

# Reinventing Government for Economic Revitalisation

by Owaise Saadat

*It is in the 'enlightened self-interest' of the political leadership to ensure that the government faces effectively the rapidly growing internal pressures from a more demanding electorate — an electorate that will not only create new demands on the political leadership but is bound to create new opportunities for the leadership to serve the public.*

**D**URING the last 50 years, the score card of the state in promoting economic development has been rather mixed. While governments have been relatively effective in delivering substantial improvements in education and health, they have generally failed in areas such as managing public enterprises and in formulating and implementing economic policies. No matter how the score card looks, there is a general consensus that an effective state — one that plays a catalytic, facilitative role, encouraging the activities of the private sector — is a necessity for ensuring sustainable economic development. In fact, of late, the need for creating an efficient state has gained a new urgency because of the enormous social and economic challenges imposed upon governments by the ongoing globalisation and the rising expectations from its citizens.

While there is much debate, the experience of successful reforming countries has confirmed the clear lesson that without initiating broad-based public sector management reforms (PSMR) the implementation of key economic policies simply remains a desired goal. For instance, how often does one come across rigid bureaucratic rules which prevent the sale or divestiture of public enterprises? How often does one see foreign and domestic investors failing to take advantage of an attractive investment policy because of the glacial speed at which official approvals come by? How frequently does one find that legislation meant to create space for private investment is actually unimplementable because of the maze of bureaucratic regulation? And, how often do incompetent and corrupt civil servants exercise unfettered discretionary authority adding to the 'cost of doing business', forcing foreign investors to seek alternative destinations for their capital?

## Moving Slowly but Surely

The answers to all the foregoing questions would only reaffirm the importance of putting PSMR at the centre-stage of any programme of economic revitalisation. So one may ask, why have governments been reluctant to initiate institutional reforms? The answer lies in the fact that reforming or reinventing the public sector is an extremely difficult and long drawn out process. Institutional reform more often involves wrenching changes in the way government agencies think and act and at times entails an overhaul of the 'long established system of patronage and corruption'. Thus, bringing about such reforms is almost akin to moving mountains, and making dominoes that will set all others to fall. The single-most potent force which can make such changes occur is unwavering political commitment and support from a broad-based coalition of reformers both within government and other civil society members. But, as seen from the successful implementation of state reforms in countries like UK, New Zealand, Argentina and Malaysia, the key factor is political will. Had it not been for the bold and visionary leadership of political leaders like Margaret Thatcher, Menem and Mahatir Mohammed, their countries would not have achieved the long lasting changes in the way governments conduct business.

## Five Strategies

Before discussing the key reform strategies, one must admit that given the enormous range of differences between

states, the country conditions and culture, there is no 'cookie cutter' approach for developing a public sector reform programme. Each country's reform programme has to be home-grown in that it must be based on a deep knowledge of the bureaucratic system, civil service culture, arrangements for accountability etc. Fortunately, a year ago the Bank undertook in collaboration with local experts and practitioners, an in-depth study of Bangladesh's public sector management practices. The resulting study known as Government That Works (GTW) contains a time-bound reform programme along with a five-part strategy to achieve these reforms efficiently.

For the purpose of this article, the lessons drawn from the GTW study are fitted into a typology of governmental reform developed in a recent book by the authors of the internationally acclaimed work on Reinventing Government. In this book, the authors consider a public system akin to a living organism, they argue that by altering the genetic code or DNA of the public system organism, lasting changes can be achieved in the shape and behaviour of the state. To achieve this, governments must adopt the following five strategies known as the five Cs.

## The Core Strategy

This strategy is at the heart of public sector reforms and questions the very purpose of a government's role: what was termed in the GTW study as the

why government? It is a well-known fact that the fast growing demands imposed by the development process on governments have resulted in them giving up their 'steering function' and concentrating more and more on 'rowing the boat of the state'. As a matter of fact, until recently, most developing countries, particularly those with a socialist orientation, considered it their responsibility to not only formulate policies and to provide public goods like health and education, but run airlines, build and operate cement factories, steel industries, even bakeries. While applying the core strategy, the GTW study concluded that the Government in Bangladesh was also clearly 'over-extended'. For instance, it needs to get out of the business of doing business, and confine itself to performing its core functions, namely, provision of law and order. Even in the case of social sectors like education and health, the government needs to play a supportive role while relying on the private sector, NGOs and other civil society institutions to actually deliver the services. These institutions have been found to be better suited to delivering services at the community level. Thus, the challenge for political leaders is to rethink and redefine the functions of government based on a 'minimalist' role for the public sector.

## The Competitive Strategy

Any customer of DESA, Biman WASA or Titas Gas knows the captivating power of a

monopoly public utility/service organisation. There is almost no competitive pressure for improving service and the consumer is virtually at the mercy of public officials. Alternatively, cellular phone users have begun to reap the fruits of a competitive market as seen by the sudden drop in prices. The first and most important step for the policy makers, is to expose the public sector enterprises to competition, but the salutary effect of competitive pressures works equally well in reshaping the civil service. Institutional economics clearly teaches one key important lesson: incentives and penalties are the most effective lever of change. Regrettably, most traditional bureaucratic systems provide employees with powerful incentives to follow the rules and keep their heads down; innovation can only bring trouble, the status quo brings steady rewards. And, since employees are paid the same regardless of the results they produce, there is no incentive to innovate and increase efficiency. The GTW study made concrete proposals to introduce the competitive element in a civil service recruitment system based on merit not favouritism; linking promotions to performance and productivity rather than seniority, and ensuring adequate compensation for work done.

## The Consequence Strategy

The next fundamental piece of DNA engineering relates to changing the basis of accountability i.e. by asking to whom

are the key public sector organisations and their officials accountable? In theory, most are accountable to elected officials who create them, determine their functions, and fund them. But in practice government organisations are rarely fully accountable to elected officials. This is because of two reasons: one, because these officials are under constant pressure to respond to the demands of interest groups, they often care more about where public resources are spent than about the results they purchase. And secondly, the oversight committees in the parliaments are still in an evolutionary stage. More importantly, legislators do not always have the resources (human and material) to carry out their review functions adequately. While the GTW study strongly advocated strengthening the key accountability institutions such as the Parliament and the Auditor General Office, it recognised that the most potent force could be the accountability of public officials to the public they are expected to serve. In the UK, the legislators have successfully prescribed a 'Citizens Charter' which clearly sets up performance standards for public enterprises and utilities. These standards are carefully monitored, and aggrieved citizens compensated, when services do not meet stated standards.

## The Control Strategy

In the Bangladesh's public sector, effective authority is supposed to first flow from citizens to elected officials; and

then from elected officials to central 'staff agencies' such as budget and personnel offices. In practice, however, authority remains concentrated at the top bureaucratic levels. Therefore, the fourth critical area of reform measures proposed by the GTW study is to alter the very center of decision-making power in government. The strategy to achieve this is to 'give people a voice', bringing the hitherto disempowered poor and marginalised populace into the very centre of the government's policy-making process and service delivery system. With this objective in mind, the GTW study prepared case-studies on 'good practice' within relatively successful public sector programmes like the PKSF microcredit scheme, the mass immunisation program, and the relatively robust performance of the Rural Electrification Board.

## The Culture Strategy

The last critical strategy is to forcefully attack the basis of bureaucratic culture — i.e. the way public organisations operate and interface with those they are actually meant to serve.

While changing the values, norms, attitudes, and expectations of employees is the most challenging and difficult task in reforming government, the GTW study concluded that if Bangladesh is to achieve its stated growth targets, it would have to rewrite the genetic code that has shaped the culture of its civil service. The GTW study contains three approaches to reshape this culture: develop new habits by giving people new experiences, new kinds of work and interactions with new people.

Above all, farsighted political leaders will need to make

the benefits of reform clear to all, and they will need to build coalitions that attack the culture of keeping the lid on information. In short, an open government is an efficient government — thus, repealing the 1925 Officials Secret Act would be a first step towards good government!

## Conclusion

One can imagine some readers saying at this point that, 'the five strategies of reforms seem sensible, but will never work in the political context of Bangladesh since the risks far outweigh the benefits'. They are most likely to ask, the benefits of reform are abstract and in the future, while the political costs are real and to be borne today, so why should our political leaders take the leap of faith?

The answer is simple because the cost of doing nothing will mean lower growth, continued poverty, social unrest and citizens continuing to receive less for more. It is therefore, in the 'enlightened self-interest' of the political leadership to ensure that the government faces effectively the rapidly growing internal pressures from a more demanding electorate — an electorate that will not only create new demands on the political leadership but is bound to create new opportunities for the leadership to serve the public. In this sense the choice for the 21st Century is within the grasp of the political leadership and it is entirely up to them how they choose the course of the country's economic revitalisation programme!

The author is a senior staff member of World Bank mission in Bangladesh.

## Historic handover

Although a few colonies remain — often called 'dependent territories' (by Britain) or 'overseas territories' (by the French) — the handover of Hong Kong effectively brings down the curtain on the era of European colonialism.

## After the Lion Dances, the Rest is History



**A**S power in Hong Kong slips away from Britain at the stroke of the midnight hour, to quote the eloquent words of Prime Minister Jawaharlal Nehru on India's independence just 50 years ago, the rest is history.

It is now left to the academics to pick over the bitter arguments of the decolonisation process.

Did Britain play it right after the British and Chinese premiers of the day, Margaret Thatcher and Zhao Ziyang, signed the Memorandum of Understanding in 1984 that decreed the unique 'one country, two systems' formula for Hong Kong?

Was it sensible for the British at the last moment — just two years before the handover — to introduce wide-ranging democracy after ruling the

colony autocratically for 143 years?

Was it reasonable to expect the Chinese to incorporate this most powerful economic component as part of their country under a form of government that was substantially different from the way it was in 1984?

The so-called Basic Law agreed between the governments in 1990 is clear enough. It says that 'the socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years'.

The Chinese argue that the British changed the rules and that what they were being asked to inherit in 1997 was not what was agreed.

In the early 1990s the last colonial governor, Chris Pat-

On the eve of the handover of Hong Kong to China, the stock market was booming and property prices soaring. The political rows between Britain and China showed no sign of affecting the colony's progress. So was Britain right after all to try to inject some democracy into Hong Kong at the 11th hour? Derek Ingram of Gemini News Service examines the pros and cons.

recognise the transitional council that Beijing assembled cheekily over the border to make new laws even months before China assumed sovereignty.

The Chinese do not intend the transitional council to be the permanent legislative body. Within a year they will hold new elections under different rules and they have said the Democrats — members of the Democratic Party who won 19 of the 20 directly elected legislative seats in Patten's polls — will be able to stand.

The Democrats include fiercely independent figures such as Martin Lee and Emily Lau, and Christine Loh, who has now formed a separate party. All will be out of office at midnight on 1 July, at least for the time being.

But it may be that when the dust has settled and 1 July is just a memory of fireworks, lion dances, laughter and tears, some of the Patten policy will have stuck.

It has certainly not affected optimism about Hong Kong's future. The stock market continues to boom, property prices have never been higher and there has been no mass exodus of the privileged, although some have prepared boltholes abroad just in case something goes wrong.

Not do many of the appointments made by Patten's successor, the new Chief Executive Tung Chee-hwa, indicate any intention to tear down the temple.

Patten's Number Two, Anson Chan, remains in place as Chief Secretary. So does Financial Secretary Donald Tsang. Andrew Li, the new Chief Justice, is highly respected. So are Elsie

Leung, the Secretary for Justice, and Lily Yam, the new head of the Independent Commission Against Corruption.

Most significantly, the Chinese have appointed Ma Yuzhen to head their foreign ministry in Hong Kong. Ma is a veteran with wide experience and understanding of the West. He was a popular ambassador in London for many years with wide contacts.

What has happened in Hong Kong cannot be seen in isolation from what is happening on the mainland. Hong Kong has already become an economic power house for the mainland. Its aggressive entrepreneurs are driving along China's development with mind-blowing speed.

It is said that Hong Kong people do not care about politics and democracy — only making money. However, they have grown up in a different and freer environment from that of China. Many are people whose families fled from the communist regimes in China. Their outlook is different from that of the mainland Chinese.

Although the Basic Law says the socialist and capitalist systems will ride in tandem, the reality is that China is fast becoming capitalist. It is a one-party state that is not really socialist in the original sense of the world and certainly not communist.

Understandably, the Chinese leadership fears political infection from Hong Kong that could lead to an erosion of its own power — even to multi-partyism.

It may not have been wrong for Patten and Co to move things along a bit in Hong Kong. The verdict is for history.

## Hong Kong Under Chinese Sovereignty: Implications

by Munim Kumar Barai

**T**HE count down for handing over of Hong Kong (HK) to China has now come down to minutes and seconds as July 1, 1997 is approaching closer on the calendar. The midnight of that date will also mark the end of the colonial history of the once mighty British empire in the Asian flank. The moment itself would be historic for many reasons and the wider implications the transfer will likely to have in the regional and international economic and political relations. For the first time in the British imperial history, a colony and its people are being handed over to the land of the origin without a shot being fired. For the first time in the political engineering an experiment is going to be done with 'one country two system'. And by a difference of a day, China is going to be richer by one of the most vibrant economies with its big economic base, developed financial infrastructure, information networks, trade links and above all, with a huge pool of dynamic entrepreneurs. Added with the mainland's impressive economic performance of the last decade, the return of HK into the Chinese fold also puts it on a higher plane of the race for a great power status in the twenty-first century.

## HK's Colonial History

Hong Kong has a colonial history of about 156 years. On 26 January 1841 a British naval party raised the Union Jack on the northwest shore of HK when the Royal Navy led by Captain Charles Elliott met the

First Anglo-Chinese War (also known as the First Opium War). Lord Palmerston, the then Foreign Secretary, described the hard-won 'prize' as a mere 'barren island'.

But Britain gained the present respectable 1010 sq km of the colony through three treaties which China always termed 'unequal treaties'. In the first in 1842 through the signing of the Treaty of Nanking, China ceded HK island in perpetuity. Sir Henry Pottinger, the first governor, predicted with prophecy that HK would soon develop into 'a vast emporium of commerce and wealth'. The 'Arrow Affair' sparked the Second Anglo-Chinese War that ended in 1860 when British guns razed the Summer Palace of Peking. Subsequently, China had to cede the Kowloon peninsula and the immediate hinterland — the new territories — as well as the more than 230 islands that form Hong Kong archipelago.

HK remained an important harbour of the British imperial power in the East and Southeast Asian zone. From the very beginning, the British officials in HK envisioned the role of HK in the following way — 'It is occupied not with a view of colonialism, but for diplomatic, commercial and military purposes.' HK was out of British rule for about three years from 1941 when the Japanese army overtook the colony in just two weeks. In the 1970s and 1980s,

HK experienced the economic boom and has become a hub of business and financial activities. In the meantime, on September 26, 1984 the Sino-British Joint Declaration on the future of Hong Kong was signed which set up the territory as a 'Special Administrative region of China'. In the agreement HK is promised a 'high degree of autonomy' until at least 2047 with its own freedoms, judiciary and financial system. And as the lease period ends, HK reverts to China at midnight on July 1, 1997.

## Implications

China has been in the world news for quite sometime for different reasons — the first undoubtedly being the economic one. It has attained and sustained a robust growth for more than a decade, its foreign trade is booming, per capita income is rising, and more importantly, countries near and far have started listening to the Chinese voice with more respect and care. Moreover, the power vacuum created by the disintegration of the Soviet Union has also strengthened China's chance to fill it up and to emerge as a global actor. At this stage comes the reversion of HK into the Chinese fold. This very single event instantly makes China richer in many ways. Also the ramifications of this event would be felt in many areas in the regional and international affairs. My endeavour here would be focussed on the possible economic and political

implications of this event in the immediate and longer terms.

An addition of HK's 6.5 million population with 120 billion people of China will only make a marginal difference. But a tiger economy of about \$400 billion annual gross domestic product (GDP) with \$181 billion of exports and \$199 billion of imports (1996 figures) matters a lot to China. The stock market of Hong Kong is only second to the Tokyo Stock Exchange in Asia. The market capitalisation of the HK Stock Exchange again holds the same position. Every big and medium size multinational corporation operating in East and Southeast Asia has its presence in Hong Kong. So the merger of HK with China will immediately make it one of the 'Club Five' business powers in the world. The vast developed financial network of HK is set to boost mainland's financial market integration with the rest of the world. If China can manage to dispel the fear of the HK's business community about their future, then China's emergence as an economic superpower may not be a matter of distant time. Probably this assessment has made Jim Rowher to predict that — if in 2025 China could manage to raise the income levels of the average Chinese to the level enjoyed by the average Taiwanese in the mid-1990s, China's economy would be not only by far the biggest in the world, but equal to some 70-80 per cent of the then size of the economies of the United States, Japan and Western Europe to-

## Hong Kong's Return to China

by Dr A R Chowdhury

**O**N July 1, 1997 Britain will complete one of recent history's strangest bargains and surrender Hong Kong and its six-and-a-half million people to Chinese sovereignty. China will formally resume control of Hong Kong, ending its 156-year-old British colonial administration. As a watershed event marking the end of western colonial presence in Asia, Hong Kong's metamorphosis from British crown colony to Chinese special administrative region (SAR) has raised a number of questions around the world. What will happen to Hong Kong after the reunification? Will mainland China cut back the free-market spirit of Hong Kong? Or will Hong Kong lead China further down the road toward market reforms?

China has promised to preserve the free-market character of Hong Kong for at least 50 years, within Communist Party-run China. A new term has been coined to describe the relationship between Hong Kong and China — one country, two systems. Tung Chee Hwa, replacing the territory's outgoing British Governor, Chris Patten, will still have the familiar sources of authority in the island — the judiciary, the police, and big business. But new institutions from China will now step into the picture including Beijing's Foreign Ministry and the People's Liberation Army. The incoming institutions represent the 'one country' side of the famous rhetoric. They complement the existing structures, on which the 'two-systems' part rests. Tung Chee Hwa's job is to hold them together.

A recent article in *The Wall Street Journal* suggests that the addition of Hong Kong will change China's statistical profile overnight: from the world's 11th largest trader to the fourth-largest; from a distant second to a close second behind Japan in total foreign exchange holdings, with nearly \$200 billion; and from a nation of no significant financial markets to the world's fifth-largest banking and equity market.

During the last few decades, Hong Kong has served as China's back door to global markets. Before China launched its reform programme in 1978, Hong Kong gave China an indirect opening to international trade and finance markets. A large proportion of China's trade pass through Hong Kong; while China's state-owned enterprises have invested heavily in Hong Kong's real estate and financial markets.

Although the reunification

of Hong Kong further increases China's access to global markets, it also raises questions of political and economic integration. Hong Kong has long been touted as a showcase of free market, with private property rights, low trade barriers, market-determined prices, common-law system, and more open political process. Despite recent moves toward market reform, China's economy, on the other hand, is still state-dominated, with only pockets of private free enterprises. A vast majority of China's labour force work in either the state-subsidised agricultural sector or in the state-owned enterprises.

The challenge for China is to somehow assimilate Hong Kong without destroying its economic establishment. Were China to establish complete control of the real estate market, financial sector, or trade, labour and capital resources might leave the territory for other safer haven, notably, Singapore. On the other hand, the profound income inequalities, high levels of conspicuous consumption, and considerable political freedom in Hong Kong might threaten China's socialist commitments, especially given the free movement of labour and capital across the Hong Kong-China border. China has to find a way for exploiting Hong Kong's free market stature without giving up its economic control.

Recent evidences suggest that the integration of Hong Kong with the mainland is going on full swing for some time now. About 80 per cent of Hong Kong's manufacturers operate in China, employing about six million mainland workers, almost the size of Hong Kong's entire population. Investors from Hong Kong have funnelled more than \$100 billion into China and own about \$50 billion in Chinese backed companies' stock. Although Cantonese is the main dialect in Hong Kong, the entertainment industry in the island are releasing movies, recordings, and other entertainments in Mandarin, the mainland's chief dialect.

Despite the rhetoric, China has always wanted to see Hong Kong as an economic city within China, not a political city outside its realm. Although the term 'one country, two systems' is used to describe the relationship between them, all indications are that Hong Kong is fast becoming an integral part of the mainland. It isn't just one country, but, in the economic sense, at least, moving

towards one system. The policies of the western governments as well as the media towards Hong Kong have been strongly guided by their concern with the violation of political rights in the territory. Instances, such as, Tung Chee Hwa's plan to dismantle the territory's existing legislature and introduce 'national security' provision into laws governing public demonstrations and political organisations have been used by the western media as examples of heavy-handedness by the Chinese authorities.

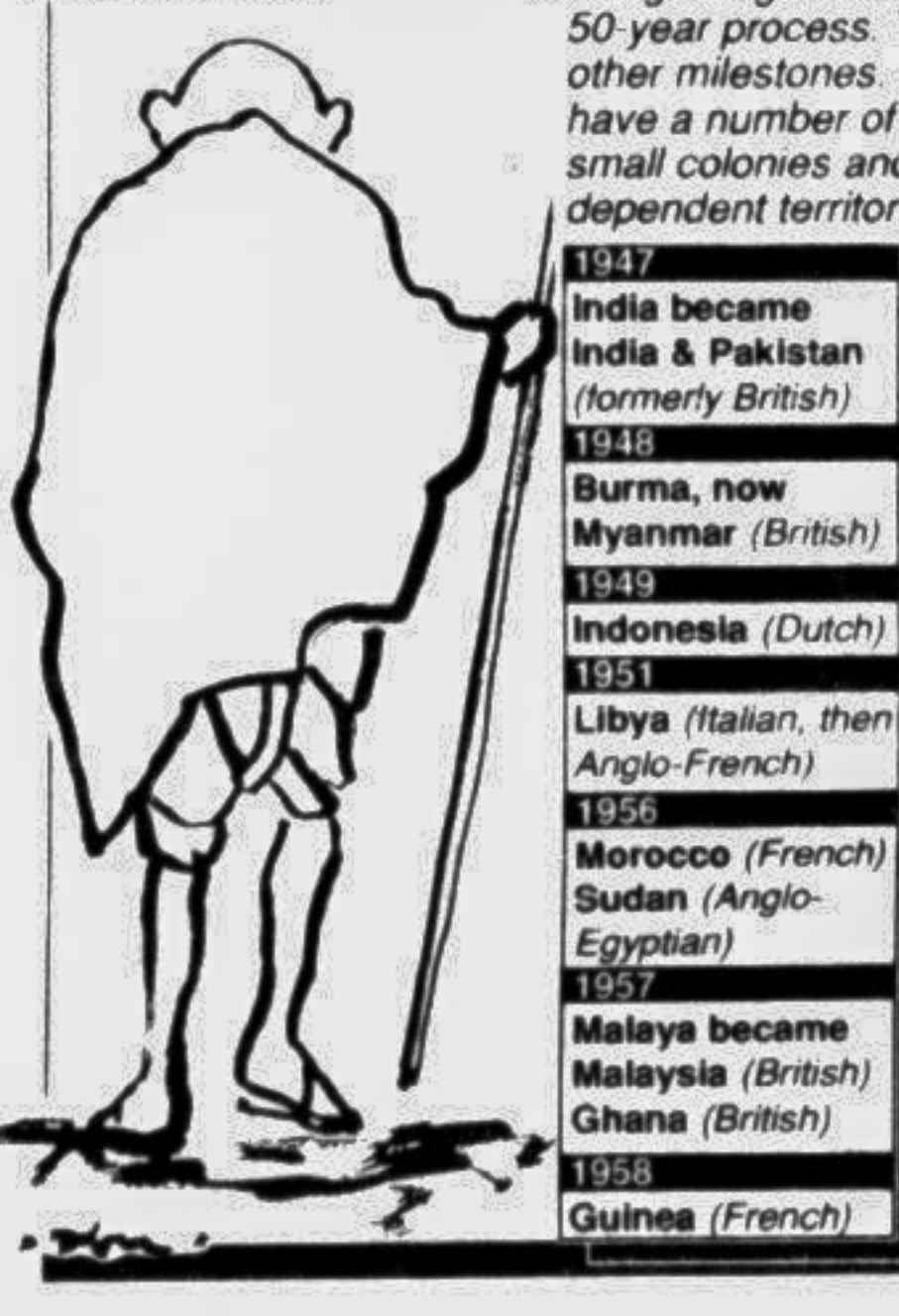
A large number of Asian countries in the region, however, view Hong Kong's reunification with much more optimism than does the West. The positive attitude demonstrated towards the hand over in most of the Asian capitals (Taipei is an exception) can be traced to a host of economic, political and strategic reasons.

China's dismantling of the last-minute democratic reforms introduced by Chris Patten is seen by most Asian nations as necessary in order to prevent the territory from being used as a pawn in the subversive campaign against the mainland. Economic factors also dictate their position. Hong Kong is one of the major source of venture capital in Asia. It has invested heavily in various countries in the region. In terms of trade flows, Hong Kong accounts for almost one-fifth of all trade within Asia. Asian companies, on the other hand, account for a large proportion of the island's trade and investment. In addition, the Asian nations have also been strongly guided by country-specific concerns in their policies towards Hong Kong.

Returning to the original questions raised at the beginning of this article, it can be seen that China, in its own political and economic interest, would not significantly change the fundamental character of the Hong Kong economy. A flourishing economy in Hong Kong would help to rejuvenate the economies along the eastern coast of the mainland. Moreover, it would demonstrate to the outside world China's commitment in keeping its part of the bargain as determined under the Sino-British deal signed in 1984. It would also enhance China's stature in the world community thereby gathering support for its various causes, e.g., its membership in the World Trade Organization. China can only gain by trying to replicate, within the mainland, Hong Kong's economic success.

## How Europe shed its colonies

India's Gandhi



Hong Kong transfer is last major step in 50-year process. These were some of the other milestones. Britain and France still have a number of small colonies and dependent territories



1963 Kenya (British)	1964 Nyassaland became Malawi (British)	1965 Northern Rhodesia became Zambia (British)	1967 Aden became South Yemen (British)
1970 Fiji (British)	1975 Papua New Guinea (Australian)	1976 Mozambique (Portuguese)	1976 Angola (Portuguese)
1980 Southern Rhodesia became Zimbabwe (British)	1990 South West Africa became Namibia (South African)		