Economic Growth and GDP Per Capita in Bangladesh and Norway: Analytical Essay

Economics Essay

Introduction

The theory of economic development has long since been associated with rising income and consumption of a country. Economic growth implies that the productive potential of an economy has increased and the population is able to enjoy higher standards of living if more goods and services are present. Simply, people have rising incomes and are able to consume more goods and services as GDP per capita rises and are able to gain utility linked to those. In many emerging economies, like Bangladesh, there has been a rise in GDP per capita as income per person as the economy develops. However, this does not necessarily mean that the quality of life for everyone in the country has improved indiscriminately. The underlying challenges of poverty, unequal distribution of wealth, and lack of social welfare across all sectors make the idea of economic prosperity a mere fantasy.

Not only developing, but people in developed economies like Norway also seem to be enjoying a high standard of living with a consistent economic growth and rising incomes across all major sectors. The basic theory of welfare economics states that a strong positive correlation exists between higher incomes and standard of living. Norway is a democratic European state that has long since enjoyed the dominating capitalist nature of development with growth induced by the private sector which owns and controls majority of resources. However, the measure of happiness and human development has occasionally shown inconsistent behavior with rising incomes and consumer spending in the Norwegian economy.

Economic Growth and GDP per capita Bangladesh

Bangladesh has a very small economy in terms of GDP per capita income and Gross National Product as compared to its Asian counterparts. With almost one third of its population living below the national poverty line, the distribution of income across sectors and regions shows accumulation among few parties. The GDP is growing at a moderate 6-7% rate in recent years and less reliance on external sector.

In Bangladesh, about 80 percent of the total population is living in rural areas and the incidence of poverty are mostly seen in rural areas (Firdousi & Dehai, 2014). Economic growth in the country has shown a persistent increase in recent years but the figures for national income relies greatly on external sector as they have been the largest exporter of labor and around 5-6% of GDP comprises of remittances every year.

The nation was said to be in the ‘least developed’ category for the past decade and faced many ups and downs due to political instability, floods and famines but the dark clouds are fading. The 2020 forecast for GDP growth is approximately 8% according to the Asian Development Bank as the people living under the poverty line declined from 74% to 10% in

2018, the developments in the service sector and moderately controlled population growth. The enormous contribution of service sector and an increasing trend therein have played an important role in high growth of GDP (Firdousi & Dehai, 2014). Bangladesh mainly relied on the agricultural commodities for export earnings but the vast improvements show that there is potential for more digitized growth in the service sector which now makes up for 53% of GDP.

The GDP per capita increased to 1700 USD approximately in 2018 showing significant improvement over the last decade as it were near 640 USD in 2008 during the global financial crisis. The higher living standards and growing consumption, coupled with the growing literacy can be of major influence.

Norway

Norway has been one of the most inclusive and well-developed economies with high standards of living and sustainable growth over decades. The structure if the economy signifies a lower gap in income distribution, sector diversity, and close to equal gender participation. Norway has long since adopted policies to develop human capital by educational reforms and competition in businesses across all sectors. The ownership and control of resources lie with the private individuals and enterprise so the potential of higher incomes and standard of living is pertinent. The country has abundant natural resources like fish, forests, mining, oil, and gas. The fossil fuel reserves sold off as being one of the largest petroleum exporters and development in the renewable energy sources show environmental conservation and stable growth. The economic growth of this small country with a 5 million population, enjoys high earnings for each individual and no minimum wage requirements. Despite having a high cost of living, the average citizen earns an average of 60 USD per day as estimated in 2018. GDP per capita rose as much as 82000 USD in 2018 approx. which is much higher than a developing economy. However, the peak reached in 2012-2013 can be attributed to stable monetary policies and strategic investments in selected sectors by the state after the recovery of global economy with greater protection of property rights.

The Norwegian economy has a vibrant private sector and capitalism driving growth in the service sector as the major contributor of rising incomes. Cheap power supply and water, as well as, policies promoting variety, employment, and facilities show that an easy to afford, elitist lifestyle sets them apart from other countries like Bangladesh.

Even though the total value of output varies by a great deal between Norway and Bangladesh, the marginal growth rate has been higher for Bangladesh in recent years. This is mainly due to the potential opportunities of growth and improvement in a less developed economy. In 2008, the standing of Bangladesh’s economy was far behind Norway so more noticeable and significant numbers of improvement can be seen. The population of Norway already enjoyed high living standards and a more equal distribution of wealth. Those with a high income will be more satisfied since

they perceive themselves to be better off than the rest (Hellevik, 2003). Poverty is more adamant in Bangladesh so mitigation draws attention while an acceptable level of income is mostly earned by Norwegians to be able to afford a satisfactory living. Hence, the initial position of each economy matters when comparing growth as higher rates of growth for Bangladesh does not signify better standard of living for people than in Norway. (illustrated in graph below)

Source: United Nations Database

Other Indicators of Standard of Living

Poverty

Norway is considered a wealthy country and poverty has generally been low on a national level. However, immigrants and other low-income earners are concentrated in cities such as Oslo with almost 8% of the population living below the poverty line.

Using the same poverty headcount of $1.9 a day (2011 PPP), Bangladesh has shown significant progress by reducing the poverty levels with sustainable economic growth. Only 12-13% of the population lives below the poverty line now as compared to 44% in the last decade. The reduction in this percentage is generally associated with improving living standards.

Human Development Index (HDI)

The HDI was created to rank countries by how well the quality of life for a citizen has been achieved as a result of economic growth in addition with policies and reforms. It emphasizes on health and productivity of people, knowledge, and a decent standard of living. The HDI ranks the countries in four main segments of characteristically different growth in people’s life.

There is a vast gap between Norway’s and Bangladesh’s ranking in the current HDI rankings. Norway is on the 1st with a well-developed education system, stable incomes, and high life expectancy while Bangladesh falls in the 135th position after being analyzed for all the mentioned categories.

Inequality-adjusted Human Development Index (IHDI)

The IHDI measures the achievements of human development of a population and discounts it as per the level of inequality in that dimension. The IHDI shows the overall loss to human development due to inequality that persists in that nation. The condition of Norway in terms of equality and distribution of wealth is still positive as compared to Bangladesh. Norway maintains the 1st position with high level of equality in human development while Bangladesh, with significant gap between income earners and wealth distribution, falls on the 135th rank.

Social Progress Index (SPI)

Social Progress Index, also known as Social Progress Imperative, is a measure of how well a country’s citizens are provided with social and environmental needs. It covers various indicators to measure the extent of progress and improvement made in regions with a score. The areas of progress are usually range from basic human needs to nutrition, health, personal safety, access to advanced education, and many more indicators of well-being.

Citizens of Norway are enjoying a high quality of life as compared to Bangladesh in the SPI scoreboard. The score of Norway has been extensively high for 2014 (88.57/100) and kept increasing gradually till 2019 (90.95/100) indicating that most facilities are easy to access for the

people and they enjoy high standards of living. Bangladesh has shown gradual progress too in the same time period but since they started off at a score of 50.83 in 2014 means that a comparatively lower standard of living in terms of social progress is being experienced. They reached a score of 54.11 in 2019 due to reduction in poverty levels and economic growth.

The SPI focuses, not on the rising incomes, consumption or wealth of an economy but solely relies on factors that can be accessed with ease for the average citizen residing. However, critics reveal that, despite the high score of Norway on SPI, the level of happiness haven't rose in parallel with rising incomes and social progress. An increasing tendency for Norwegians to give priority to income and material possessions appears to have had an adverse effect on happiness towards the end of the last millennium.

Comparison of the Overall Economy

The distinguishing feature of Norway is that they have a vibrant and stable economy with an extensive private sector and social safety net. While Bangladesh's economy ahs roughly grown by 6% in recent years with political instability, poor infrastructure, insufficient power supply, and poor implementation of reforms.

Norway is bestowed with abundant natural resources like oil, gas, fish, minerals, and forests and they are the second largest exporter of seafood in the world while revenue from petroleum also forms a major export with careful government regulations. With almost 66% of growth driven by the services sector, the citizens enjoy high income levels and standard of living.

In contrast, Bangladesh relies greatly on the external sector for revenue and national income. The garment sector makes up almost 80% of the exports and the high level of remittances from Bangladeshis living abroad helps build foreign reserves. There have been recent improvements in energy infrastructure and efforts to reduce poverty levels showing progress post 2016. The composition of GDP shows a highest contribution from the services sector (60%), similar to Norway, indicating the impact of global improvement in IT, communications, and mobile phone network sectors benefitting all countries.

Further comparison can be made with the size of the labor force between the countries. Norway has a much smaller population and labor force than Bangladesh. Only 2.7 million people participate in economy of Norway yet the GDP per capita is much higher than Bangladesh showing average earning of a citizen. Bangladesh, despite having around 67 million people in labor force, only earns 1/50th of what an average Norwegian earns. This is mainly attributed to the long-term development of human capital in Norway with a well-developed education system and access to high quality advanced education facilities. The development of human capital in terms of literacy is high and which in turn, raises productivity and economic development. Combined with supportive policies and reforms by the government, the private sector has thrived and resulted in high standard of living for the people.

Concluding remarks

The economic growth with each passing year shows a better figure for Bangladesh at an average of 6% while for Norway its just 2%. This doesn't mean that the economy of Bangladesh is better developed as Norway has been developed far before the last decade. The

economy is growing slowly in incremental terms. However, the standard of living in Norway is much better than Bangladesh as many indicators and analysis of economic development shows. Human capital and high quality of life is a defining feature with protection of private property. Bangladesh, moved out of the least developed country category and has great potential to grow. The reduction in poverty and development in industry with supported reforms can bring a positive change in the standard of living.

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