

Economic stagnancy continues

Investment is the key element missing

THE Centre for Policy Dialogue's mid-term review of the economy has been quite revealing and insightful. It has drawn a balance-sheet of the painstakingly acquired strength in terms of fiscal deficit control over the last one and a half years being watered down by lack of investment in the economy. Between July and November of the 2002 fiscal, the macro-economic indicators improved quite markedly. Ironically, however, this did not have any commensurate effect by way of revving up the huge micro-economic sector which is the rock-bed, or the mirror-image, so to say, of the performing economy. Such a disconnect gives cause for a new concern for the national economy today. The review has revealed that while foreign exchange reserve, remittance, revenue collection and balance of payments have improved, there has been little progress in some of the other major areas such as, investment, credit expansion, inflation, foreign aid, government expenditure and industrial manufacturing.

Without being too clinically diagnostic, however, it must be said that the clouds of fiscal deficit and the external sector crisis that overhang economic stability and growth during the last one and a half years have been lifting for some time. Nevertheless, a quite explicable investment stagnation continues as a big road-block to economic recovery. The manufacturing sector is in a slump as is evidenced by a slow-down in imports of capital machinery, intermediate goods and raw materials. The investment crisis has also deepened due to the fall in term-loan disbursements. And what could be a more telling proof of the dwindling investor confidence than "the higher off-take of savings instruments despite interest rate cuts!"

Leave aside domestic investment, foreign investment too is down with only US\$ 7 million recorded during July-August which is 30 per cent less than the comparable figure of the corresponding months during the year before. The prospect for foreign aid flow is bleak as well. There is little doubt that "low disbursement of foreign aid and fizzling out of FDIs have accentuated the vulnerability of external balance." There can't be any second opinion on that point.

So, what are the alternatives? The CPD is of the view that the government would do well to revise 'its public expenditure package and priorities in light of the mid-term review of the ADP and redesign its investment plan.' This will help rejuvenate domestic demand, an option the government can take because it currently enjoys some room for moderate expansionary policy due to its conservative policy pursued till-date. On the back of a still low inflation, this could be attempted but with some risk for demand-pushed inflation. If such steps were not taken, CPD prognosticates that there could be stagflation. Government borrowing has declined but not without a supplier's credit component and the proportion of credit to the private sector vis-a-vis that to the public sector has increased, too.

On the flip-side there is a possibility that the government might go for internal trade related tax like local VAT and supplementary duty. These might exert a recessionary pressure on domestic investment.

Whilst the expert economic analysis of the CPD draws attention in its own right, it will be worthwhile to dwell on other factors that impact on investment, both domestic and foreign. So long as poor governance, bureaucratic sloth, huge delay in decision-making, corruption, extortion and rent-seeking remain the order of the day, any expectation of higher investment will be a pipe-dream. We have to treat these old ailments, without which, the best of policies in the world will go down drain. The potential investors, let's make no mistake about it, will look beyond the army to see if law and order has become a permanent fixture of a stable kind of governance. Flashes of temporary success cannot be a clincher of big money investment. That's where the primary emphasis of a new strategy should be.

Let's end on a short economic note, though: our high bank rate needs lowering to reduce the cost of borrowing.

Political will



HASNAT ABDUL HYE

It is *de rigueur* to ascribe lack of will for many of the failures in governance, particularly in respect of changes and reforms that are deemed to be in greater public interest. The criticism implicit here is that a government opts for the short run keeping political dividends in view. Seen in this light an elected government in democracy often seems to indulge in crass opportunism and gross expediency, ignoring 'the greatest happiness of the greatest number', as Jeremy Bentham would have said. Lack of political will to introduce changes or implement reform that affect different groups variously, take into consideration not only the number of people likely to be adversely affected, also their political strength. In ignoring social morality measured by 'the greatest happiness of the greatest number' a government that lacks political will in fact gives in to 'natural rights' of the few having vested interest. Political will thus becomes crucial in resolving the conflict between vested interest entrenched in the status quo and the promotion of general welfare contingent on change and reforms.

In making policy decisions a government not only considers the merit of the decisions, but also the reactions that might be forthcoming from various segments of the public. Concerned with popularity, a government's natural inclination is to shy away from unpopular decisions even if unpopularity is apprehended from a limited number of people. If the group is organized, vocal and is easily visible, it acquires strength beyond its number. It often becomes

difficult for an elected government to ignore their destabilizing potential, particularly if the opposition is on the lookout to seize any opportunity to undermine its popular support.

It is, however, not inevitable that a government will always be paralyzed by the fear of backlash and desist from taking hard decisions. What allows a government to forgo the path of least resistance and embark on bold initiatives even at some risk can be an interesting study in democracy at work. It is for

longed use of the impugned item and in the face of renewed demand from environmentalists the government decided to implement the ban. The moral high ground taken by the government based on its conviction about "greater public interest" and the continuing campaign by the environmentalists can be seen to have combined to strengthen government's determination to implement the decision. The government showed political will to bring about change in status quo ignoring the interest of an organized group for

of the New Year Dhaka roads have been cleared of the hazardous vehicles. It has been a remarkable achievement deserving praise and appreciation from all irrespective of political affiliations. One more example of government acting firmly based on its conviction about moral clarity has thus been established. The role played by the media and the environmentalists should be recognized here. But unless the government was convinced about the desirability of the decision only pressure or campaign from a quar-

even a risky decision. It helps when demand from media and civil society provides the background and initial stimulus. Donor pressure strengthens the initial homegrown campaign and may hasten what is inevitable.

The decision to close Adamjee Jute Mills brought political will of the government into even sharper focus because of the enormity of the decision and its possible social, economic and political consequences. Adamjee being the largest of the jute mills was a major con-

Adamjee should be seen as part of a process to rejuvenate the economy through downsizing the public sector. In this almost clinical operation there is no room for sentiments or demagoguery. It also does not serve the cause of greater public interest to lay the blame with donors. Even without outside pressure the government, any government, would have been forced to take such a decision. It is a rare but much needed demonstration of political will asserting over expediency and compromise. More than in the previous cases, the decision on Adamjee may become a watershed, marking the coming of age in governance in Bangladesh.

The questions that may be asked here are: what adds to the levels and degrees of convictions about moral clarity of a government? Is it overwhelming majority support given in election? Is it the fact of coming into power more than once? Or is it the maturity attained in respect of governance that allows politicians to focus more single-mindedly on matters of high public interest? If it is the last then the decisions taken will have significance beyond their immediate impact. The very style and content of governance can be expected to change embracing a wider area in the public domain. This, the enduring significance and long term consequence, should not be lost because of the sporadic and seemingly minor nature of the decisions.

For the policy decisions mentioned above, where political will have been seen at work to promote greater public interest, the incumbent government should be commended. The main opposition party should also be given credit because through silence it gave tacit support. In a welcome departure from the negative politics, with which opposition has come to be associated for quite sometime, the major opposition party did not try to fish in troubled waters. It too exercised political will.

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IN MY VIEW

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this reason that certain policy decisions taken by the present government need to be analyzed to find out their deeper and long-term significance in term of governance qua governance.

The first case to be discussed is the decision of the present government to ban the production and sale of polythene bags to prevent environmental pollution. The decision, first taken in 1994, affected two organized groups, viz. the manufacturers and their employees. They were urban based and clearly visible. They could spend money in support of their group interest. The decision was taken because of the campaign by the environmentalists and the conviction of the government about the desirability of the ban to promote general public interest. It was postponed for two years to allow the manufacturers to recoup their investment, an argument that had a good deal of justification. But the reprieve continued beyond two years and almost became permanent. Being aware of the past decision, realizing the adverse consequences of pro-

the sake of the interest of the many. It is a qualitative improvement in governance.

The second case where political will was shown to prevail involved the ban on three wheeler vehicles using two-stroke engine. Polluting air, particularly in the traffic-congested capital, these vehicles had been under severe criticism from environmentalists, health specialist and the media. Being large in number and operating all over the capital, drivers of three wheelers had both financial and physical strength to influence any decision regarding them. This only increased cynicism among the environmentalists who almost gave up in resignation concluding that such a powerful group who could wreak disaster on the roads of Dhaka was 'untouchable'. But much to their disbelief and the relief of the endangered public the present government took a firm decision to impose bans and implement it in phases. The use of phases was seen by many as a ploy to postpone the ban or even allow the vehicles to ply indefinitely. But from the first day

ter would not have been effective, particularly when the risk was so obvious.

The decision to ban rickshaw from Mirpur to Kalabagan in Dhaka may also appear as a minor one, but this need to be considered along with the above two instances of public policymaking because of similarities in terms of impact on an identifiable group (rickshaw pullers) and their ability to frustrate the government decision. In taking this decision the pressure from a donor may have been a factor but this alone cannot be enough to explain. The chaotic condition of traffic in Dhaka has been repeatedly highlighted in newspapers as well as by city planners for a long time. When the VIP Road was made out of bounds for rickshaws there was no pressure from donors. It (donor pressure) may, therefore, be considered as a coincidence and not the only factor contributing to the decision. Exercise of political will reflected in the decision can be interpreted as part of the maturity in governance by an elected government that feels confident to take

sumer of raw jute and employed thousands of workers. It is still being argued by critics of many hues as a wrong decision taken under pressure from a multi-lateral institution. For sentimental reasons and on the basis of human consideration such criticism is only natural. But the issue involved is public interest in general and not that of a group, far less of sentiments. Adamjee was chronically incurring loss and because of that its workers had been given notice long ago along with compensation. The decision was not taken suddenly nor without justification. With the public sector enterprises incurring annual loss amounting to Tk.900 million and with their bank debt totaling Tk 60 billion, there is no alternative to divestment or closure. Closure of Adamjee is major breakthrough for the rationalization of the public sector. It is in the national interest to rid the economy of dead weights. Governments in the past failed to demonstrate political will in taking 'unpopular' decisions, which has constrained economic performance. The decision to close down

On the other side of air



MOHAMMAD BADRUL AHSAN

THE madman died as abruptly as the storm, which blew over the village on the same night. When the villagers woke up in the damp, cold morning, they concluded that the man who concealed a calamity in his heart was able to disgorge it at last. The storm was nothing but the wind of a disconsolate life that swept over the village in its last frenzy of madness.

His brother had helped the madman shift on his side before the storm started and that was the last time anybody had seen him alive. He wished to lie down facing the window and looking into the darkness, which stood between him and rest of the world like a dense wall of confusion. He muttered at the time he was being turned from one side to another, but his brother ignored what he said thinking that it was just another incoherent utterance of the delirious mind. The villagers agreed that the brother should have paid attention, because dying people often speak the profound words of wisdom.

Everybody talked about the death and the storm, how two misfortunes had coincided in one night to bring havoc on the village. Then they lowered the dead man in the grave, cleaned up the devastation of the storm, and talked more about both for rest of the day. They compared life to monsoon weather, and reminded each other that anything could happen anytime to any of them.

The madman had spent three-

ing spiritual songs until late hours of night. If he were particularly sad on a day, he visited the graves of his parents in the field behind the house. There he wept stretching his arms at the sky as if a child, who was lost, asked God to help him find his way home.

Most of the time he smiled at people and looked merrily engrossed in himself, although his shaggy beard, unkempt hair and soiled clothes were a contrast to his

didn't approve of it. They told him that he was a very hotheaded and hotblooded youth and once blood came out in spurts when he was hurt in the head.

He listened to them with tensile lips suspended between a smirk and a smile. Then he muttered from time to time as if to run commentary for an inner audience, counting numbers on his fingers, while the pupils of his eyes danced in the torpor of inner turmoil. He would

were the souls of people who once lived on earth. He asked them questions and answered to them as if the souls could talk back to him.

He remembered nothing in the morning, looking calm and tranquil as a ruffled sea after storm. But the words he spoke traveled from mouth to mouth for several days, keeping the village agog with taunts, innuendoes, and careful analyses of what he said. At the tea-stalls in the bus

at the top of his voice. The villagers would talk about him for the next few days, analyzing his words and acts, concluding that hashish had completely fried his brain.

Once he danced in the rain with people who, he said, lived on the other side of air. He sang an entire afternoon, skipping and jumping in hysteria until he was tied up to a post, and had fallen unconscious. The villagers believed that he was possessed by a wicked spirit and called the village Imam to exorcise him. That is the only time anybody ever heard him engage in a dialogue, as the Imam pinched his little finger and interrogated the mischievous thing that was hiding inside him.

The madman's health started to decline after that day. His visit to the tea-stalls in the bus stop grew infrequent, and he never again went to the shrine of the Naked Dervish. He spent most of his days in bed, and preferred to face the window at night so that he could look into the darkness outside. He often muttered that they would come to visit him, the people from other side of air who glowed in the darkness.

On the night of the storm, the madman ate his dinner and took his medication. He then quietly lay down in bed and asked his brother to help him turn his body so that he could face the window. In the morning when they found him dead, his brother said between gushing tears that he was like a letter in a sealed envelope, which got lost before anyone could open it.

Mohammad Badrul Ahsan is a banker.

CROSS TALK

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quarters of his life muttering to himself, counting endless numbers on his fingers, staring at the sky and drinking tea at the village bus stop. He seldom engaged in a conversation, except raving at people who tried to be rude to him. He panhandled every day in the village market, but stopped as soon as he earned enough to pay for three cups of tea, his daily dose of hashish and a pack of Kingstork cigarettes.

Once a week on Friday night, he sang and danced at the shrine of the Naked Dervish in the village. Other nights he retired early, sing-

shining eyes in the manner sharp blades are undermined by rusty razors. He lived without a sense of life like a limb functioning through its numbness. He never discussed his life with anyone. Nobody ever heard him talk about the past or the future, his life stilled in the silence of an eternal present that stretched from one day to another.

Others talked about him from time to time. They reminded him at the tea-stalls in the bus stop that he used to be a reckless and handsome young man who was offered a role in the movie by a famous production house, and his parents

then finish his tea in successive gulps, light a cigarette with trembling hands and leave the spot in hurried steps in the rush of someone who had seen a ghost.

The madman avoided people who sought his company. He was a loner who walked in the crowd, a man who was eloquent with himself but silent amongst others. He was content in void, contained within desolation, an unfortunate creature of the world, which lived like an alien. But people who went to the shrine often heard him talking in the state of trance. He talked loud to an audience hidden in the air; they

stop, some people teased him, while others wavered in their doubts whether his insanity was sign of any spiritual connection.

He would again smoke hashish next Friday, get stoned and talk to his invisible audience. He would turn imaginary knobs in the air and adjust sound and picture as if watching a television. He would cry and he would laugh like an actor taking his cue from an incorporeal prompter. Occasionally he would stand up and dance, motion his body like going for a stroll. At times he would sing, lie down or roll on the floor, screaming and shouting

OPINION

Nobel laureate Kenneth Arrow and his compromise formula

NURUDDIN MAHMUD KAMAL

THE octogenarian Nobel laureate economist Kenneth Arrow gave a rare public lecture in Dhaka on 18 December 2002. The subject matter of his lecture was "some paradoxes of sustainability: Empirical and theoretical." I wasn't there on that occasion but I can imagine that the moment he stepped on the podium, he hypnotized the invitees that instinctively gave him a standing ovation. But the news item that appeared in The Daily Star on the next day titled "Nobel laureate for compromise strategy on gas utilization" intrigued me as I could not find a relationship between the stated subject matter on which the world renowned economist spoke and the specific national issue. Curiously, the staff correspondent's reported item starts with: Nobel laureate Prof. John Kenneth Arrow 'believes' Bangladesh should opt for a 'compromise strategy' in gas development and marketing. He has also

reportedly said, "I exactly do not know about it as there has been an uncertainty and both Bangladesh and the oil companies find interest in it."

Even on the face value of the news report, it is difficult to comprehend that the Nobel laureate did comment in the manner reported in the DS or was it a mere misstatement of words by the staff correspondent? Prof. Arrow is also reported to have observed that there is no specific model based on which decisions can be made but indications may be found from data analysis. The report says everything is running out and the world is going to starve; oil and other minerals are being rapidly exhausted. As use of natural resources like oil is on the rise and these are depleting the prices should go up. But it is not happening which is a paradox, he added. "Prices of resources are not increasing compared with other prices; known availability of minerals is increasing." The staff

correspondent's report concluded by quoting Prof. Arrow's words, "we should worry about long term futures. The rich countries are getting general savings but the poor countries are not consuming less; that is another paradox." Unfortunately, the report ignored to mention that only six per cent of a total population of the world now living in the United States are consuming over 30 per cent of the total commercial energy and the reverse is true for even mid level countries in Asia in particular. The poor countries like Bangladesh consume very insignificant percentage of commercial energy, to put it modestly. While economic jargons are Greek to me, I do not find great solace in this sentence.

As a matter of fact the recent national gas committee reports (interestingly without any recommendation!) seem to me like abandoned glaciers. But the government appears to be faced with a new dilemma. Notwithstanding the

presentation of incorrect data on some vital issues as violation of the Terms of Reference the committee's findings have now brought to the fore a "new risk." The government is now unable to decide what to do with the insignificant proved reserve of only 6.2 tcf of gas which is considered inadequate as a bankable reserve for business transaction, keeping in view even a 20-year demand perspective! The Nagorik Committee, based on the data provided in the National Committee Reports, raised a question whether the nation should still seek an immediate so-called 'limited export' proposal or pursue only expeditious domestic utilization (particularly in the west-ern zone) to draw many times more benefits for the nation? The government seems 'unsure' whether it has accepted the national committee reports or has rejected them. Eight months for submission of reports against an original plan of 30 days in Decem-

ber 2001, and over four months of silence after submission of the reports on 27 August 2002 certainly raises curiosity of an ordinary citizen on the decision making process of the government. The worst part is that over the past three years not a single new exploration well has been drilled by Petrobangla/Bapex or the IOCs. Further, how could the country's policy planners become so dependent on the IOCs and the PCS, when the cost of production of one unit of gas by Petrobangla is one-fourth (in case of land based exploration) and one-seventh (in case of off-shore) respectively? Yet, in the process, domestic effort on cheap exploration by Bapex is withdrawn mysteriously.

The only redeeming feature is that since the 1980s the expenditure on energy import (oil) has been kept within certain limit by gradually expanding the consumption of natural gas. This has helped the nation to save or earn almost

US\$1.7 billion annually in import bill by using gas. I tend to think that Prof Arrow's 'belief' that the country should opt for a compromise strategy indicates to its gas use. Prof. Arrow's pointed remark that the prices of resources are not increasing is so true in Bangladesh. For instance, Petrobangla buy gas from the IOCs at an average rate of US\$2.5 per mcf (1000 cubic feet), while it sells to its major bulk customers (Bangladesh Power Development Board and the Bangladesh Chemical Industries Corporation, in particular) almost 70 per cent of the total gas produced at less than half the buying price (around US\$1.10/mcf). This indeed is an absurdity. But, this illogical and ludicrous pricing policy is followed by the government, perhaps to allow and encourage 30 per cent theft (or so-called system loss) in the power sector. Prof. Arrow's observation, "the prices of developing natural resources are not increasing com-

pared with other prices" is aptly demonstrated in case of gas pricing in Bangladesh. The need for price enhancement of gas, particularly in case of public sector electricity generation and fertilizer production, should be effected as quickly as possible because the days of cheap energy is gone.

The complexity of the national and international oil and gas industry is why there is no quick and easy answer to many of the questions we want answered. It is why there are so many misconceptions. To understand them we have to look at a lot of things: the nature of the industry and the difference between the handful of IOCs operating in Bangladesh and the overall gas production and consumption in the country; the events that led to our becoming an energy deficient nation; the role of price controls; the mistakes made by successive governments and industry in underestimating the domestic market demand and

which source would supply it etc. More importantly, it is not understood why we did not pursue our National Energy Policy 1995 in a proper manner, although we passed through energy crisis all through?

We must appreciate that there is no such thing as cheap energy now. The days of even bargain on domestic gas prices are over. The government has no fall back position. It cannot export gas from the existing reserve either. There should therefore be a moratorium on the gas export for another five years. One must also appreciate that there is a long lead time necessary to develop new supplies of gas. Even if all lights are green now to launch a massive energy development programme, we have a stupendous job ahead to meet our anticipated demand.

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