

# For a rapid economic growth of Bangladesh

Bangladesh urgently needs a strategy for its economic and social development. It is commonly accepted that a breakthrough in its economic development is a prerequisite for successfully solving the myriad social problems of Bangladesh, the most pressing of these being unemployment resulting in poverty. In this article the focus will be on a possible strategy for the rapid economic growth of Bangladesh.

We first show that rapid economic growth is possible for Bangladesh only by setting up industries producing for the export market. We then discuss the positive and negative roles in bringing about this rapid industrialisation of the World Bank, of Bangladesh's bureaucracy, and of local and international industrial capital. We lastly discuss the political implications of the strategy for rapid industrialisation.

## Rapid economic growth

The bulk of Bangladesh's population (over 90 per cent) is engaged in agricultural production; the implements used in agriculture are primitive, the market for agricultural products is more or less static and there is a perennial shortage of capital in agriculture. Therefore the rate of growth of this sector even in the best of times is slow. On the positive side, the growth of agriculture has successfully met the challenge of keeping up with the growth of population and has consequently stabilised the peasantry.

Hence, although we cannot expect, short of social revolution, any breakthrough in production from agriculture, we can count on a stable and peaceful countryside.

The cutting edge to the economic development of Bangladesh can only come from the expansion of industry, which, in addition to partly solving the pressing problem of unemployment, will also generate wealth for the country.

Industry can produce either for the local market or for the international market. The local market in Bangladesh cannot sustain the rapid expansion of industry since the peasantry has very limited buying power; for example the peasantry cannot afford the usual consumer durables (refrigerators, freezers, TVs, VCRs, computers, etc) which form the bulk of the modern marketplace.

The international export market can provide the means for the rapid and almost limitless expansion of Bangladeshi industries. Such explosive and export-led economic growth is presently taking place in Asian countries such as Thailand, Korea, Malaysia, Indonesia, Vietnam and more recently in a populous country like China.

To enter the world market in a significant manner, Bangladesh needs to identify the sectors of the world market which involve labour-intensive production since the only resource that Bangladesh has is plentiful supply of cheap (but not necessarily highly productive) labour.

Bangladesh does not have a high rate of internal saving and hence does not have locally accessible accumulated capital; hence to set up industries for export, Bangladesh has to identify possible international sources of capital.

For a country to have a successful policy for the export-led growth of its economy, the greatest of efforts must be made by both the local industrialists as well as by the political leadership. Only by careful planning and exhaustive study of the world market, can a country choose the right lines of industry and sources of capital for the successful entry into the world market.

Many countries have failed in their bid to produce for the world market due to incorrect policies and judgements; for example Brazil in the late seventies and early eighties heavily invested in oil-based industries (car industry, chemicals etc), in steel industries etc. Unfor-

tunately for Brazil, the rise in the price of oil made their industries non-viable and steel also lost due to a new materials such as plastics, alloys, etc making steel obsolete. In contrast, the East Asian countries made correct assessments of emerging markets and technologies and hence made windfall economic gains.

**IN SUMMARY THE ONLY PATH OPEN TO BANGLADESH FOR RAPID ECONOMIC GROWTH IS INDUSTRIALISATION, WITH THE PRIMARY TARGET BEING THE WORLD MARKET.**

## Bureaucrat capital

The main source of foreign capital in Bangladesh are the international donors, who channel their development 'aid' and grants primarily through the World Bank and the Asian Development Bank. These funds are then disbursed through the Government of Bangladesh; this in practice means that the bureaucracy is in direct control of these funds, with the political party in power having only an indirect influence in this disbursement.

We, therefore, have to analyze the bureaucracy and the World Bank and the Asian Development Bank to ascertain whether the task of industrialization for the export market can be carried out by these institutions.

From the economic point of view the bureaucracy, or more precisely bureaucrat capital, is in charge of the capital owned by the state; the function of bureaucrat capital is to oversee and manage the state sector. Since the bureaucrats have permanent employment and are answerable only to their superiors, they have to a large extent unaccountable power; the profit or loss of a given industry under their management does not concern them.

The main source of funds for the bureaucracy is local revenue and World Bank funds; the profit from state owned industries is of marginal importance to bureaucrat capital, and hence bureaucrat capital has no economic necessity to efficiently run industries. A reflection of this is the fact that over 90 per cent of the public sector industries are running at a massive loss and draining the country of over Taka 2,000 crores every year in subsidies.

The global move towards deregulation, privatisation and reliance on market forces to gauge productivity in an assertion that private is far more efficient, productive and dynamic than the bureaucracy in turning over capital. Hence, as has been borne out by the experience of many countries, bureaucrat capital can not make the industrial breakthrough required to enter the world market.

**The only force that can make a breakthrough in attracting massive amounts of direct foreign industrial investment is the political leadership of the country, in particular the leaders of the political party in power. The highest level of the country's leadership has to personally make very focused and energetic effort to be successful; this has been the case for all the East Asian countries where leaders like Mohammad Mahathir, Lee Kuan Yew, Suharto, Park Chung-Hee, Deng Xiaoping, etc. all made it their personal obsession to convince big Japanese and Western industrial capital to set-up production for export in their countries.**

The bureaucracy can however play a dynamic and productive role if the country has a powerful political leadership with a clear vision for the country's growth; the nationalist elements in the bureaucracy are in fact an indispensable ally of such a political leadership. The emergence of Japan as a modern power is largely a result of a dedicated political leadership working in tandem with an equally committed bureaucracy; the more recent examples of the rise of South Korea, Taiwan, Singapore, China, Malaysia etc. are all examples of the bureaucracy providing powerful and consistent organisational and regulatory support to the country's efforts to bring about economic expansion.

World Bank, Asian Development Bank etc. are all forms of interest bearing banking capital; the function of banking capital is to lend out money capital to different sectors of the economy (industries, commerce, trading etc) and realise interest as is form of profit. The World Bank itself does not run industries and hence has no responsibility in ensuring that the money loaned out is profitably used.

In Bangladesh, the World Bank disburses its loans through the bureaucracy, which as discussed above cannot even



**Dr Belal E. Baaquie writes on the dramatic changes that are taking place in economic growth, political realignment and the prospect of Bangladesh making the best of the opportunities that are now open to it. In a three-part series, the author shares his thoughts on the experiences of Asian countries, especially China and India, the shifting source and impact of international finance and suggests a possible course of action for us. This is the first instalment of the series.**

run the public sector industries profitably let alone bring about industrialisation; hence World Bank also cannot industrialise Bangladesh.

The World Bank should be used for building up the country's infrastructure, be it primary education, roads and communications, public health etc. The industrial policy of Bangladesh should however be the preserve of the political leadership, since no country in the world has successfully industrialised under the guidance and policies of the World Bank.

## Local industrial capital

The only force that can industrialise Bangladesh is private industrial capital. This is because industrial capital has to first invest capital, efficiently run the factory, and then successfully market its product; only then can it make a profit. The risk of failure and the loss of capital is a coercive force making industrial capital exert itself to the utmost to succeed; similarly the market is a ruthless force rewarding the efficient producers and bankrupting the substandard producers.

Local industrial capital in Bangladesh is still in its infancy, with the consequent problem that the genuine industrialists often cannot be differentiated from financial swindlers and loan defaulters who frequently operate under the cover of bogus industries. Nevertheless, local industrial capital has been able to open up garments export as well make some headway in exporting processed local raw materi-

als like fish, leather, tea etc. It should be noted that only a handful of big businessmen are engaged in corruption on a scale large enough to adversely affect the national economy of Bangladesh; this handful of corrupt businessmen are able to cheat the country of large sums of money only with the active collusion and connivance of corrupt high ranking bureaucrats as well as that of unethical foreign capital.

The overwhelming majority of businessmen operate legitimate concerns and, if at all, are engaged in petty corruption involving the lower and middle levels of the bureaucracy. Of course, petty bureaucratic corruption is also very harmful for the economic growth of

Bangladesh since it creates obstacles at every step for the genuine businessmen and investors and ultimately clogs up all the vital channels of the Government and renders it ineffectual. This petty corruption is not initiated by the businessmen, rather they are more often the victims of bureaucratic extortion. It is an urgent matter that all forms of bureaucratic red tape and corruption which adversely affect industrial growth be removed by the political forces of the country.

globe will undergo a radical change with East Asia emerging as the centre of the world economy; Bangladesh has an excellent opportunity, due to its geographical proximity to the Far East, to take full advantage of this momentous shift in the world economy, and should forge industrial alliances with the dynamic industrial capital of the East Asian economies.

The most suitable form of foreign industrial capital for Bangladesh is undoubtedly

successful attract industrial investments.

Bangladesh has to recognise, and step by step solve, the many negative factors that are presently discouraging foreign industrial capital. In particular, to successfully attract foreign industrial capital, the political leadership has to win over or bring certain key sectors of the bureaucracy under its complete control, institute parliamentary legislations and other regulations that are conducive to such investment, improve the infrastructure and improve the skills and discipline of the labour force. Steps must also be taken, if necessary by institutional underwriting, to reduce the risk of natural disasters adversely affecting industries.

## International flagship company

Bangladesh first has to decide what commodities of the world market it can produce competitively, given the local level of labour productivity and infrastructure; once a line of production has been chosen, the next step is to directly find a suitable company for direct investment.

The experience of East Asia as well economic analysis shows that to open up a new line of export, it is not sufficient to attract a few small foreign investors since such investors cannot make a qualitative change in the investment climate of Bangladesh; instead, to make a significant impact on the economy, a major company has to make an investment of approximately 500-1,000 million US dollar; for example a petrochemical plant, a computer chip plant, ship building and repairs etc all need an initial investment of about this amount.

A company having the resources to invest on scale of 500-1000 million US dollar is called a flagship company and

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is usually a leader in its field of production. The major share of the required equity for its project in Bangladesh, say 80 per cent would be put-up by the flagship company and the Government of Bangladesh could take a minority share of say 20 per cent a form of commitment to the project.

The reasons for going all-out to attract a flagship company to make a major investment are many; among these are the following:

(a) Only a flagship company can successfully choose the sectors of modern industry with the right mix of technology and emergent or existing international markets amenable to Bangladesh's current economy; for example Mitsubishi recently did a country study of Vietnam to determine which lines of production were viable for investment.

(b) Only a flagship company has the required management skills and financial staying power to cross the technological, production and marketing barriers required for successfully breaking into the world market.

(c) A flagship company has many secondary and tertiary suppliers all of whom would consider setting-up local production following the example of the flagship.

(d) A flagship company has access to international capital which may not be directly accessible to capital-scarce Bangladesh.

(e) Flagship companies in other lines of industry would also consider possibilities of investing in Bangladesh.

(f) The presence and success of a flagship company could act as a catalyst for the massive inflow of foreign investments.

**TO SUM UP, TO MAKE A BREAKTHROUGH IN INDUS-**

**TRIALISATION, BANGLADESH NEEDS TO CHOOSE A LINE OF INDUSTRY FOR EXPORT. THE HIGHEST NATIONAL LEADERSHIP THEN HAS TO ATTRACT A FLAGSHIP COMPANY IN THE LINE CHOSEN TO SET-UP PRODUCTION FOR 100 PER CENT EXPORT.**

## Politics and economics

The primary task of all politics in Bangladesh should be to improve the lot of its people. Usually a vast number of different objectives, all pertaining to the welfare of the people, demand the immediate attention of the political leadership. This results in a loss of direction, with consequent confusion amongst the people as well as in the political party as to what is of prime importance.

As argued above, the only path open to expand the Bangladesh economy is to focus on industrialisation, and in particular on export-led growth of industry based on attracting an international flagship company. This sharply focused and precise goal should be placed before the political party, and the leaders should convince the party members of its validity.

The main advantage Bangladesh has is the cheap and plentiful supply of labour. The fact that labour is cheap is ultimately due to the low cost of subsistence and this in turn hinges on agriculture providing food at low costs. Hence, to compete in the world market, it is essential that agriculture continue to provide subsistence at low costs; it is encouraging to see that the present Government has been giving high priority to improving agricultural productivity and production.

The fact that labour in Bangladesh is cheap is not enough to make it competitive since the productivity of labour must be factored in to

ical basis for bringing harmony between labour and management and isolating and thwarting the labour unions which are presently largely in the hands of touts and lumpen elements.

To launch and sustain rapid economic growth in Bangladesh it is necessary that the leadership in the political and economic spheres have to be unified and feel the benefits of this growth. The present power centres in Bangladesh consist of the political leadership, the business community, the industrial work force, the intelligentsia and the civil and military bureaucracy. All these centres of power must have a stake in realising a path for rapid growth.

Needless to say, the political leadership has a central role to play and it is up to them to carry the population at large with them.

The business community will be an obvious beneficiary of this growth and in their own self-interest they must share of the benefits with the industrial and other workers. To obtain the active cooperation of the bureaucracy, it is necessary that the bureaucracy directly benefit from economic growth; this may entail giving bonuses to the bureaucracy based on the economic performance of the country, and in tandem with economic growth the salaries of the leading civil servants should be substantially increased.

It is essential that a mechanism is found to distribute the monetary benefits of economic growth among all the centres of power so that there are no spoilers in thwarting this growth.

As the results of the industrial strategy materialise in terms of higher income and wealth for the population, there will be even greater support for the strategy of industrialisation leading to a stable political en-

determine the real effective cost of labour; given the low productivity of Bangladeshi labour its effective cost is high. The productivity of labour depends on the education and level of discipline of the working force as well as on the efficiency of the country's infrastructure.

The infrastructure of Bangladesh lags far behind its potential competitors; education is in a mess endangering the future of not only the youth but of the country itself and urgently needs a drastic solution; the anarchy of the labouring force is deeply rooted in the current politics of the country and it is upto the political leadership to put an end to it. The physical infrastructure and administrative procedures both need radical improvement. The successful implantation of a flagship company could act as a lever to bring about these much needed changes.

For a political party in power to be unified and have an effective organisation, a well defined goal and objective is required; otherwise the only other objective a party has to stay in power, and which implies an acceptance and perpetuation of status quo and stagnation; this will result in social frustration and finally lead to the loss of popular support and defeat of its candidates in elections and culminating in the loss of government power.

The path of export-led growth by attracting a foreign flagship company can unify the political party in power and unite the party members around this goal. It is crucial that a defined objective also be placed before the people so as to arouse their enthusiasm for production. The support of the people for economic growth will also provide the necessary polit-

environment and hence creating conditions for further economic expansion. The growth of industries in the cities will create new local demands that can be supplied by the expansion of local industries. With the accumulation of wealth in the urban areas, the country will finally have the resources required for the modernisation of agriculture.

## Conclusions

A path for the rapid economic development of Bangladesh exists; it entails the massive in-flow of international industrial capital producing for the export market; to initiate this flow of industrial capital, the political leadership must make extreme exertion to attract a flagship company in a carefully chosen line of industry and create conditions to attract an investment in Bangladesh of approximately 500-1,000 million US dollar.

The initiative now lies with the leaders of Bangladesh; if they can concretely materialise this strategy, then Bangladesh can look forward to at least ten years of rapid industrial growth and increasing prosperity for initially the urban and later-on of the rural population. On the other hand, failure to grasp this unique opportunity will leave Bangladesh facing intractable problems with prospects of social chaos and economic disintegration.

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## Arab League urges members to pursue economic reforms

ABU DHABI, Oct 3: The Arab League has urged its members to pursue reforms to attract investment and heal their economies, which have been smothered by decades of state control and mismanagement of aid, reports AFP.

In a study by its economic department, the Cairo-Based League said such reforms had become more pressing to achieve the long-sought integration among its 22 members and face competition from emerging giant economic blocs.

It said the reforms should cover all sectors, including monetary stability, removal of restrictions on currency exchange rates and capital transfer, improvement of the investment climate and upgrading management and efficiency.

Arab economic integration remains the main pillar for countering growing challenges

facing member states in a world where the role of large economic blocs is increasing," it said in the study, published by the United Arab Emirates (UAE) semi official Daili Al-Ithihad.

"The most important means for integration are attaining sustainable development and economic stability, boosting inter Arab trade and encouraging domestic investment. All this could be realised through economic reform policies which will help achieve similarity in Arab economic policies.

Several Arab states have launched reforms at their own initiative or instructions by the International Monetary Fund (IMF) to revive their economies, which are suffering from large debts, slow growth, unemployment and low investment mainly because of strong state control.

The reforms gained momen-

tum after the 1991 Gulf War as oil-rich states in the region said they were now linking aid to economic reforms.

The Gulf move came after economic problems in most Arab nations persisted although they have received more than 350 billion dollar in aid, remittances and other cash flow over the past 20 years.

From 115 billion dollar in 1985, Arab debt soared to 152 billion dollar in 1991 and debt servicing to 16.8 billion dollar from 10.4 billion dollar. A budget deficit in non-oil Arab states persisted, reaching 7.3 billion dollar while the deficit in the trade and balance of payments stood at 16.2 billion dollar and 15.9 billion dollar respectively.

But some Arab countries have reported improvement as they pressed ahead with economic reforms, which are concentrating on privatisation and investment.

## Crops on water!

HANGZHOU, Oct 3: Scientists in East China's Zhejiang province have found a new method to plant crops on water, reports Xinhua.

Different from other on-water planting technologies which do not need soil but require special nutritious fluid in the water. The new technology enables farm crops to grow well on fresh water in lakes, reservoirs and fishing ponds without manure.

While growing crops on the water of a fishing pond, the breeding of fish will not be affected, according to researchers at the China Rice Institute.

Experts say that planting crops on water will greatly reduce the cost due to the fact that the crops can resist typhoon, drought and flooding and that there are no weeds, pests and rats on water.

Moreover, they note, growing crops on water can also purify the water.



Kuwait Airways signed a contract with Dhaka Sheraton Hotel to utilise the VIP lounges at the Zia International Hotel. Picture shows General Manager John L. Eaton and the Manager of Kuwait Airways A Rahman Al-Dhubaibi, Ms Fatima K. Ali, Airport Manager, F. Howlader, Financial Controller and Sales Manager M H Khan of the hotel.

## Newsprint demand drives prices up in China

BEIJING, Oct 3: China's soaring demand for newsprint and shortage of timber have sent prices rocketing and forced some plants to shut, the China materials news said, reports Reuters.

It said newspapers and magazines had boomed in recent years, but domestic output of newsprint at the country's nine plants had stagnated at about 400,000 tonnes a year.

Supply shortages have worsened this year, driving up the domestic price of timber by 19 per cent in the first half of the year. The newspaper said the price of imported timber had nearly doubled from a year earlier.

Some newsprint factories had stopped production because they could not obtain raw materials.