greater domestic resource mobilisation will be required for generating higher investible resources. In fact, the generation of constituency-specific data and information on local level performance indicators could be helpful in generating healthy competition among peoples' representatives. If the media highlights these results, this can advance the cause of accelerated decentralised development in the country.

Inner party democracy within political parties will need to be strengthened and there will be a need to move away from the prevailing winner-takes-all political culture. Members of Parliament (MPs), democratically elected through free and fair elections, ought to play the central role in voicing the aspirations of citizens and implementing developmental agendas. An independent media will play an equally important role, both in giving a voice to people's aspirations and providing critical perspectives on issues of socio-economic-cultural interest.

The generation of constituency-specific data and information on local level performance indicators could be helpful in stimulating healthy competition among peoples' representatives. If the media highlights these results, this can advance the cause of accelerated decentralised development in the country.

Moving forward: A partnership for change

There is a need for a new coalition of drivers favouring change in order to continue – and accelerate – Bangladesh's past growth so that it is able to graduate to UMIE and HIE status within a reasonable period and avoid the MIT.

The nature of the political economy and the correlation of drivers in the 21st century, which will be required to serve the needs of the Bangladesh economy, as well as the aspirations of its people, will need to be commensurate with the emerging demands. As preceding analyses have shown, the surplus of political economy stimulus that Bangladesh generated with the ushering of democracy in the early 1990s appears to have run its course. There is a need for a new coalition of drivers favouring change in order to continue – and accelerate – Bangladesh's past growth so that it is able to graduate to UMIE and HIE status within a reasonable period and avoid the MIT. In the political economy of change, this means change agents need to join forces in a broad societal change coalition (Saxer, 2015). The drivers that are interested in maintaining the status quo ought to be replaced by those committed to taking advantage of the new opportunities presented to Bangladesh at the regional, national, and global level.

It is not easy to build broad societal coalitions because the various groups in society have a diverse range of interests and priorities. The lowest common denominator may be too narrow to serve as a platform for broad change (Saxer, 2015). One way forward, suggested by Saxer (2015), is to build a broad societal change coalition through discourse coalition, where instead of brokering a transactional compromise between different interests, it may be more fruitful to forge an alternative paradigm where these interests converge. Sobhan (2010) argues that workers' stake in development can be significantly enhanced if they are given shared ownership of the enterprises, through some form of collective ownership. However, such shared ownership will perhaps critically hinge on how the discourse mentioned above would be shaped and if there is a broad-based consensus around such radical ideas.

The preceding sections have articulated a number of key elements needed for Bangladesh's transformational journey, covering the wide spectrum of political, economic, and social issues. The arguments highlighted that non-inclusive politics, vested interest groups, corruption, rent-seeking behaviour, weak institutions, and poor governance stand in the way of accelerating growth and inclusive development in the Bangladesh context. In view of the above, and to address the emerging challenges, there is a need for new coalitions of drivers, which have high stakes in bringing transformative changes in Bangladesh, to emerge. In short, such a coalition could include drivers that support: (a) inclusive politics and the democratisation of political parties; (b) effective devolution of power; (c) the promotion of reforms geared towards good governance and accountable, transparent administration; (d) greater mobilisation of domestic resources; (e) a productive private sector; (f) effective public-private partnerships; (g) an empowered working class and enforceable trade union rights; (h) women's empowerment; (i) the development of productive forces to cater to the needs of building supply-side capacities, moving up the value chain, building production networks through higher investment in technological upgrading and imparting of skills; (j) greater space for civil society and citizens' voices; and (k) strengthened regional and global integration of the Bangladesh economy.

The realisation of the above aspirations could encourage and inspire a broad spectrum of actors in Bangladesh society, both from the political and non-political sphere. Through political processes, civic activism, and an active media, this coalition can play the role of change agents in this transformational journey. For this coalition to be a force for change, there is a need for more dialogue, interaction, and collaboration among all the stakeholders involved. Through this process, agendas for development would emerge and champions of particular agendas could then take concrete steps to ensure that the agenda is implemented on the ground and aspirations are realised. As Bangladesh has just recently entered the MIE category, now is the right time to think about how a platform, which would work to achieve these aspirations and transform Bangladesh into a HIE country by avoiding the MIT, could evolve.

Appendix: An empirical analysis on MIEs

The study includes an empirical analysis of fixed and random effects models. The analysis was carried out using a panel regression on 32 countries (Table 5) for the period between 1987 and 2014. These countries were at that time in the LMIE category according to the WB GNI per capita threshold (as per the Atlas method). The following model specification was found to be statistically sound on the basis of the Ramsey Regression Equation Specification Error Test (RESET) (robustness check for omitted variables) and the Akaike information criterion (AIC) test, whereas on the basis of the Hausman test (comparison test between fixed and random models) the random effect model was found to be statistically sound over the fixed effect model.

$$\ln(\text{GDP per capita})_{it}=\alpha+\beta_1 \text{ Investment}_{it}+\beta_2 \text{ labor force}_{it}+\beta_3 \ln(\text{lag GNI per capita})_{it}+ \beta_4 \ln(\text{political risk rating})_{it}+\beta_5 \ln(\text{oil price})_{it}+\beta_6 \text{ Trade Openness}_{it}+\beta_7 \text{ FDI}_{it}+ \beta_8 \text{ ODA inflow}_{it}+\beta_9 \text{Unemeployment}_{it}+\varepsilon_{it} \quad \ldots\ldots \text{(i)}$$

The dependent variable of the model is real per capita GDP data (data source: WDI). Explanatory variables of the model are investment (gross fixed capital formation as a percentage of GDP: WDI), size of labour force (people aged in between 15–64 years as a percentage of total: WDI), log of lagged real per capita GNI (WDI), log of political risk rating (PRS database), log of oil price (pink sheet data, WB), trade openness (sum of export and import value as a percentage of GDP: WDI), FDI (as percentage of GDP: WDI), ODA received (as percentage of GNI: WDI), and unemployment (WDI, ILO model estimation).

The result of an empirical model (Table 4) suggests that an improvement in the political risk rating has positively contributed to the per capita growth status of these economies. Specifically, the average effect of political risk rating over real per capita GDP is 0.14 percent when it improves across time and between economies by one percent. What transpires from the exercise is that the state of the political economy has a statistically significant influence over time and between economies during middle-income transitions.

Table 4. Results of regression analysis of fixed and random effects models

Variables	Fixed effect	Random effect
Dependent variable	Log of real per capita GDP (constant at 2005 US$)	
Investment	0.000323	0.0003
Labour force	0.001	0.001
Log of lagged GNI per capita	0.733***	0.729***
Log of political risk rating	0.137***	0.139***
Log of oil price (US$/bbl)	0.042***	0.043***
Trade openness	0.0002	0.0002
FDI	0.003***	0.003***
ODA received	0.0001	0.0001
Unemployment	-0.002	-0.002
Intercept	1.21**	1.22**
N	602	602
r2	92.25	

*p<0.05; **p<0.01; ***p<0.001

Source: Authors' estimation.

Besides, the average effect of FDI on per capita real GDP was found to be statistically significant, albeit of a lower magnitude (0.003 percent), when FDI inflow increases across time and between economies by one percent. Similarly, a statistically significant positive relationship was found between percentage change in lagged GNI per capita and economic growth. The average effect of domestic demand mobilisation on economic growth was found to be 0.73 percent across time and between economies.

Table 5. Selected 32 economies for empirical analysis

1	Bolivia	17	Malaysia
2	Botswana	18	Mexico
3	Cameroon	19	Morocco
4	Chile	20	Nicaragua
5	Colombia	21	Papua New Guinea
6	Congo, Republic of	22	Paraguay
7	Costa Rica	23	Peru
8	Dominican Republic	24	Philippines
9	Ecuador	25	Poland
10	Egypt, Arab Republic of	26	Senegal
11	El Salvador	27	South Africa
12	Guatemala	28	Thailand
13	Honduras	29	Tunisia
14	Jamaica	30	Turkey
15	Jordan	31	Yemen, Republic of
16	Lebanon	32	Zimbabwe

Source: WDI, 2016 and WB's historical classification by income.

Notes

1. According to the WB's classification (2015), economics were ranked as follows: a GNI per capita of less than US$1,045 are LIEs; US$1,045 to less than US$4,125 are LMIEs; US$4,125 to less than US$12,735 are UMIEs; and US$12,736 or more are HIEs.
2. Indermit Gill and Homi Kharas used the term 'middle-income trap' to describe an economic development situation where a country suffers from an inability to sustain the momentum of robust economic performance. The country is characterised by relative economic stagnation and an inability to convert comparative advantages into competitive advantages. It is prevalent among countries that have escaped poverty but are yet to achieve prosperity (Gill and Kharas *et al*., 2007).
3. A consistent set of data on political economy variables is only available since 1984.
4. The income threshold for the LDC category is also different.
5. T-test tool was used for the purpose of the analysis.
6. The report is titled "Economic Reforms, Growth and Governance: The political economy aspects of Bangladesh's development surprise".
7. RMG exports currently account for four-fifths of Bangladesh's total exports (EPB, 2015).
8. The major drivers are: demographic dividend, skill development and productivity growth, financial inclusion with stability, a functioning pluralistic democracy, rising total and agricultural labour and land productivity, growing rice commercialisation, rapid growth of exports, improved female literacy and LFP, overseas employment and remittances, and structural flexibility (amenable to change). Constraints are: land; connectivity; energy; skills; governance; finance; policies and institutions; basic education; regional cooperation; climate change and natural disaster; and the size, structure, and functioning of the domestic market (Alamgir, 2014).
9. Jointly captured by growth in TFP.
10. In 1973, Bangladesh's GNI per capita was US$120 and its population was around 72 million. In 2015, Bangladesh's GNI per capita was US$1,080 and its population was 160 million.
11. The two major political parties are: the Bangladesh Awami League (AL) and the Bangladesh Nationalist Party (BNP).
12. A transition from aid to trade is well reflected in statistics: Bangladesh's degree of trade openness has significantly increased since the 1990s and is now 39.2% of the GDP. Bangladesh's aid to trade ratio became 1:15 in 2015, compared to 1:1 in the 1980s (BBS, 2015; BB, 2015).
13. Factor-driven criteria consider: institutions, infrastructure, macroeconomic environment, health, and primary education. Efficiency-driven criteria consider: higher education and training, goods market efficiency, labour market efficiency, and financial market efficiency. Innovation-driven criteria consider: technological readiness, market size, business sophistication, and innovation.
14. There has been a significant change in the professional background of MPs. Whereas fewer than 30 percent of the MPs elected in the 1970s were businessmen or industrialists, more than 50 percent of the MPs in the fifth, eighth, and ninth Parliaments belong to this category. The percentage of MPs with a legal or professional background has decreased, from 42 percent of MPs in the first Parliament to 22 percent of MPs in the ninth Parliament. The number of full-time politicians in Parliament has also decreased from 13 percent in the first Parliament to five percent in the ninth Parliament. In contrast, retired civil and military bureaucrats are increasingly getting elected to the Parliament from three percent in the Constituent Assembly elected in 1970 to 10 percent in the current Parliament (Jahan and Amundsen, 2012).

15. The political violence from January–March 2015 is estimated to have caused losses equivalent 0.55 percent of the GDP (CPD, 2015).

16. The estimated cost of bribery in the service sector was the equivalent of 2.4 percent of the GDP in 2012 (Iftekharuzzaman, 2012).

17. NPLs accounted for 10 percent of total loans in December 2015 (BB).

18. As a result of the Rana Plaza tragedy, some corrective measures are now being put in place to ensure workers' rights in enterprises. However, collective bargaining power and the enforcement of trade union rights face a lot of challenges on the ground.

19. Gini-coefficient of income inequality in Bangladesh was 0.467 in 2005/2006 and 0.458 in 2010 (HIES, 2010).

20. The LFP rate is about 81.7 percent for men and 33.5 percent for women (LFS, 2013).

21. According to the ADB definition, demographic dividend is the economic benefit that can arise when a population has a relatively large proportion of working age populace, and effectively invests in their empowerment, education, and employment. Currently, in Bangladesh, about 65.69 percent of people (aged 15–64) are part of the labour force. 29.48 percent of people are aged below 15, and 4.82 percent of people are aged above 65 (WDI, 2015). The age dependency ratio is 52 (percentage of working-age population) where young age-dependent people constitute nearly 86.5 percent.

22. According to WB estimates, Bangladesh will need about US$100 billion over the next 8–10 years (2011–2020) to develop the needed infrastructure (Andrés *et. al.*, 2013).

23. A study by CPD in 2015 projects that Bangladesh will graduate from the LDC category by 2024, and preferential treatment as a LDC may end by 2027.

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