

Dhaka, Friday, July 24, 1992

ASEAN at Crossroads

In coping with the challenges in the post-cold war era, the Association of South East Asian Nations (ASEAN) faces a number of interesting possibilities but also some difficult choices. The two-day ministerial meeting of the six-nation grouping, just over in Manila, has revealed that the alliance — indeed, the region as a whole — can hardly take the future for granted or, for that matter, assume that the stage is all set for peaceful economic co-operation, based on reduction of military expenditures and mutual trust among nations.

In fact, how to handle new defence equations has become a major preoccupation of the alliance that groups together economically such powerful countries as Indonesia, Thailand, Malaysia, Singapore, Brunei and the Philippines. For one thing, the Russian Foreign Minister, Andrei V. Kozirev, now in Manila, has made it clear that his country would maintain its naval presence at Cam Ranh Bay in Vietnam, the base, until now, used by the former Soviet Union. With Kozirev insisting that it would be essentially a peaceful presence, with none of the countries in the region being regarded by Moscow as an adversary, ASEAN circles have generally welcomed the Russian move as a potential counterweight to the Chinese power. What has added a new dimension to the defence issue is the reaffirmation of the Chinese claim not only over the Spratly Islands but — also virtually over the whole of the South China Sea. This claim is in conflict with that of several other countries of the region, which look upon the Spratly Islands as their own.

Although China has backed its claim over the area with an offer of negotiation and joint development, the issue remains potentially explosive enough for some ASEAN members to talk in terms of a new defence arrangement, with none of them ready to reduce its military budget.

On the economic front, the grouping is expanding in the direction indicated in recent statements by its leading members. Both Vietnam and Laos have now acceded to a Treaty of Amity and Co-operation in Southeast Asia, a move that is likely to be followed by these two — or perhaps also Cambodia at a later stage — joining the grouping as associate or full members. Again, the two-day ministerial meeting is being followed by what is called dialogue sessions between ASEAN members and some of their major economic partners, the United States, Japan, EEC, Canada, Australia, New Zealand and South Korea. Here, we note, with dismay, that no South Asian country — not even India — figures among the countries invited for these semi-formal substantive talks. If EEC, as a grouping, can find a place in this scenario, we see no reason why the SAARC should be left out. There is, of course, no suggestion that the seven-nation grouping in South Asia should go out of its way to seek an invitation to the dialogue session. One day, hopefully in not too distant future, both sides — ASEAN and SAARC — should see the need for building bridges.

If ASEAN should do a bit of rethinking on this issue, it should certainly take a hard look at its own near-unproductive policy towards Myanmar. According to the Foreign Minister of Thailand, Arsa Sarasin, ASEAN rejects any attempt by western power to persuade the alliance to censure the military junta in Yangon which has persistently refused to move out to let a popularly elected democratic government to take its place. "We have the Asian way to resolve this problem," so said the Thai leader, without explaining what the so-called Asian way really is. Is it the resurgence of the people's power as we had seen in the Philippines six years ago or a recent one witnessed in Thailand? Sarasin should take a look at the Asian history again.

Sad Look of the Look-alikes

The so-called "Look-alike" concert has been cancelled. After its three days' performance at the Sheraton Hotel in Dhaka, the cultural ministry has withdrawn its permission for further staging of the show. The concert was organised by a Bangladeshi business group registered in Los Angeles and consisted of American artists who perform as "look-alikes" of their more famous contemporaries like Madonna and Michael Jackson.

The banning of the concert by the cultural ministry raises two questions. First, on what grounds was the concert closed? Second, was cancellation the only way to meet whatever objections were raised against the performance? No attempt has been made by the authorities to explain the reasons behind the decision. Our guess is that the show did not conform to, what the ministry considers to be, appropriate cultural values. If that be the case why didn't the ministry make proper inquiries before granting them permission to come to Bangladesh? It is not exactly cheap to fly in artists and their considerable load of equipment and stage props from Los Angeles. Who will now compensate for their loss? The very fact that the cultural ministry did not provide any grounds for the cancellation of the show leaves open the question that maybe the ministry itself is not clear in its mind, and that the decision was taken under pressure from a co-terre. Or that it came from an overzealous official and now the ministry is just owning it up.

Was there no way to find a compromise solution to the problem without actually cancelling it? This is particularly relevant in view of the press statement by the group that they are ready to abide by any further guidelines that the authority would ask for. Between cancelling the show and allowing it to go on as before, there could have been several options. It appears that the ministry didn't bother to examine any. We must realise that when a government gives a permission, it is like making a contract, which can be withdrawn only on very clearly spelt out grounds. Otherwise the official permission loses its value and the government its credibility.

There is another aspect that needs to be considered. As we become more and more inter-linked and connected with the world, we would like to see more and more concerts and cultural and musical shows from different parts of the world. Not all of them will conform to our cultural norms. It must also be remembered that the show was being staged, not in any public place, but inside a prestigious hotel. Everybody who went to attend the function knew what type of show it would be.

Finally, do we need to be so prudish? A matured culture knows what to adopt and what to reject. No "big brother" cultural ministry is needed to guide us in this matter.

External Aid and Domestic Economic Policy

by Enam A Chowdhury

UNTIL the 1980s the major development institutions based their aid policy on the assumption that lack of Physical capital was the critical constraint to development. Hence they focused on project based lending. Their concern over macro-economic policy was limited to insulating the domestic economy from external shocks through import substitution and generation of surplus in the agricultural sector for transfer into the protected industrial sector. Much faith was placed on the Government's ability to direct the development process. Aid conditionalities referred to project related issues.

During the 1980s some major changes have taken place in the global economy — the most important being the debt crisis of 1982 which has severely curtailed the availability of external aid. Developing countries were hit by three major shocks during the decade: the global recession of 1979-82, increase in real interest rate and decline in terms of trade for oil and primary commodities. Governments in developing countries discovered, almost suddenly that they do not have enough money to pay for their imports. Deficits soared as Governments unwilling to adjust to reduced availability of resources, failed to tighten belts. Bangladesh was quite hard hit by these shocks and her macro-economic situation underwent profound changes: Growth of GDP declined sharply, budget deficit increased and savings and investment as a ratio of GDP declined.

With the macro-economic framework in shambles the international development agencies started to wonder whether even the best designed development project would yield the expected results. Gradually the focus of their attention turned from project related issues to macro-economic issues. Much of this had, of course, to do with sharp fall in availability of aid money. As Lawrence H Summers, Chief Economist of the World Bank, puts it "...since there will not be much money for development over next decade there had better be a lot of good ideas.....". The 'good idea' that emerged was that with resource transfers to development countries becoming limited, "more bang is actually more important for development than more bucks." And, to get more bang, developing countries will have to stabilise and adjust. With this perception aid conditionalities shifted from project related issues to sectorial and macro-economic issues. And, since fiscal policy is a basic element of the macro-economic framework, taxes and public spending became the subject of donor scrutiny. Monetary policy could not escape attention because borrowing from the

central bank had become a preferred mode of financing budget deficit.

Macro-economic Framework

Suppose the donors did not bother about the macro-economic framework i.e. about fiscal policy, monetary policy and exchange rate policy; should countries like Bangladesh attempt to correct their macro-economic framework voluntarily? Now, at the start of the Eighties Bangladesh experienced a reduction in its real earnings from exports along with a fall in aid disbursement in real terms. In spite of this drop in resource availability, the Government increased, instead of curtailing, its revenue expenditures. As a result the budget deficit soared to 11.1 per cent of GDP in 1982/83 compared to 9 per cent in 1980/81. This was clearly unsustainable as it would have led to higher rates of inflation which would have amounted to an appreciation of the value of Taka and caused an increase in the deficit in the current account of the balance of payment which would not be met because the requisite foreign exchange would not be available. Thus, the government would have to reform its fiscal monetary policy even if such reform was not a condition of aid and the aim of such reform would be to reduce the pressure on prices through orderly adjustment of domestic demand to the reduced level of external resources available to the country. This is exactly what has been done under a standby arrangement with the IMF in 1985/86 followed by a Structural Adjustment Facility (SAF) for 1986/87 to 1988/89. The policy package supported by these facilities aimed at improving the balance of payment viability by reducing budgetary deficit and realigning the external value of Taka. The Gulf Crisis and economic shock posed by natural disasters and political transition in 1990 and 1991 have required that the Government continue to remain active in the area of macro-economic stabilization and, accordingly, the Government has agreed to have an Extended Structural Adjustment Facility from the IMF in place.

Stabilizing the economy in the face of reduced availability of external resources is only the first step in creating a condition to get more bang per development buck. In order to ensure that stabilization measures (which are basically expenditure cutting measures) do not depress growth, it is necessary that parallel efforts are undertaken so that the resource shortage that necessitated stabilization measures in the first place is overcome through the economy's internal dynamics which can be set in motion by relying on market forces. This is the adjustment

part of macro-economic conditions of aid.

Fiscal Policy Reform

Here, once again, consider what would be the best policy to pursue without aid consideration. In this regard the basic point is that in Bangladesh economy investment by the Government amounts to around half of gross annual investment. Thus, the level and efficiency of this investment is a highly significant matter. But, between 1980/81 and 1990/91 investment by the Government as a ratio of GDP declined from 9.4 to 6.1 per cent. The reasons behind this fall were (i) stagnation of domestic resource mobilization, (ii) rapid growth in current expenditure, (iii) implementation problems caused by weak prioritisation of the public investment programme. These problems would need to be addressed — aid or no aid! And that would involve fiscal policy reform, more specifically reform of tax policy (to increase revenue mobilization while reducing distortions caused by taxes at the micro level), prioritisation and reduction of current expenditure so as to increase the amount of public savings (excess of government's current income over current expenditure) that can be directed towards investment and prioritisation of the investment portfolio to ensure that scarce resources go into investment with high marginal return. In fact, if prioritisation of public expenditure (through the revenue budget or ADP) is given very high importance, each line item of the budget would need to be examined. This is precisely what the Government is doing now with assistance from the World Bank. One may ask if the Government would have undertaken a reform programme anyway, why seek foreign assistance?

What can the private sector do in Bangladesh? Agriculture is our key sector, but it will not be able to generate the growth and employment that can address the country's poverty problem. Industry offers this potential. But who would be the consumers for an expansion of industrial production to take place? Bangladesh will have to look at foreign markets for them. The Government can't do this! No Government can! What the Government can do is help the private sector to enter this market. In fact, here the Government really will have to focus more on undoing than 'doing' i.e. correct its past errors of commission. The Government will have to dismantle all the controls that undermine competition. Thus, the government's financial policy (which determines interest rate and flow of funds among alternative uses), exchange rate policy (which determines the relative competitiveness of

traded commodities and services vis-a-vis non traded goods), industrial and commercial policy (which determines efficiency of investment) all have to be reformed. In Bangladesh such reform measures have been implemented or are under implementation with assistance from several donors.

Why can't reform measures be implemented without external assistance? The answer is simple. The reform measures aim at repositioning the economy's productive capacity to global prices. This repositioning and the expected supply response take time, but, in the meanwhile, the reform measure put a pressure on the balance of payments. External aid helps to withstand this pressure and continue with the reform. Aid also helps the Government to address the social cost of reform.

Broad Consensus

Even though Governments in developing countries agree that stabilisation, adjustment and policy reforms are needed and there is broad consensus between aid recipients and aid donors about board aspects of reform measures, negotiation of aid package to support reform usually involve various degree of friction. The friction originate from difference of views about the sequence and pace of reforms. Multilateral institutions usually tend to gloss over the difference in economic, social, cultural and political characteristics of recipient countries and try to force Governments to accept proforma type of reform packages. Sovereignty considerations make acceptance of such reform packages difficult. For example, a condition of the agricultural liberalization package under discretion in late 1990 and early 1991 stipulated that the government withdraw all subsidy on fertilizer. The Government, however, felt that in view of depressed conditions in the agricultural sector this would not be the right thing to do. Here the difference between the government and the donor was not with regard to the merit of subsidy withdrawal, it was with regard to timing.

Fiscal policy in the early 1980s was dominated by financial stabilization objectives. Between 1982/83 and 1985/86 the focus was on reducing budget deficit from 11.2 per cent to 7.6 per cent of GDP. This was achieved through cutting back expenditure out of the budget on account of fertilizer subsidy, reduction in subsidy through ration system, restraint in size of the civil service by imposing a ban on recruitment and reduction of the Annual Development Programme. By 1986 subsidies on fertilizers had all but vanished. Subsidized distribution of food grains through statutory rationing was

curtailed drastically.

From the mid 1990s the coverage of budgetary reform extended to revenue measures. These measures included changes in the coverage and rate of taxes, introduction of new taxes and improvements in 1987/88 and 1988/89 under an Industrial Sector Adjustment Credit from the World Bank. A system of tax rebates on import of intermediate goods were introduced. Cost recovery was implemented for public services in electricity, transport, communication, education and health sectors. Tax administration was further strengthened.

Towards the end of the 1980s and the start of the 1990s the focus shifted to reform of the indirect tax system, structure of recurrent expenditure, public investment and claims of public enterprises in the budget. These reform measures commenced in the context of an agreement with the International Monetary Fund to increase mobilization of revenue by 0.5 per cent of GDP in each of the three years between 1990/91, 1991/92 and 1992/93. Restriction of growth of current expenditure to less than nominal growth of GDP and increase of public investment in real terms. Following the agreement the government introduced a Value Added Tax (VAT) in 1991/92 which was the centerpiece of the tax reform programme. Measures for further reform of the direct tax system was also initiated. In the area of personal income taxation the 1991/92 budget included measures for inclusion for entertainment allowances in the personal income tax base, introduction of a lower ceiling of the extent to which investment in approved assets could be deducted from the tax base and an introduction of a withholding tax on dividends.

Resource for ADP

The Government's tight control on current expenditure continued into 1991/92. The objective of this control was to increase the amount of resources available for the ADP. The 1991/92 budget incorporated reduction in subsidies for food (excluding targeted programme for the poor), Jute, and interest rate on selected lending categories (following agreement with the World Bank under a Financial Sector Adjustment Credit). The seriousness of the Government with respect to control of current expenditure was demonstrated when the Government accommodated the unanticipated increase in wage bill by Tk 390 crore, by reduction in expenditure on the other heads and additional revenue measures. As a result of the revenue enhancement and expenditure control measures the budget generated a surplus of Tk 1617 crores so that, unlike the preceding years, availability of local Taka resources

ceased to be constraint to implementation of the public investment programme.

In 1992-93 the budget has received clear and explicit recognition as a tool for structural adjustment. In his budget speech the Finance Minister has very candidly recognized the linkage between aid conditionalities and policy reform for structural adjustment. At the same time he has emphatically rejected the notion that policy reform measures which have emerged out of the dialogue between the Government and the development partners are harmful to the country's economic interest. The structural weaknesses of our economy that resulted in wastage and inefficient use of resource have to be removed as a condition for getting foreign assistance. Structural adjustments in the economy are needed in our own interest as they will improve our competitiveness in terms of productivity and skill.

The basic thrust of the 1992-93 budget is to build upon the success of the stabilization measures that were implemented in the preceding year. Thus, it goes beyond the historical preoccupation with increasing the Government's revenue earning to balance increases in government expenditure and gives attention to an incentive framework that will contribute to exported growth of the Bangladesh economy. In this budget the major fiscal measures are the result of consideration of not only revenue effect but also of their effect on incentives for export. For example, it recognized that in the past, import duty structure has been shaped mostly on the basis of revenue considerations and to the neglect of their negative effects in the form of encouragement to rent seeking activities, anti-export bias and increase in smuggling. Accordingly, the import duty structure has been reformed extensively by reducing high duty rates and their numbers, limiting the scope of exemptions and their rates, and simplifying valuation and duty collection procedures. Similarly, in the area of income taxation, revenue consideration has been addressed by broadening the tax base while tax rates have been reduced to reduce the negative effect on incentives. These are only two of many such examples of the way in which the budget for the current fiscal year is aimed at repositioning Bangladesh economy's productive capacity so that the country can take advantage of the global market.

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Democracy and Development in South Asia : The Challenge of Sustainability - II

The Strategy Calls for a Greater Degree of Regional Cooperation

by Kamal Hossain

THE guiding principles of new development strategies which would promote real development urge the avoidance of 'seven deadly sins', which have been identified on the basis of experience gathered over the last four decades: (1) Development without infrastructure; (2) Development without participation; (3) Development without women; (4) Development without environment; (5) Development without the poor; (6) Development without the 'doable', and (7) Development without mobilisation.

There is thus growing awareness around the world of the integral link between human centered development, human rights, people's participation and democracy. The African Charter for People's Participation in Development and Transformation (1990) recognises that the crisis engulfing Africa is "not only an economic crisis but also a human, legal, political and social crisis." It acknowledges that this is the result in many instances of over centralisation of power and of impediments to the effective participation of the overwhelming majority of the people in social, political and economic development." The Charter re-affirms that popular participation is "in essence the empowerment of

the people to effectively involve themselves in creating the structures and in designing policies and programmes that serve the interest of all as well as to effectively contribute to the development process and share equitably in its benefits. Therefore, there must be an opening up of political processes to accommodate freedom of opinions, tolerate differences, accept consensus on issues as well as ensure the effective participation of the people and their organizations and associations. This requires action on the part of all, first and foremost of the people themselves. But equally important are the actions of the state and the international community to create the necessary conditions for such an empowerment and to facilitate effective popular participation in social and economic life. This requires that the political system evolve to allow for democracy and full participation by all sections of our societies."

The Manila Declaration on People's Participation and Sustainable Development (1984) emphasises that "sustainable human communities can be achieved only through a people centred development" and declares that: "A people-centred development seeks to return control over resources to the people and their communities, to be

used in meeting their own needs. This creates incentives for the reasonable stewardship of resources that is essential to sustainability.

"A people-centred development seeks to broaden political participation, building from a base of strong people's organisations and participatory local government. It seeks the opportunity for the people to obtain a secure livelihood based on the intensive, yet sustainable, use of renewable resources. It builds from the values and cultures of the people. Political and economic democracy are its cornerstone."

To turn from global experience and its evaluation to focus on these issues in the context of our own SAARC region of South Asia: a review of four decades of our experience, including successes and failures since 1947 would provide ample evidence to corroborate the broad propositions which have been yielded by a review of evidence from other regions.

The situation today does not provide grounds for complacency. South Asia still contains the majority of the world's 'absolute poor', and most of its children are being born into communities where illiteracy, preventable disease, poor

growth, and early death are still common. More than one-third of all the world's child deaths occur in just three of the South Asian countries — Bangladesh, India and Pakistan. Of these, deaths from vaccine preventable disease accounts annually for over 1.5 million children. Over 50 million children are undernourished, despite the region's food surplus. Yet in a number of our countries, expenditures on health and education as a percentage of total government expenditures have been declining, while military expenditures have been increasing.

The strategy of development which is needed calls for a greater degree of regional cooperation than political realities. Unresolved issues and ethnic and sectarian conflicts have vitiated the political climate. Political tensions have contributed to growth of military expenditures to unacceptable levels. In some of our societies, it has critically contributed to the breakdown of democracy and the emergence of authoritarian structures. In others, it continues to divert resources away from priority areas of social and economic development.

This is why our efforts

should be directed to improving the political environment in our region. We should move our governments to attach high priority, if this is not already being done, to a resolution of outstanding issues and removal of sources of tension. Ethnic conflicts and revival of fundamentalist tendencies in some of our societies not only threaten political stability, but, by their very nature, also have a negative impact on relations between countries. This is why high priority needs to be given without our countries to resolve ethnic conflicts and to contain the growth of fundamentalism.

These efforts towards building an environment for regional cooperation are premised on the conviction that such an environment would open up enormous possibilities for all-round cooperation. Cooperation in generating the technologies of the future in shared R&D and the development of South Asian centres of excellence must be an integral part of the survival strategies for the future. Development common strategies on global and regional issues will enable us to secure our goals, national and regional, more effectively. Coordinated development strategies will help us to optimise the use of resources and more effectively serve the shared goals of development for the benefit of all our people.

The challenges that face us and the possibilities that exist are well encapsulated in a recent study entitled, *Waters of Hope*, by George Verghese: "The glaring contradiction of the world's most poor unable to garner the bounty of one of the world's richest natural resources regions in which they live is an indictment that can no longer be evaded. Not a little has been achieved over the past 40 years. But not enough. Political stability and the social fabric are threatened as popu-

lations multiply and justly demand equity and opportunity."

While there are many positive achievements and successes to be recorded, significant progress in science and technology and in industrial and agricultural production in some of the countries, and impressive reduction of illiteracy in some others, there remains a clear and urgent need for a shared review and evaluation of our experience in order to meet the challenges of the future.

Three specific recommendations could be urged keeping in view the experience of other regions and our own South Asian reality:

(1) All countries of the region could be urged to adopt integrated approaches to the promotion of civil and political rights and economic, social and cultural rights. Those countries which have not yet become parties to the International Covenants on Human Rights could be urged to become parties.

(2) The countries of the region could at the regional level promote exchange of experience and evaluations of the experience in promoting the implementation of human rights and formulating strategies aimed at achieving sustainable development.

(3) If we really want to change hardened attitudes and old approaches, it is individuals, people in every country, in every society, who have to become more active. The key lies in empowering people and impelling them towards political activism. We have to do more consensus building among like minded people in each of our countries and confidence-building in our region so that the forces for change may come together. We need to do more coalition-building of those who stand for change throughout South Asia, thereby helping them to become an effective force for sustaining both democracy and development. *Concluded.*

To the Editor...

Kindergarten school

Sir, Of late we have noticed hundreds of kindergarten schools have been opened at different places of Dhaka. The parents who desire to get their children better educated are getting them admitted in these schools. Some of the parents are preferring to get their children educated in English medium. But most of the English medium kindergarten schools do not have good English knowing teachers. Some of the schools are

being run by Spoken English passed teachers. Many of the Spoken English passed teachers are not well aware of grammar. As a result, the students who are learning from these type of teachers are not gaining strong foundation. Besides, some of the schools are charging very high rate of fees, but not providing any facilities like playground, entertainment etc. This is also regarding the mental faculty of the children. Some of the promoters are taking loans and donations from the parents on

the plea of funding the schools. We need to open many schools to meet the increasing demand of education. But there must be a set rule to run the schools, as many of the promoters are running the school on commercial basis and many of them have taken it as profession. The authority should look into the matter and should send inspecting officials to every school of this type.

Newsprint

Sir, We are concerned to note that the price of newsprint has been increased by Tk 698 per metric ton with effect from July 1, 1992. Newsprint is not only consumed by the newspaper industry but book industry as well. Students also use newsprint for academic purposes. We would strongly call upon the government not to increase the price of newsprint. *M Zahidul Haque Asstt Prof, BAC, Dhaka.*