

# IMPLEMENTATION OF STRUCTURAL REFORMS

The Daily Star Special on WB - MCCI Seminar

## Accountability on Economic Issues

by Mr Latifur Rahman

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OUR Chamber has been maintaining that structural reforms package, per se, is not totally unacceptable. If, however, there is any feeling that these conditionalities infringe on national sovereignty in economic decision making, the only response can be that of reduction of dependence on foreign aid, through improved economic performance. Till that happens, the conditionalities will remain an inescapable reality in the economic front and it will be in our national interest to discuss these openly, with a view to finding the best of reconciliations, particularly those having trade-offs between objectives. For example, import liberalisation will affect our industries and Government revenues in the short term. It is, therefore, important to consider as to how import liberalisation should be brought about and at what speed. Just to mention in passing, our Chamber has a well-established position on this issue. Import restrictions are surely not justified to promote economic rents to the domestic manufacturers, but it cannot be disregarded that in a country like ours, investments in the manufacturing sector need some tariff protection under a long-term fiscal policy. Such a position is not untenable in the light of the position obtaining in the global economy. The current stalemate, under Uruguay Round of the GATT talks, clearly shows that liberalisation in an unqualified form is not acceptable even in many developed countries. There are practical problems in attracting investments in the manufacturing sector in an economy like ours. On the demand side, discretionary purchasing power is limited, making it difficult for industries, big or small, to realise full cost in most areas of economic activities. On the supply side, low factor productivity and labour unrest makes production cost unreasonably high. The obvious proposition will be, emphasis on outward orientation of the economy, but the reality in global trade today, is increasing non-tariff restrictions, making export promotion more and more difficult. Import de-regulations in this situation, may in the short and medium term, aggravate balance of payments imbalance, defeating one of the fundamental objectives of structural reforms programme.

Another aspect which is upsetting the reforms are the public policies towards labour. Historically, the public policies have been largely designed to protect organised labour and their earnings, leading to continuous rise in employment cost and reducing the scope of employment expansion in the economy. Such policies have caused over-pricing of labour in the organised sector, creating an island of protective em-

ployment in the capital intensive segment of the economy. In contrast, there are far too inadequate positive actions to promote employment and improve human skills. The results have been mis-allocation of resources and maldistribution of income and above all, economic inefficiency. For a poor economy, such inefficiencies, circumscribe the ability to tackle the problems of unemployment, poverty and economic inefficiency. We are not suggesting that economic efficiency and protection of the workers are conflicting objectives, but we strongly maintain that economic efficiency should not be sacrificed for the protection of a small percentage of the workers employed in the organised sector. The present range of labour market regulations should not be perpetuated, as it does not provide any meaningful protection to the mass of the working population. Positive decisions in this regard will help implementation of the reforms programme as well as improve the general image of the country.

Success in our macro economy in recent months has underlined that reforms programme, if properly implemented, can yield useful results. But the gaps between policy announcements and their implementation, remain a major threat. The nature and extent of facilitatory role which the Government needs to play to bring about efficiency at the micro-economy, is yet to convince enterprise level operators. For any form of facilitatory function of the Government to be effective, there is need for close interactions between the Government and trade and industry. A regular dialogue and common approach to the issues are necessary. The Government functionary still operates in so called "public interest" and

does not bother to facilitate operations at the enterprise levels. Such an attitude, in our view, will continue to create allocative inefficiency leading to rent-seeking and distortions in investment decisions. Our administration has gone through several phases of reforms in the past. Another round has been suggested. The quality of administration will not improve unless accountability is enforced on economic issues. We feel that House Committees of the

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Recently a seminar jointly organised by the Metropolitan Chamber of Commerce and Industries (MCCI) and the World Bank (WB) looked into the structural reforms so far carried out in Bangladesh. The seminar was participated by ministers, members of parliament, government functionaries, representatives from trade and industry, development institutes, trade unions and the mass media. Given the seriousness of the subject, the depth of the papers presented and the insightful discussions that took place, we in The Daily Star decided to share the deliberations of the seminar with our readers.

In this two-page special, we present extracts from some of the papers, and brief reports of the views of a few selected discussants. We hope our effort will encourage further debate on this important topic and help to create a well informed public opinion on this subject.

## Industrial Deregulation

by Charles Draper  
The World Bank

INDUSTRIAL deregulation and trade liberalization cover a range of policies with the common goal of enabling rapid, labor intensive industrialization as a key instrument for poverty alleviation through economic growth. This vision binds them together.

For Bangladesh — like other developing countries with limited domestic purchasing power relative to the amount of employment that has to be generated — such policies need to emphasize the en-

abling environment for competitive, private sector led, export development.

The economic report that we are discussing today did two things. First, it described the progress that had occurred in changing the trade and regulatory regimes which had prevented Bangladesh from gaining the fruits of international specialization. Second, it laid out an agenda for further actions that could make export led growth a reality rather than a dream.

Rather than repeat that agenda today, I want to direct the attention of this distinguished gathering towards the progress that has occurred in implementing the agenda, and towards the further actions that should be implemented — not just pronounced — to create the basis for Bangladesh to attain economic star status.

This may seem an ambitious goal, but I think that many here will agree that nothing less than spectacular industrial growth will alleviate poverty in our lifetimes.

First, reform of the legal system must be accelerated to enable contract enforcement, dispute resolution, and the orderly exit of unprofitable activities. The economic report noted that a reform programme was being developed. Since then, a Government task force has indeed produced an action plan, but significant progress has yet to be made in implementing the wide range of changes that must be made throughout the judicial process as well as in the laws affecting business and employment.

Second, decisive reform of customs clearance and other bureaucratic procedures is needed to remove bottlenecks and reduce transactions costs. In the bargain between Government and Business the quid pro quo for reducing excessive protection must be

removing excessive regulation — so that firms can cut costs, focus on enterprise rather than manipulation, easily change their production arrangements if necessary, and respond promptly to international markets.

On paper, Bangladesh now appears to have a fairly liberal operating environment for business, including foreign investment. In practice, however, failure to force the implementation of policy changes has several constrained improvements in competitive-

ness. Third, independent regulatory arrangements are necessary to facilitate private competition in utilities, transport, banking, and other public monopolies/oligopolies. This subject will be considered in the next session of the Seminar, dealing with the report's focus on SOE reform and privatization. I mention it here because it is another key in the deregulation agenda to improve the operating environment for manufacturing.

Finally, I wish to draw attention to a complex area where implementation performance has improved markedly, even in the few months since the report was presented. Good progress has been made in the last two Budgets towards rationalizing the import tariff schedule; the non-tariff import controls are being progressively removed; and the liberalization of the foreign exchange system has proceeded apace.

These important developments have been advanced recently by five key steps:

- (1) the formalization of Taka convertibility for trade purposes;
- (2) the publication of an Operative Tariff Schedule that makes at least some of the rules of the game transparent for the first time, an important first step in speeding up Customs clearance;
- (3) the accessibility of special bonded warehousing to all types of export activity;
- (4) The Government's clear articulation of export orientation, i.e. low tariffs, as the theme which should guide the next phase of the trade reform process; and
- (5) the strengthening of the Tariff Commission as the instrument for introducing objectivity into the difficult part of that process: the reconciliation of the diverse interests affected by the trade regime.

If the pace of trade reform can be maintained or increased through further developments along these lines, and if a really effective attack can be made on the legal, regulatory and bureaucratic obstacles, the industrialization vision could become a reality.

## Tremendous Future in Labour-intensive Manufactured Exports

by Christopher Willoughby,

Chief, World Bank Resident Mission, Dhaka

ALMOST any projection of Bangladesh's future shows that the nation faces a dramatic race against time, which will either be won or lost within the current generation. Over the country's first two decades, a lot was accomplished — in fits and starts in agriculture, but sufficient to achieve eventually impressive increases in grain output, and in many other fields, such as garments industry, NGO activities, Grameen Bank, rural electrification, EPI and the work of LOED. But many other institutions simultaneously deteriorated, the whole never added up to a satisfactory pace of progress, and poverty remains intolerably widespread and deep.

In a textbook world, the process of implementation of structural reforms can be broken down into a series of neatly sequential steps — closer identification of the problem to be addressed, analysis of alternative solutions and choice of the optimum, consensus building in support of it, the taking of high policy decisions, preparation of

revised rules and regulations, training of staff, and finally application of the reform at the level of day-to-day work. We all know that, as usual, the textbook is too simple and that, although these steps do all have to be fulfilled in one way or another, the actual process of implementation is normally much more messy and muddled, especially where, as is often the case, many structural reforms are needed simultaneously. The progress of each reform depends so intimately on political factors and on individual leadership and management capacity in responsible Ministries that it is in practice likely to decelerate and accelerate at different times, as Bangladesh saw in agriculture in the 1980s. There are cases of profound multi-sector reform virtually fully accomplished within a couple of years — the Korean and Thai adjustment programmes following the 1979 oil shock would be good examples — but they are more the exception than the

rule. Yet speed is important for impact and success. Let me illustrate from the experience of a major country which has become renowned for the successful outcome of major reform efforts: Mexico. Between 1983 and 1988, and essentially within the last three years of this period, import controls were reduced from nearly 100% of imports to 3%, average import tariffs were reduced from above 50% (not very much above the current level in Bangladesh) to less than 10%, with a maximum level of 20%. Also between 1983 and 1989, and again essentially within the last three years of that period, more than 600 public enterprises (well over half of the total in the country) were either fully sold as going concerns or wound up and liquidated. The Mexican economy has enjoyed spectacular growth in the last few years, since completion of these reforms. Perhaps the most important

single factor determining the success of structural reforms — especially those widely affecting the private sector — is the extent of general confidence that they are fair and that they will be fully carried through. Thanks to the reform efforts pursued by the Government of Bangladesh and the wider acceptance of "market economy" as the preferred organizing principle for the country's economy, I do detect a gradually rising confidence, as reflected, for instance, in the increase of the private investment rate, to reach 7% of GDP last year. But it would be justified — and helpful to Bangladesh's future — for that confidence to gain more substance: that, if it continues to manage its economy in an increasingly disciplined manner, Bangladesh can very easily have a tremendous future in labour-intensive manufactured exports, so that issues of reopening non-competitive import-substituting factories or of losing employment in a retrenchment will seem of much lesser significance to managers and workers alike.



## Privatization Process and Developing an Efficient Financial System

by Feisal Siddiqi

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PRIVATIZATION is a must for Bangladesh, notwithstanding the mixed outcomes of past efforts. Further privatization and deregulation of the economy is expected to be synergistic and to produce far better results. The current pace of privatization is, however, unacceptably slow, and weaknesses in the process need to be identified and rectified without further delay. To this end, the objectives of the programme must be clearly articulated, and both the political and administrative commitment must be reiterated.

### Current Issues

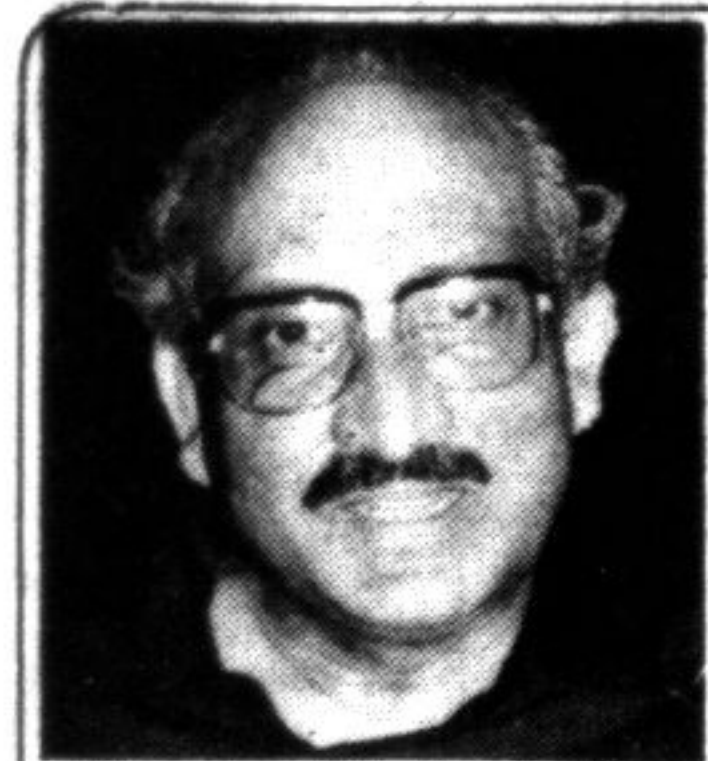
- 1) The privatization process needs the full commitment of the government, the ruling party, and the opposition parties. This consensus needs to be articulated and reinforced with utmost seriousness in targeted seminars and discussion meetings. It must be appreciated by all that this is not an area for partisanship.
- 2) The Privatization Board, while a step in the right direction, needs much more private sector participation — highly reputed, uncontroversial businessmen. The reasons for this should be obvious and needs no further elaboration.
- 3) There is a widespread misconception amongst the general public that somehow the public sector is working in their interest — this notion needs to be forcefully dispelled and the truth established. Even the ordinary workers of the public sector organizations are

- not benefitted in the long run from government ownership, management and control. The short term gains of some employees and government functionaries seems to be the public sector's only raison d'être.
- 4) The entrepreneurial class in Bangladesh is neither small nor lacking initiative. The garment sector alone has produced over 2000 potentially vibrant entrepreneurs and managers capable of competing in global free markets. It is the failure of the business community that this point is not driven home enough to both the government and the opinion leaders.
- 5) The Government can issue some guidelines and encouragement to the public sector financial institutions like NCB's, DFI's, Sadharan Bima, ICB, etc regarding financing of private entrepreneurs in takeovers, so that lack of capital does not depress prices offered for privatizations.
- 6) The NCB's have become quite unwieldy and highly dysfunctional; as a preparatory stage towards privatization, the Government can consider breaking up these banks into smaller, more manageable units.
- 7) Sadharan Bima/Jiban Bima are amalgamations of a number of insurance companies, some of which were previously owned by Bangladeshis. These component companies should be segregated and returned/divested to their original owners, thereby streamlining Sadharan Bima/Jiban Bima,

- and expanding the private sector further.
- 8) The programme of 49 per cent share divestment to the private sector has predictably not been successful, since the Government stronghold remained in most cases.
- 9) Privatization of smaller units seems, on the whole, to have been quite successful, particularly since diversification to other uses was achieved in some instances — virtually unimaginable under Government management. The Jute and Textile denationalizations, however, continue to suffer because of their inability to come out of the public sector hangover and continued involvement by the Government. Similarly, Uttara and Pubali Bank are struggling to restore viability; while they do not appear very successful, the comparison with existing NCB's makes their position look better.
- 10) There are very important lessons to be learnt from the RMG industry — here is an example of the private sector working in an environment dominated by market forces and exhibiting all the desired features — 1) rapid investment in the industry and build up of capacity, 2) substantial involvement of private sector banks, 3) normal bank/client relationships, often very supportive/constructive roles by the banks such as the Islami Bank model, 4) normal process of consolidation within the industry, with efficient units growing and taking over other

- units which are faltering in a very smooth and orderly fashion, 5) very productive and cost effective labour force, whose wages are rising directly with their productivity — healthy demand driven rises and 6) rapid development and dispersion of skills — both that of the workers as well as management.
- 11) In short, entrepreneurs and unfettered markets work as well in Bangladesh as anywhere else — of course, the Government did have a role in galvanizing the banks into action by pushing the back-to-back L/C system and otherwise staying out of the affair as much as possible. There is no doubt, therefore, that complete disengagement by the Government from all sectors is the best remedy for successful operation and growth of these sectors.
- 12) Any unit not being privatized immediately should be decentralized as much as possible — centralization in the form of corporations and direct interference and control by the Ministries has resulted in more inefficiency and corruption. The best possible CEO's with attractive market based remunerations should be brought in under contract to managed these units with a free hand; the central corporations should be abolished altogether.
- 13) Any notion of Government turning around the losing public sector units and restoring their viability before putting them on the auction block is a

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Inaugurating the day-long seminar jointly organised by MCCI and the World Bank Resident Mission, Finance Minister M. Saifur Rahman underlined the importance of continuing the structural reform programmes for providing a firm base for the economy to alleviate poverty. "Reforms are the only way to get rid of wastage, inefficiency and mismanagement and to accelerate economic development and employment generation," he told participants at the seminar on "Implementation of Structural Reforms". Rahman noted that there is a built-in confrontational attitude prevailing in the country about the World Bank-funded structural reform process simply because it was advised by the donor agencies. "There is a tendency that if something comes from outside the country, we consider it as not good... but reforms are necessary for good management and not all reforms are harmful to the country." As the country is dependent on outside assistance for implementing the reform measures, he added, even unpalatable conditionalities have to be accepted. "The reform process has to be owned by the country or else you cannot ask for funds from the donors, and if you cannot accept the conditionalities then you should ask the

Finance Minister not to seek money from outside." The Finance Minister pointed out that the conditionalities for the structural reform programme were tailored to the needs of the country. However, he was sharply critical of some other conditionalities imposed by the World Bank, which are not country specific. He singled out the Bank's conditions on environment and re-settlement issues for funding projects in the country. "The rigidity (of such conditionalities) is such that these are imposed without looking into the prevalent conditions inside the country." Rahman was also critical of the 'structural distortions' present in the developed economies due to the lack of reforms, which, he said, was also responsible for the slow pace of reforms in the developing countries. Thus, he added, the timing, certain conditionalities and the speed of the reform programme along with the imbalance in the economic fundamentals of the Western countries are the points of contention. The Uruguay Round GATT talks have been disrupted by the rich countries, he noted. "These countries asked us to withdraw subsidies but they themselves provide subsidies to their farmers and other producers." However, the Minister said that Bangladesh opted for a free-market economy to accelerate the growth rate through enhanced exports in order to reduce the level of poverty. Stressing the need for the privatisation of the public sector enterprises, Rahman, however, emphasised on pacing the process during opportune periods. "The privatisation process has to go through, but we don't have very many takers; we have to allow the private sector to grow."

Information Minister Barister Nazmul Huda: After independence in 1971 consolidation of the economy required total nationalisation as one of the four pillars of socialism. But the situation changed after 1975 when the denationalisation process started.

Presently, the investment climate has improved substantially. The law and order situation improved tremendously after the introduction of the Anti-Terrorism Act, a labour reform commission has been set up to improve labour relations; and the government has a declared policy of non-interference in the private sector. The government is also contracting the public sector, particularly the manufacturing sector, thus increasing the opportunities for the private sector.

Later, in response to the comments of other discussants, the Information Minister added: What is political stability? The political process is very much under control of the Constitution and has settled



down in a parliamentary form of government. This would help bring about political stability in the country. The law and order situation is being questioned because we also sometimes work outside the parliamentary framework, like agitating on the streets. The government and the opposition alike should think about it. Let all issues be openly discussed in Parliament.

