

Noted Economist Prof. Nurul Islam Reflects on the State of Sick Industries in Bangladesh, the Country's Drive for Food Self-sufficiency, the Global Aid Climate and Other Issues Facing the Nation.

If one draws up a list of Bangladeshi experts who can authoritatively discuss, a wide variety of subjects ranging from the state of the so-called sick industries in the country to the priorities of the new elected government in the field of economic planning, from the international aid climate to various implications of drive in Bangladesh towards self-sufficiency in food production, the name of Prof. Nurul Islam would be very much near the top.

Unlike many of his contemporaries, Prof. Islam has the unique advantage of talking on these subjects from his own personal experience. This makes a discussion with this grey-haired internationally-known expert a down-to-earth conversation, rather than a jargon-ridden theoretical discourse.

Islam needs no introduction to most readers of The Daily Star. However, to the young generation, especially to students of the universities, the professor's name may well be familiar, but not the details of his chequered career. After all, he has been living abroad, almost continuously, since 1975 when he became a fellow at the St. Anthony's College Oxford University, the position he held for two years. Before joining the Oxford University, Islam had already made his mark on the national scene.

A brilliant student of the Dhaka University, Islam served his alma mater as the Professor of Economics from 1955 to '64 and then, for six years, as the Chairman and Director of the Pakistan Institute of Development Studies.

After liberation, Prof. Islam took over what was undoubtedly one of the most prestigious and the most demanding positions in the new government that an economist in the country could ask for. With Sheikh Mujibur Rahman serving as the Chairman, Islam became the Deputy Chairman of Bangladesh Planning Commission, with three other top economists — Rehman Sobhan, Musharraf Hossain and Anisur Rahman — working with him as members. He held this post until 1975 when he moved to Oxford.

Dr Islam gained international attention when he served as the Assistant Director General of the Food and Agricultural Organisation (FAO) from 1977 to 1987. Then he moved to Washington DC, joining the International Food Policy Research Institute as a Senior Research Adviser, the position he holds today.

Although living abroad, Islam remains fully conversant with developments at home since he manages to visit Bangladesh at least twice a year. For The Daily Star, it was a good thing that he was in Dhaka during past fortnight and that he readily agreed to join a three-man team from the paper in a Conversation on a wide range of issues which have been uppermost in our national thinking in recent weeks. We were pleased to know that what prompted this noted economist to accept our invitation was his appreciation of the format of this exercise — he had read, with interest, our recent conversation piece with two of his good friends, Rehman Sobhan and M. Syeduzzaman — as well as of the policy of this paper to promote interaction between the media and the intellectual community.

Below is the text of the conversation between Prof. Nurul Islam and The Daily Star team. The latter was led by S. M. Ali, who was assisted by Mahfuz Anam and Sabir Mustafa.

Daily Star (DS) — Dr. Islam, you are visiting the country at a most significant time of its history. It is almost like a watershed. At long last, we have an elected government in power. On the other hand, we are still reeling under the aftermath of a devastating cyclone. What's more, we are now more conscious than before of formidable economic problems facing the nation. What are your overall impressions of the situation as you see in the country today?

Dr. Nurul Islam: (NI) Now, as you rightly said, we are at a watershed in the country's development, both politically and economically. I would say the country is at the beginning of a new period where it has to face a lot of challenges over a broad area, ranging from ensuring an efficient and honest government to changing a lot of economic policies, from agriculture and industry to trade.

They do involve very difficult choices, and some of the choices will be extremely

delicate. I do feel that at this juncture, this kind of major, critical policy changes would require building up a national consensus. This seems to be the biggest challenge facing Bangladesh at present. And it is not unique to Bangladesh. Developing countries all over the world are confronting this situation, in Africa and Latin America. The latter is especially going through a tremendous amount of political and economic changes, with the introduction of democratic politics.

So the problem of how to generate a consensus on critical economic issues facing the nation is a crucial one.

DS: When you talk about national consensus, do you mean political consensus, or a consensus among the experts and economists and the government, or a consensus that runs across parliament? If you are thinking of the second one, are you very hopeful that this can be achieved, or can you think of some other developing country where this has been attempted and achieved?

NI: Well, when I say consensus, it includes all the sections of the nation to which you referred — experts, administrators, policy-makers, all of them. Now, some countries have done it well, some have not.

Say in Latin America, Mexico has gone through very significant economic changes. From the outside world the changes appear almost revolutionary, but in a very democratic form. And so far, they seem to be managing it well, but everybody is keeping his fingers crossed. Most, or at least some of these changes are so drastic that you are on very uncertain ground as to how long the consensus will last. So it will take very skillful

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management of economic decision-making.

The critical issue here is flexibility, and quick response to changing circumstances, and that's why you need economic management at a very high level of efficiency.

DS: You've talked about changes, and then you've talked about drastic changes in Mexico. Would you recommend drastic changes in Bangladesh? And if they are very drastic changes, how do you satisfy those people who talk about a continuity of policy? Why do you strike a balance between drastic changes and continuity?

NI: Well, I wouldn't claim to know what drastic changes to recommend for Bangladesh. But here I will say, that first you have to have debate, the debate which was not possible — I assume — in the past decade or so, on some of these issues. A debate at all spheres of life, involving technocrats, politicians, the public at large, all of them. Then, as a result of the debate, issues will emerge which have been debated in the past privately, but not openly and without taking the public into confidence. So whether the changes are moderate or drastic will depend on the debate, I cannot foretell it.

But you see, the policy changes governments have been considering are not new. Most of these policy issues in Bangladesh, as in other countries, are not novel. They have been discussed for years, in fact I remember some of these issues were discussed 15 years ago.

DS: Some of the issues we are facing in Bangladesh deal with discipline or the lack of it, in the financial sector. Our

banking system seems to be in a state of flux; we talk about the lack of a management class in this country; then we hear about industries being sick. Now, as an economist of world-wide experience, can you tell us how this problem could be tackled, particularly with reference to some other countries in this region or other regions?

NI: If you look at the countries that have developed successfully, four pre-conditions seem to have been generally satisfied. First, they have been able to generate sufficient domestic resources for development over a period of time; second, they have been able to develop a trained and broadly-educated population.

The performance of the East Asian countries, particularly the four Tigers, have been remarkable in these two respects.

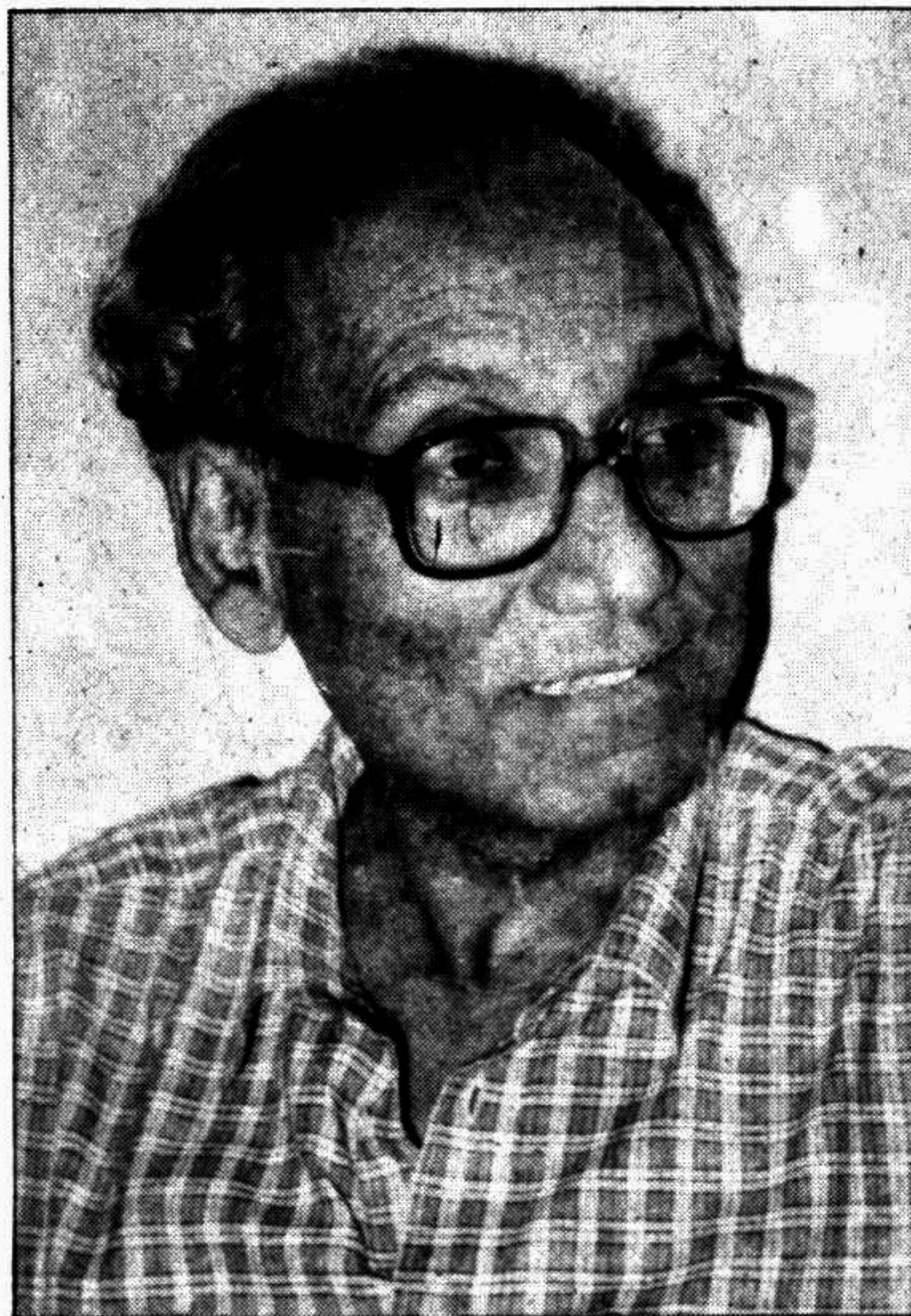
Look at the area of domestic savings. East Asian countries such as Korea and Taiwan were not much better off than Bangladesh even 25 or 30 years ago. But the rate at which they increased their internal resource mobilisation was very high, and therefore, their dependence on foreign aid declined over time.

Similarly, they made tremendous advances in the fields of education and training, from the late '50s, or the '60s in Korea's case. You can see significant differences between South Asian countries including Bangladesh, and East Asian countries as well as Indonesia and Thailand, in their respective approaches to education. The ratio of spending between primary and secondary education in East Asian countries is radically different from that of South Asia. East Asia's spending on primary education, compared to secondary education, is much higher than in South Asian countries. As a result, adult literacy and primary education are much more wide-spread in East Asia than in South Asian countries such as Bangladesh.

This is a remarkable difference, and notice exactly the same in the area of health care. The importance of, and the emphasis on, primary health care is much greater in East Asia than in South Asia. Third precondition is appropriate policies which can make efficient use of both human and physical capabilities. Here the policies range from broad areas — trade policies, exchange rate policies, fiscal policies, credit policies — to sectoral policies like industrial policy, agricultural policy, financial policy etc.

Fourth is governance, which is an issue of great importance and debate in the international community at present. These last two issues have been very high on the agenda of debate in developing countries. So, what is this governance? Governance is how you ensure an honest and efficient government. However good the policies you formulate may be, they will not lead to the results you expect unless you have an efficient and honest government. That is the most difficult problem in many countries. International development specialists including the aid community worry that they suggest policy reforms, they supply resources, but they don't produce the expected results, because the most fundamental requirements for an honest and efficient government do not exist.

Now, what does that mean? How do you generate efficient and honest government? This differs from country to country, historical circumstances determine it, political systems influence it. But in the emerging consensus, four factors are now held to be the requirements. First, transparency at all levels — decision-making and implementation; second, accountability at all levels — bureaucratic, political administrative; third, participation; and finally, stability. It is often found that policies are ideal, but they are highly unstable. Unstable policies are worse than bad policies. If the policies change frequently, then it



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creates uncertainties in the minds of economically active people such as farmers, industrialists, traders etc. If they cannot forecast or predict, then their expectations will be destroyed and they will not be able to act.

DS: Within this broader context, could you come to some specific issues such as discipline in the financial sector ...

NI: You see, discipline in the financial sector relates to a very fundamental aspect of effective government. You must have rules, contractual obligations, to have any economic transactions fulfilled. This has been the case since classical, even pre-historic times in society. The problem is that if I borrow and I don't pay back, then I am violating contracts. And if I get away with not paying, then I create the impression, or a general perception, that contracts do not have to be honoured. That ten can cause the economic system to collapse.

DS: The theoretical side is understood, but why is it that we have so much financial irregularities?

NI: Because you haven't enforced the rules here! It's very simple. Theory and practice are the same. Bangladesh has not been able to implement the rules of the game.

DS: Do you know of any other case in the developing world where a similar situation exists?

NI: I suppose it is true in some African countries, but

out of line with increases in productivity, then you can have a collapse situation. You see, most of the public sector enterprises in many political systems cannot be controlled, in terms of expansion of employment and wages. In a politically organised system, how do you control trade unions not putting up wages? And how does a political system prevent employment from expanding beyond what is necessary for purely economic reasons? This needs tremendous discipline, some countries succeed, and some don't.

DS: What are your experiences of, and the latest thinking in, the world of international assistance and north-south relations, particularly in the area of development?

NI: One issue is that countries like Bangladesh has to face a changed situation, in terms of stagnation in overall aid flow. All predictions indicate that there will be shortages of external resource flow — overall development assistance flowing into developing countries — if not in absolute terms, then increases will be very slow. Why is it so? Because, first, tremendous increases in requirements in Eastern Europe, and the Western countries are passionately interested in providing resources to Eastern European countries. They are committing billions of dollars, there's even a new bank — the Bank of Eastern European Construction and Development.

The loans from this bank to East Europe and the Soviet Union will be subject to two conditionalities, which is very strange: economic liberalisation and political pluralism. Unless these two conditions are satisfied, loans will not be forwarded from the bank. This is for the first time that an international organisation, participated in by all countries including Eastern European ones, put these conditions on loans. So that is the new thinking in the developed community.

Since the total pie will remain stagnant, not increase, the competition for development assistance among countries of Africa, Eastern Europe, even Latin America will be tremendous. The thinking in the development community is, how do we make a more efficient use of a slowly growing pie, or a declining amount, for that matter.

The third criterion is poverty. Increasingly, the development community is inclined to give more to those which not only commit themselves to policies to alleviate poverty, but also perform in terms of declining poverty. So, you might say that they are getting more and more demanding.

But then, looking at it from the developing countries' points of view, may be it is desirable, given the shortage of resources both internally and externally. They too need to

make more efficient use of resources. Therefore, developing nations including Bangladesh will face the problem of not being assured of increasing volume of assistance.

DS: Does not the approach made to the Eastern European countries set up a bad precedent in donor-recipient relation, of the donor agencies interfering too much with the sovereign rights of the nation-state? And how is it going to apply to other developing countries?

NI: Now, this is a matter of hot debate in international circles. Like in the national sphere, you have to reach a consensus in certain critical issues, so internationally a consensus has to be reached. A debate is going on right now on exactly the issue you have raised. The recipient countries, the donor countries and other countries will be meeting in all international forums including the United Nations, the World Bank etc, and debate this issue to try to reach a consensus on whether these are the kind of policy changes to which the international community will agree.

You see, it's very difficult ... are these conditionalities, or are these policy changes which result from some consensus? Today, they are conditionalities, they are not the result of any debate or consensus between recipient and donors. So you are right to that extent. But they are saying that if they are going to allocate their scarce resources to developing countries, then they will suggest certain criteria for their efficient use, and you have the perfect right not to accept them.

DS: We are very close to self-sufficiency in food in

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Bangladesh. From an international point of view, as a former ADG of the UN's Food and Agriculture Organisation, how do you see the food situation in our part of the world, especially Bangladesh? Are we seeing the light at the end of the tunnel?

NI: You see, this is a very interesting question, and there has been a lot of loose thinking, if I may say, on this very concept of self-sufficiency. What do you precisely mean by this? When you talk of self-sufficient Bangladesh, it invariably means rice self-sufficiency, that is if we are self-sufficient in the total quantity of rice that we need in this country. But then, that is not quite the appropriate way to look at self-sufficiency. India is self-sufficient in rice and wheat, but their import bill for edible oils is mounting at an ever greater rate, and the same is true for other countries. Indonesia is self-sufficient in rice, but they import wheat. So when you say food self-sufficiency, we have to be sure about what is meant by food. If it is one of the components of total food consumption, then yes, Bangladesh could reach self-sufficiency in rice. But again, is it today's self-sufficiency, or tomorrow's? With growing population and income, demand for rice will also increase; so what would be the supply of rice in year 2000 or 2005 in relation to demand?

DS: And what about the purchasing power of the people?

NI: Correct, usually this kind of concept is based upon market-related demand, that

is today's demand given the distribution of income, the poor's purchasing power etc. But if you greatly increase the income of the poor, then there will be great increase in demand from the poor.

Now, various predictions and projections made for Bangladesh show that we may reach self-sufficiency in rice given certain assumptions, but the wheat bill may go up, because there is an increase in wheat consumption in the country. How you substitute one for the other is another issue. It is much more complex than what we glibly talk about.

I mean, what about imports of edible oils and pulses? Are they not food items? So we may not import rice, but we may start importing huge quantities of edible oils and pulses, for example. As income increases, demand for these non-cereal food items will increase. For milk, for meat, fruits and vegetables.

So, if you define food only in terms of rice, you have one kind of result, but if you define food in terms of other items then you are going to have another kind of result.

DS: But should we pursue it as a policy?

NI: No, why must one decide, as an issue ahead of time, that one might be self-sufficient in rice? Here again, what is necessary is not self-sufficiency irrespective of cost of production. If we produce rice or wheat at twice the price of world market, we shouldn't necessarily produce it. Fortunately for Bangladesh, we produce rice quite efficiently, as of now and for the foreseeable future.

But the point is, we want to be self-reliant, not self-sufficient. Now, what's the meaning of self-reliant? We must be able to produce what we can produce competitively, or else import them from abroad. Either produce them at home competitively, or if not, be able to import them in exchange for other things we can produce competitively. That's self-reliance, which should be expected, and is a reasonable objective.

Self-reliance, of course, brings in the issue of food aid here. When we want to be self-reliant it usually means we should increasingly reduce our dependence on food aid. Why? Partly because food aid is highly uncertain, it varies from year to year, and in the long run we don't really know the future of food aid. Therefore you can't decide a long-range food policy on a highly fluctuating and uncertain amount of food aid.

Then some food-related issues which are relevant to other developing countries are also relevant to Bangladesh. What do you do with food distribution, public food distribution, food prices for the poor? Now, there is a consensus all over the world, including developed countries, that until the income of the poor increases substantially to allow them to have access to sufficient amount of food, we should do something to look after their food needs. One way of taking care of it is to give them subsidised food. In theory that is what many countries tried but did not succeed in implementing. They ended up giving to the relatively non-poor and the reach, and mostly in urban areas. That's been our experience as well.

So it is very difficult to design programmes which will target food subsidies to the poorest of the poor. It is very difficult administratively and it is very costly to arrange it. So we end up having very broad-based schemes and having to cope with huge costs. If you can design narrowly-targeted schemes, then you can reach the poorest of the poor. For example, our Vulnerable Group Feeding Programme here does reach the very poor. Food for Work also reaches target groups. But hundreds of questions have been raised about the public distribution or rationing system. So we have to choose the appropriate method of reaching the poor.

Another burning issue is subsidies to agricultural inputs

See following page

Due to shortage of space, MY WORLD, the weekly column, could not be published today. However, the same will reappear next week.



Works under FWP: If you define food only in terms of rice, you have one kind of result, but if you define food in terms of other items then you are going to have another kind of result.