CHAPTER 1

INTRODUCTION

Economic growth is the primary objective of the majority of the countries in the world. The growth in output of an economy depends on many factors. The size of the labor force and the stock of capital certainly matters, but a large number of other factors such as education, government regulation, technological progress also matters. Productivity studies in general consider labor, capital and technological advancement as determinants of growth in a country. Growth in output that is not associated with the growth in inputs is often interpreted in the literature to be the result of changes in technology and termed as Total Factor Productivity (TFP) growth. In this context, change in TFP for a particular country indicates its potential for economic development. Again, examining productivity is also essential for every region in a country since human activities are closely related to regional development. This study is devoted to assess productivity of Bangladesh both at the country level and at the region level. This will make a ground for the policy makers of the country to compare the productivity of the country with other countries and identify the regions within the country in need of immediate support and development initiatives as well.

The efficient use of development resources in a consistent manner can lead any country to achieve sustainable economic growth. It is now well recognized that, while an instant high growth rate for a short term is attainable simply by allocating more inputs to the production process, a consistently high growth rate requires efficient utilization of resources used as input factors. It is inferred that, a high level of productivity is required for a consistent record of economic growth for any country. This is the reason why investigation of the trend of productivity is of much importance for any country.

Besides, it is also of interest to know whether there is balance in productivity trend among the administrative divisions of a country. A balanced trend in productivity would indicate optimal allocation of resources. Investigation of impact of publicly provided goods and services on productivity growth can be a guideline for

the policymakers of a country to identify the regions in need of immediate assistance on a priority basis.

1.1 Present state of the problem

There have been numerous studies trying to explain the high rate of growth experienced by many of the Asian economies in the later part of the last century. Young (1995) and Krugman (1998) argued that economic growth would not be sustainable in Asia because of the fact that the source of such growth was merely the expansion of the factors of production. On the other hand, growth accounting analysis by Asian Productivity Organization (APO) in several member countries reported that, a substantial portion of growth in these countries came from increase in productivity (APO, 2004). While the debate is on, there remain several economies in Asia for which no comprehensive study on productivity at the aggregate level has been conducted.

Bangladesh is one of the least developed countries of the world. But recently the real GDP growth in this country accelerated from an average 3.8% in 1976-1985 to 4.8% in 1996-2003. Contrary to this fact, one study by Harvard Institute of International Development / Employment and Small Scale Enterprise Policy Planning Project (HIID-ESEPP) (1988, 1990a, 1990b, 1990c) in the manufacturing sector and another study by Coelli et al. (2003) in the agricultural sector showed a rather negative trend in productivity growth. Such observations leave open the possibility that, the observed acceleration in growth is the result of mere increase in input factors and did not result from increase in efficiency of production system. It also indicates that, this recently experienced growth trend may not be sustained in the long run. In this situation, comprehensive investigation is deemed necessary to identify the sources of productivity growth for this economy.

There have been very few studies on the sources of growth in Bangladesh and even a fewer, if any, on the pattern of growth at regional level. While a good measure of TFP growth at the aggregate level would allow comparison of productivity with other nations, measuring TFP growth for the regions would guide the policy makers of the country to plan for a balanced distribution of development resources within the

country. Thus this study might as well form the basis of an integrated national development plan for the country.

1.2 Objectives of the Study

The preliminary aim of this study is to develop a tool for studying the productivity of the country at the national and regional level. The specific objectives of the study can be summarized as follows.

1. To measure the change in productivity for the whole economy at aggregate level and in major sectors and also for the administrative divisions of Bangladesh.
2. To identify the sources of productivity growth for the national economy and also for the divisions.

1.3 Scope of the Study

Developing economies can benefit much from productivity studies that show the possibility of increasing production by increasing efficiency and without increasing the development resources. Growth of productivity between two points in time measured in this study will indicate whether the Bangladesh economy is on a growth trend for that period or not. This is true for the national economy of the country as well as for its administrative divisions. If some of the administrative units are inefficient, then improving productivity of these units will contribute to higher growth for the whole nation. Besides, investigating productivity of the major sectors of the national economy will enable one to compare the potentials of the sectors.

1.4 Organization of the Thesis

The thesis consists of eight chapters. The first chapter introduces. The second chapter presents a profile of the country Bangladesh. The third chapter reviews the literature on the same area of research. The fourth chapter discusses the theoretical framework of the study. The models developed for the purpose of this study are

discussed in details in the fifth chapter. This chapter also discusses the details of data and some problems associated with the data sets. The analysis and the results for the national economy and its major sectors are discussed in the sixth chapter. The analysis and the results for the divisions, on the other hand, are discussed in the seventh chapter. The eighth chapter, the last chapter of the study, contains the findings of the study and the concluding remarks. It also focuses on the implementation of the results of the study. In addition, the chapter provides directives for future research on the topic.