

Case Study 2

Comparative Economic Development: Pakistan and Bangladesh

In 1971, Bangladesh declared independence from Pakistan. Previously, Bangladesh had been known as East Pakistan, and what is now Pakistan was called West Pakistan. Though more than 1,000 miles apart, both were part of a single country, with economic and political power concentrated in West Pakistan. Because they were once the same country, Pakistan and Bangladesh make for an interesting exercise in comparative development, in that the two shared a common national policy in the early years, even if they did not benefit from it equally. Pakistan and Bangladesh had about the same population in 2009 (181 million in Pakistan, 162 million in Bangladesh). They are located in the South Asian region, are both overwhelmingly Islamic, and were both once part of the colonial British Raj of India. Bangladesh was for a long time the global symbol of suffering, from the Bengal famine of 1943 to the 1971 Concert for Bangladesh featuring George Harrison, Eric Clapton, and Bob Dylan to the horrors of the 1974 postindependence famine.

But analysts such as William Easterly have declared Pakistan a leading example of “growth without development,” with low social indicators for its income and growth. Meanwhile, Bangladesh, though still very poor and afflicted with many of the social problems found in Pakistan, has been transforming itself from a symbol of famine to a symbol of hope.

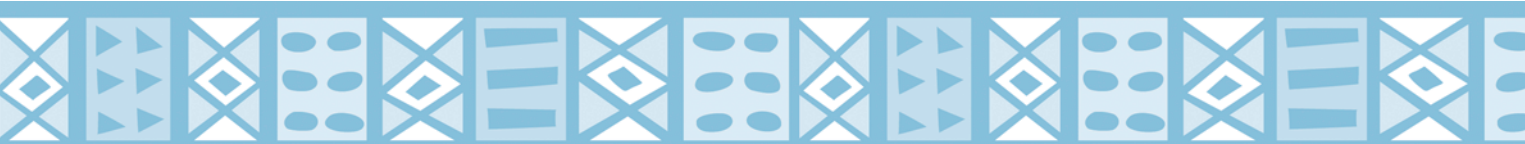
When Bangladesh gained its independence, it was viewed as lagging insurmountably behind Pakistan. Indeed, its poor social and economic development in comparison with West Pakistan was a major impetus behind the independence movement, which complained that Bangladesh was being drained of tax revenues to benefit West Pakistan. The war for independence itself and the economic

destruction deliberately visited on Bangladesh’s industry left an even wider gap, while abuses left serious psychological scars, and a terrible famine followed. One U.S. statesman undiplomatically dubbed Bangladesh the “international basket case.” Others somewhat more tactfully called it the “test case for development”—meaning that if development could happen in Bangladesh, it could happen anywhere. Four decades later, Bangladesh is confounding the skeptics; it actually looks like it may pass this test.

Not that Bangladesh has dramatically outperformed Pakistan. Bangladesh continues to have serious development problems, even compared with countries such as neighboring India. It is rather that Bangladesh has made *relatively* better progress than Pakistan, particularly on social development indicators, despite its handicaps at independence and expectations that it would continue to fare badly. Bangladesh started at a much lower level of social development and still has lower income. But in achieving more progress on social development, Bangladesh now also has the conditions for accelerating economic progress in the coming years, particularly if continuing problems of governance can be overcome.

Growth

PPP-adjusted incomes remain higher in Pakistan (\$2,590 in 2008) than in Bangladesh (\$1,450), but PPP estimation is difficult and other recent estimates show a more narrowed gap. In Pakistan, per capita income grew at about 2.2% per year in the half-century from 1950 to 2000. As a result, per capita income tripled. But the growth rate declined decade by decade, even as it rose in other countries,



including India. The decline in the growth rate may be a result of the poor performance on social indicators. From 2003 to 2007, growth in Pakistan accelerated, and the gap between these countries widened somewhat; it remains to be seen whether Pakistan's higher growth performance will be sustainable (in fact, growth fell back to about 3% in 2008 and 2009 after the global economic crisis). Indications are that Pakistan has experienced much less pro-poor growth in comparison with Bangladesh. In Bangladesh, farm yields are up dramatically, and the economic growth rate now tops 4%. When the international textiles quota system of the Multifiber Arrangement ended in 2005, Bangladesh garment factory jobs—a major source of job creation—were at ongoing risk. The speed and astuteness of the response has been a major test of the resiliency of the Bangladeshi economy. So far, the outcome is better than many predicted; and the impact of the global crisis was comparatively modest.

Poverty

The World Bank currently estimates that 23% of the population lives below the \$1.25 per-day poverty line in Pakistan, compared with 49% in Bangladesh. But poverty progress has been impressive in the onetime “basket case” of Bangladesh, and incomes of the poorest people are rising. Many factors have contributed to the relatively rapid decrease in extreme poverty in the country, including the early and quickly disseminating green revolution, the impressive role of indigenous nongovernmental organizations (NGOs) fighting poverty in rural areas, opportunities for women's employment in export industries, and remittances from relatives working abroad. Bangladesh remains a significantly poorer country, with 80% of Bangladeshis living on less than \$2 per day, while the figure is a still very high 59% for Pakistan. But the two countries received much more similar scores on the UNDP's new multidimensional poverty index (discussed in Chapter 5). Pakistan was only slightly less poor, ranking No. 70 with a score of 0.275, while Bangladesh ranked No. 73 with a score of 0.291, when aspects of poverty broader than income are considered.

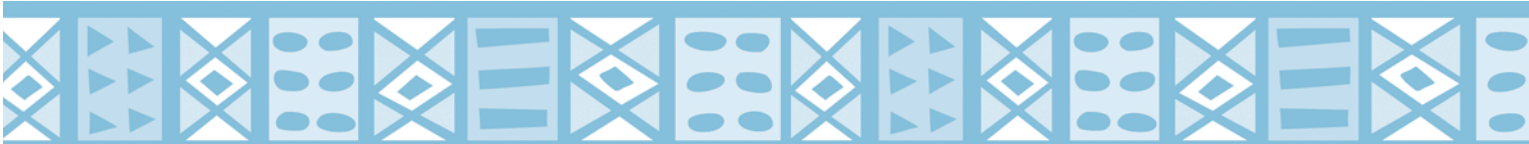
Education and Literacy

In both countries, the adult literacy rate is still a low 54%, but literacy has been growing more quickly in

Bangladesh and with greater gender equity. In Pakistan, female literacy is just 40%, and in some regions of the country, particularly Baluchistan and the Northwest Frontier, it is far lower. Female literacy is not high in Bangladesh either. One recent estimate puts it at just 50%. Thirty times as many public education dollars are spent per pupil for university education as for primary school education. Primary school expenditures are extremely unequal, with the lion's share of funds going to schools that more often train the few students who will eventually go on to universities. Many teachers are hired for political reasons rather than professional competence, and “teacher truancy” is a serious problem. Easterly and other analysts such as Ishrat Husain believe that Pakistan's poor performance on education and literacy may result from the incentives of the elite to keep the poor from gaining too much education. Looking to the future, Bangladesh has the clear edge in combined school enrollments, 52% to 39%; this will translate to higher literacy rates in a few years. In Bangladesh just 30 years ago, attending school was an unimaginable luxury for most of the poor. Whereas only half of students completed primary school in 1990, more than two-thirds do today. And Bangladesh today actually has a female-to-male primary and secondary enrollment ratio 1.07 to 1, while in Pakistan it is just 0.83. As we look ahead, then, we can also expect much greater parity in male and female literacy levels in Bangladesh. The nonformal education programs of NGOs such as BRAC provide a major contribution to this progress (see the case study in Chapter 11). But both countries are now making real progress.

Health

Life expectancy in both countries is 66; but in 1970 life expectancy was 54 in Pakistan and only 44 in Bangladesh. Today life expectancies are almost identical. Since 1990, the prevalence of child malnutrition in Bangladesh has fallen from two-thirds to less than half. Nutrition in Bangladesh benefited from a successful green revolution. But child malnutrition remains lower in Pakistan, at about 38%. Under-five mortality in Bangladesh has fallen, dramatically. On the eve of independence in 1970, the under-five mortality rate in Bangladesh was 239 per 1,000 live births; the rate in Pakistan was 180 per



1,000. By 2008, both countries had made strong progress, but their positions were reversed, with the Bangladesh under-five mortality rate at 54 per 1,000, but that in Pakistan at 89 per 1,000; that is, under-5 mortality is 65% higher in Pakistan.

Human Development Index

In the early years of the century, Bangladesh had dramatically passed Pakistan on the Human Development Index, achieving middle human development status before Pakistan did. On the 2009 index, Pakistan had retaken the lead, and it has experienced a recent surge in growth partly due to aid associated with the war on terror. It is not clear if this increased growth is sustainable. Pakistan ranked number 141 with Bangladesh ranked just behind it at 146. But Bangladesh was 9 places higher than predicted by its lower income, and Pakistan 9 places lower than predicted by its income. This reflects the better health and education performance for Bangladesh for its income level. But Pakistan's social backwardness for its income level is not fully captured by these statistics, because the HDI relies only on simple measures of education and health. It does not consider other elements of social progress or key indicators such as fertility, reduced gender disparities, lessened social exclusion, or reduction of extreme poverty.

Population

Bangladesh has made much greater progress than Pakistan in reducing fertility. Shortly after independence in 1971, both countries had an extremely high level of over 6 births per woman. In Bangladesh, fertility fell to 2.3 by 2008. But for Pakistan, fertility has fallen only to 4.0 (WDI data). These changes reflect both cause and effect. Fertility tends to fall as social and economic progress increases. Women perceive better economic opportunities and less need to rely on having several children for security. But with lower fertility, more can be invested in each child in health and education, both by families and by governments and NGOs. Thus the productivity of the next generation is higher. A virtuous cycle can take hold as the country passes through its demographic transition (see Chapter 6). Looked at differently, given the negative relationship between population growth and income per capita growth (see Chapter 6), continuing high fertility augurs relatively poorly

for Pakistan as we look ahead (though fertility is falling in Pakistan as well). Rather than simply converging, Bangladesh is actually on a trend to pull ahead of Pakistan as they follow divergent paths, with greater human capital investment in Bangladesh. The early and strong emphasis on an effective family planning strategy was an important factor in the progress of Bangladesh.

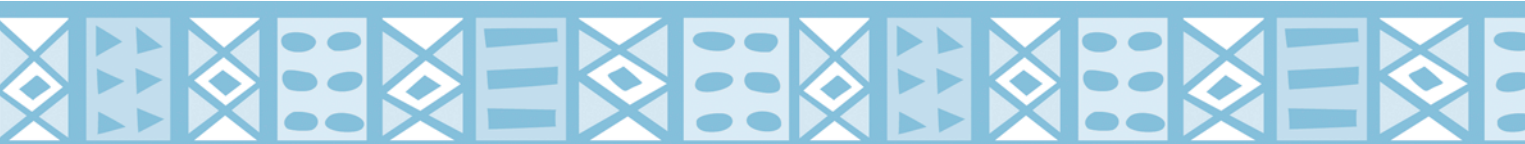
Understanding the Divergence

What explains the unexpectedly poor performance of Pakistan in social development and recent growth even in relation to Bangladesh, and what might be done to improve it? The most commonly cited examples of countries exhibiting “growth without development” are Middle Eastern oil-exporting economies of the Persian Gulf states. Elites contest control of natural resources, an enclave economy develops with relatively few strong links to other sectors of the economy, and social spending is crowded out by national defense expenditures—both to ward off external attack, as exemplified by Iraq's brief conquest of Kuwait in 1990, and at least implicitly also to control the domestic population. In contrast, Pakistan has minimal oil reserves, has to import about four-fifths of its crude oil requirements, and may have to begin importing natural gas.

It is important to note that it is *not* true that there has been no social progress at all in Pakistan. Rather, the concern is that less progress has been made than in many other countries, even in many that grew much more slowly or experienced negative growth. Why has there been such slow progress?

Geography

To the degree that geography constrains development success, Bangladesh would seem to be at a considerable disadvantage. Tropical countries such as Bangladesh have done more poorly around the world, other things being equal. Pakistan, though facing some geographic disadvantages, would seem to hold the edge here. Moreover, except for the city-state of Singapore, Bangladesh is the most densely populated country in the world. For perspective, the Netherlands is famous for its crowding and has 398 people per square kilometer. But Bangladesh is nearly three times as densely populated, with 1,127 people per square kilometer. Bangladesh has more than half the population of



the United States, squeezed into an area less than the size of Wisconsin. (A partial countervailing factor is the greater ease of connecting people and economic activity, facilitating the benefits of the division of labor, for example.)

William Easterly and Ross Levine propose that countries with a multitude of social divisions, ethnic groups, and languages tend to have lower social development and growth rates, although the result is largely muted if the regime is democratic. There is no iron rule here; Mauritius is very diverse but has experienced successful development; India is diverse but has done better than either Pakistan or Bangladesh. Bangladesh is quite homogeneous; as much as 98% of the population is considered ethnic Bangla (Bengali) and speaks the Bangla language. Pakistan has a very high level of ethnic and language diversity. Even its name derives from a compound of Punjab, Afghanistan, Kashmir, and Baluchistan. The official language is Urdu, but it is spoken as a first language by only 7% of the population (the largest language group is Punjabi, at 48%). The failure to provide a fair allocation of revenues and services and resolve other issues for one of the largest ethnic groups, the Bangla, led to the division of Bangladesh from Pakistan in the first place. Easterly concludes that part of the cause of Pakistan's "fractionalism lies in ethnolinguistic fractionalization" and argues that "Pakistan is the poster child for the hypothesis that a society polarized by class, gender, and ethnic group does poorly at providing public services."

Gender Equity

According to the *Social Watch Report, 2004*, Bangladesh scores in the "above average" (second-highest) group in overall gender equity, while Pakistan in the fourth and lowest category ("countries in worst situation"). In Pakistan, as of 2008, only 60% as many women as men were literate—a figure that is little higher in the 15–24 age group. This is a key age group to consider because it represents those old enough to have had a full chance to gain literacy in school yet not be weighted down by past practices, which tend to perpetuate illiteracy in older groups. In Bangladesh, a significantly higher ratio of female to male literacy of 83% was found in 2008. As already seen, today in Bangladesh, more girls than boys are enrolled in primary education, while in Pakistan, the enrollment level of girls

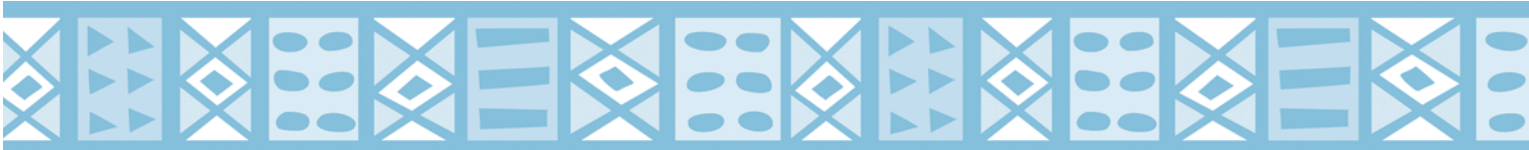
is less than three-quarters that of boys. But both countries have a male-to-female ratio of 1.05, an indicator of gender inequality (higher mortality of girls). The availability of opportunities for work outside the home, notably in garment factories, has probably increased the autonomy of women. Improved safety is the most urgent priority: Conditions are harsh by Western standards, and many workers are paid below the official minimum wage. At the same time, incomes are still several times higher than alternatives such as domestic work, and these factory jobs have offered a way out for hundreds of thousands of formerly impoverished Bangladeshi women.

Aid

Pakistan has received a great deal of aid. Since independence in 1947, it has been one of the top three aid-earning countries, behind India and Egypt. In the aftermath of the terrorist attacks on the United States of September 11, 2001, Pakistan assumed great importance as a strategic ally of the United States in the struggle against terrorism. Sanctions were lifted, and various forms of aid were greatly increased. Although this should be an opportunity for Pakistan to spur development, and growth has accelerated since 2003 apparently in part as a result, history suggests caution. The country was a major Cold War ally of the United States, but the poor seemed to derive little benefit from that association. Bangladesh has also benefited considerably from aid. Effectiveness in the use of aid may be important, particularly the active involvement of effective NGOs in Bangladesh. The major indigenous NGOs and similar groups in Bangladesh, including large groups such as BRAC (see the case study in Chapter 11) and Grameen (discussed in the case study in Chapter 15), placed a central emphasis on empowerment of women, and the impacts are generally viewed as having been very strong.

Governance and the Role of the Military

The military has always played a prominent role in Pakistan, and from 1999 to 2008, the nation was governed by a military ruler, General Pervez Musharraf. Pakistan's long-standing rivalry with India and territorial dispute with it over Kashmir since 1947 have diverted resources as well as government attention from social priorities while reinforcing the



influence of the military. The conflicts in northwest Pakistan and neighboring Afghanistan also emphasize a military role. In contrast, although the military was very active in Bangladeshi politics for nearly two decades after independence in 1971, the military's withdrawal from politics and government after 1990 is probably a factor in the country's subsequent progress. Military involvement as the backer of a caretaker government in 2007 and 2008 Bangladesh in 2007 and 2008 was widely viewed as relatively benign, and the country returned to elected civilian rule in 2009. Neither country has been particularly democratic, transparent, or free from corruption. In fact, in its 2009 Corruption Perceptions Index, Transparency International has given an equally poor ranking—a tie at number 139 out of 180 countries ranked—to Pakistan and Bangladesh.

Civil Society

Given the weak government and the private sector, one must look to the third sector, variously referred to as the nongovernmental, nonprofit, or citizen sector. Here the difference is dramatic. Bangladesh has one of the most vibrant NGO sectors in the world, the most highly developed in Asia. This will be explored in more detail in the case study in Chapter 5, when different approaches of NGOs to an important area of poverty action, microfinance programs, will be explored, as well as in the case study of BRAC at the end of Chapter 11. If a larger NGO sector could be developed in Pakistan, perhaps led by the many educated Pakistanis living in the United Kingdom, the United States, and Canada, it might play a similar catalytic role.

Ishrat Husain proposes that Pakistan has experienced an “elitist growth model,” which he identifies as combining a powerful leader or succession of leaders operating without checks and balances, a bureaucratic class that unquestioningly implements the wishes of the leader, and a passive and subservient population. He argues that “failure of governance and the consistent domination of political power and state apparatus by a narrowly based elite seeking to advance private and family interests to the exclusion of the majority of the population lies at the root of the problem.” Husain shows that Pakistan has exhibited these characteristics since independence and points out that “this

combination of strong autocratic leaders, a pliant bureaucracy, and a subservient population made it possible for the benefits of growth to be unequally distributed and concentrated.” He concludes that “the ruling elites found it convenient to perpetuate low literacy rates. The lower the proportion of literate people, the lower the probability that the ruling elite could be replaced.” One reason is that while girls' education is a boon for development as a whole, it is not necessarily in the economic and political interests of some of the elites now in powerful positions, especially at the local or regional level. The dominance of large landowners over tenants in the social, political, and economic spheres is all too apparent in rural Pakistan. With education, as some landlords and business operators well know, workers, especially women, may finally demand that laws in place to protect them be enforced. It is sometimes in the owners' interest to see that this does not happen.

The differences in social development in Bangladesh and Pakistan are not as overwhelming as would be found in a comparison with Sri Lanka, which has had favorable human development statistics for its low income level despite enduring civil conflict, or even as dramatic as found between low-income states in India, such as the relatively high human development state of Kerala and the low-development state of Bihar. But Pakistan's growth has been higher than many countries that have made much greater social improvements and done much better with available aid. The alternative interpretation of Pakistan's experience is that economic growth is after all possible even without high investment in health and education. But the long-term trends are for slower growth in Pakistan and higher growth in Bangladesh, making this interpretation simply untenable. As Easterly conjectured:

It may be that a certain degree of development and growth was attainable with a skilled managerial elite and unskilled workers, but over time this strategy ran into diminishing returns, as human capital did not grow at the same rate as the other factors. This is consistent with the slowdown in growth from the mid-1980s to the present. . . . Agricultural growth may have also been possible with the landlord elite taking advantage of the immense potential of the irrigation network and the green revolution, using only unskilled agricultural

laborers. But agricultural growth may also have run into diminishing returns, as irrigated land and human capital did not grow at the same rate as other factors of production.

The development levels of these two countries are not dramatically different. But this itself is the dramatic finding, given the wide disparity when the countries separated in 1971. ■

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Concepts for Review

Absolute poverty	Fractionalization	Low-income countries (LICs)
Brain drain	Free trade	Middle-income countries
Capital stock	Gross domestic product (GDP)	Newly industrializing countries (NICs)
Convergence	Gross national income (GNI)	Purchasing power parity (PPP)
Crude birth rate	Human capital	Research and development (R&D)
Dependency burden	Human Development Index (HDI)	Resource endowment
Depreciation (of the capital stock)	Imperfect market	Terms of trade
Diminishing marginal utility	Incomplete information	Value added
Divergence	Infrastructure	World Bank
Economic institutions	Least developed countries	