The way forward

Despite serious weaknesses in governance, Bangladesh has achieved good growth since 1990. What some observers call the "Bangladesh paradox" actually reflects a mixture of weaknesses and strengths, such as the positive resolve that produced a series of first-generation economic reforms, which, in turn, stimulated the positive growth response.

ZHU XIAN *And* SANDEEP MAHAJAN

As noted in the first part of this op-ed, management of three long-term transitions is essential if Bangladesh is to achieve the objective of becoming a middle-income country (MIC) by 2016, or soon thereafter.

- A shift in the economic structure from agriculture to labour-intensive manufacturing.
- Deepening of integration with global markets.
- Unleashing the growth potential of the major urban centers.

Shifting the sectoral balance from agriculture to labour-intensive manufacturing

This transition, already underway in Bangladesh, as in other fast-growing developing countries, would be driven by a globally competitive private manufacturing sector, firmly plugged into global supply chains and a productive, diversified, and commercially-oriented agriculture sector.

Improving the productivity of the manufacturing sector, according to analysis in the World Bank's *Bangladesh: Strategy for Sustained Growth* report, will require particular attention to: Addressing the burgeoning energy supply constraints; improving Bangladesh's attractiveness to FDI; strengthening export competitiveness; improving the skill levels of the labour force; and strengthening law and order.

A drive to boost industrial productivity needs to be matched by initiatives to do the same for agriculture. Rice production, where only half the cultivated area uses the HYV rice variety in the *aman* season, has much scope for further improvement. Ultimately, raising agricultural incomes will require diversification into higher-valued crops and increased output of the livestock and fishing sub-sectors.

Bangladesh needs to especially capitalise on its long-term competitive advantage in inland aquaculture. The government's important but limited role includes a significant expansion in agricultural research and extension. Institutional reforms to increase the stability of funding and strengthen research management are also crucial, as is sustained public investment in rural marketing infrastructure, particularly roads, bridges and telecommunications.

Liberalising trade for export competitiveness and diversification

The considerable, if uneven, progress since 1991 has lowered import tariffs and eliminated trade-related quantitative restrictions and import licenses. Driven by the success of the ready-made garments (RMG) sector, merchandise exports to GDP ratio increased from 6% in 1990 to 17% in 2006, contributing to the acceleration of GDP growth. However, with the RMG sector now accounting for close to 75% of total merchandise exports, diversification of the export base is important. For this, the relatively liberal import regime enjoyed by RMG has to be extended to other sectors as well.

This calls for a well-thought out sequence of policy actions, key elements of which would include: Merger of para-tariffs with customs duties to have one tariff rate for each tariff line; establishment of a low and uniform tariff rate, following interim steps that reduce the dispersion and average level of nominal protection, simplify the import tax regime, and provide greater clarity to the Import Policy Order; elimination of all end-user tariff exemptions and concessional tariffs and revamping and automation of the duty drawback system.

Unleashing the growth potential of the major urban centers

Dhaka, whose economic dynamism is a magnet for migrants, is fast reaching choking point. Real estate prices have skyrocketed while traffic congestion has worsened and infrastructure and service delivery have become woefully inadequate. If unresolved, these issues put at risk Dhaka's ability to continue being the engine of growth. The main underlying cause, poor urban management, has also pervaded other cities, preventing the emergence of viable urban alternatives to Dhaka.

A well-reasoned national strategy is needed to bring more balance and energy to urban development across the country. In particular, it would be important to devolve key services to city governments, and more clearly delineate duties and accountability chains among the various actors (federal and municipal) involved with urban management functions and between service providers and citizens. Devolution, however, has to be carefully sequenced with enhancement of city governments' own revenue sources and technical and administrative capacities.

Enabling the key transitions

The three key transitions mentioned are long-term endeavours. The management of these, in turn, will require better economic governance and business environment, without which FDI will continue at low levels; continued macroeconomic stability; a commercially viable energy sector that supports the economy's vast energy needs; deeper and more efficient financial sector, and; a greater emphasis on the quality of education and labour skills.

Strengthening governance is essential

Weak governance undermines prospects for the accelerated growth Bangladesh seeks. Bangladesh is widely perceived by potential investors -- foreign and domestic -- as an expensive and risky place to do business. The toughest challenges lie in the core governance areas -- the confrontational nature of politics, flawed revenue administration and financial accountability, and distrust of supposed rule-of-law guarantors. Only strong political leadership supported by a constituency that demands change can advance reforms that cut across a wide range of institutions and threaten powerful vested interests.

Continuing sound macroeconomic management

Bangladesh has a proven record of macroeconomic stability, and this must be sustained. However, the rising inflation trends need to be contained with sounder monetary management to maintain this record. The fiscal situation is also under some stress due to the perennial problem of low tax mobilisation and the large losses incurred by the energy-sector state-owned enterprises (SOEs), mainly due to under-pricing of energy products in domestic markets, which also undermines the financial positions of the nationalised commercial banks (NCBs) that are directed to finance these losses. Accordingly, cost-reflective pricing of energy products and steadily improving tax mobilisation are needed.

Overcoming infrastructure constraints

The most serious and immediate of the infrastructure constraints is the widespread and growing shortage of electricity. With over $1.5 billion in new investment needed annually to build utility-scale plants that can catch up with demand, the critical issue of efficient pricing is top priority. Over the longer term, addressing the major governance problems, especially the lack of transparency in the procurement process for new power plants, in the sector is a must. Recent government efforts to begin addressing some of these concerns are encouraging and need to be sustained.

Bangladesh's drive toward export competitiveness is hostage to major bottlenecks at the ports and underdeveloped transport networks. The hold-ups at the Chittagong port can be traced largely to complex clearance and customs procedures and deficient physical and logistical capacities. Introducing private service providers, as initiated in recent months, would serve as a catalyst for the requisite improvements.

Creating a deeper and more efficient financial sector

Effective expansion of the financial system will require a more substantial change in the role of the government, from an operator and arbiter to a facilitator. The ongoing move to a privately owned banking system is an important one, although international experience also advises caution (but not necessarily delay) in the privatisation process. Moving forward, it would be important to de-politicise the entry of banks by subjecting licensing to objective, non-political standards, institute market monitoring of banks, and reform the exit process.

The government would especially need to move away from implicit guarantees against bank failures and rely more on markets to monitor and discipline banks. Similarly, development of (currently miniscule-sized) capital markets requires strengthening of information disclosure by incorporated companies and allow market monitoring and disciplining, weaning the Securities and Exchange Commission (SEC) away from excessive intervention.

Addressing skills shortages in the labour market

Under the right conditions, labour, Bangladesh's most precious resource, could power the kind of rapid transition toward prosperity that resource-poor East Asian economies have made. A focus on market-oriented vocational skills and good quality secondary and tertiary education are essential not just to consolidate earlier gains in primary education but also to boost productivity and, with it, global competitiveness.

The way forward

Despite serious weaknesses in governance, Bangladesh has achieved good growth since 1990. What some observers call the "Bangladesh paradox" actually reflects a mixture of weaknesses and strengths, such as the positive resolve that produced a series of first-generation economic reforms, which, in turn, stimulated the positive growth response.

Building on its achievements, Bangladesh can reasonably strive to become an MIC in a decade, or soon thereafter; thereby ensuring that the government will meet its goal of reducing the poverty rate to 25 percent by 2015. To achieve that, Bangladesh will need to tackle a new set of challenges with deeper political commitment. The measures that are needed are not simple steps, but Bangladesh has already shown an impressive capacity to implement policy innovations. There is every reason to believe it can continue that performance.

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Talking agriculture

MAMUN RASHID

If we want to keep our 145 million people fed, and partially save them from the impact of extreme price hike in the international market, we need to take our agriculture seriously, help the farmers to improve their productivity, and proceed with high breed research and cultivation, even by subscribing to the Indian, Chinese and Vietnamese examples. The farmers should also be given right price to keep them in business on the fields, and to keep on producing for the non-producing population.

It was the first half of 1987. I used to work with a very vibrant team of people led by late Alimuzzaman (popularly known as Dulu bhai) in Bangladesh Television (BTV), producing the "*Mati O Manush*" program and looking after its information and research.

One fine morning, my boss at an Australian bank received a call from an administrative high up at BTV that something was wrong with my background paper on agricultural loan, where I had written "the poor farmers most of the time have to pay bribes, or get less than the actual amount granted, for having access to farm loan." The controlling ministry challenged my numbers, but ultimately I got excused, showing that the numbers quoted were mainly from a paper written by A M M Showkat Ali, the then agriculture secretary of the republic, which was presented at a USAID organised seminar.

There are always some irregularities with regard to agriculture inputs management in Bangladesh. The Bangladesh Agriculture Development Corporation (BADC) was established in the early sixties with the objective of ensuring supply of agriculture inputs, i.e. quality seeds, chemical fertilisers and irrigation equipment to the farmers at reasonable prices. Sales centers were opened in almost every union of the country. Power generated pumps and deep tubewells were rented out to the farmers for irrigation.

LITON RAHMAN/DRIK NEWS

The arrangement was not completely flawless, as there was always a huge amount of overdue rent in the centers. But apart from a few incidents of corruption at the *thana* level, there was no major hue and cry for seed and fertiliser. Farmers did not need to demonstrate on roads and highways during that time. There were no incidents of assault on any official or vandalising of union offices due to mismanagement in distribution of agricultural resources, which have become common in the past several years.

During the first half of 1990, the role of BADC or the public sector was minimised, reportedly with the pressure from the donor agencies. The donor agencies advised the government that it was essential to privatise the distribution system of agricultural inputs in order to develop the private sector, eliminate subsidy from the agriculture sector and distribute agricultural inputs at lower price by establishing a competitive private sector.

The donor agencies recommended that no dealers be appointed as middleman, rather the private sector would sell fertiliser directly at their convenience and at whatever price they thought just.

In 1995, there were movements by the farmers because of acute scarcity of urea fertiliser, and 18 farmers were killed. The ruling regime formed an investigation commission under a judge of the high court. The commission duly submitted the investigation report. Like many other reports done by retired judges or senior government officials, we certainly do not know how many recommendations of that commission were considered, and eventually implemented, by the government.

However, two things were important in this matter: The resignation of the then industry minister, and changes were made in the structure of the fertiliser distribution system taking cognisance of the recommendations put up by senior government officials.

Although a new government took over in1996, there were no changes in the established regulations. Moreover, the district based dealer and distribution system was further strengthened during that period. In addition to this, serious steps were taken to evaluate and appraise the domestic production, import, and storage and marketing system of fertiliser. As a result, no scarcity was observed in the fertiliser distribution system during that period.

Since 2005, our farmers have been constantly suffering from fertiliser insufficiency. The past government initiated subsidy to encourage the private sector to import specific kinds of fertilisers like TSP etc. Afterwards, the private sector almost discontinued import of TSP and other fertilisers as they could not realise the subsidy committed by the government.

Although a few private entities are importing these fertilisers now, the supply is very low in comparison to the demand. As a result, the scarcity is increasing day by day, the situation is worsening, and tension is mounting amongst the farmers.

Recently, a leading NGO and a think-tank have put emphasis on government's initiative to sell fertiliser in the open market under public sector management in order to prevent the abnormal price hike. Although this initiative seems to be innovative, it cannot be fruitful in the long run, as it is not possible to sell fertilisers in the open market in the remote villages of Bangladesh. Apart from that, many experts apprehend that such initiatives did not work before under public sector management. Moreover, the supply and storage of fertiliser is insufficient compared to the overall demand. There is no scope for trading fertiliser in the open market.

The businessman will obviously grab the opportunity to raise the price when they find a demand-supply gap. The tendency to sell fertiliser in the black market will also increase. Newspapers are regularly publishing articles with facts and figures regarding price hike of essential commodities. The government could not stop that even by opening fair-price shops and distribution centers under the management of Bangladesh Rifles (BDR). Even the market price of rice could not be influenced when government sold rice in the open markets of the townships.

We need to look at the import of fertilisers with the same perspective. The prices of TSP and MOP fertilisers have been increased in the international market. While a kilogram of fertiliser is being imported at Taka 25, it is being sold locally at a discounted price of Taka 6. In bordering India, a kilo of fertiliser is being sold at the equivalent of Taka 10. As a result, packs full of fertiliser are being smuggled out to India and Myanmar.

For some unknown reasons, policy planners think that it is not possible to increase the fertiliser price in our country at present. If the government supports this ideology it needs to increase the subsidy in the agricultural sector and reduce the allocation for other sectors, and that should be a target market based subsidy, if at all.

On the other hand, the government can at least increase the price up to Taka 10, so that our hard earned foreign exchange spent fertiliser is not smuggled out. Besides, one should also remember the negative impact of this "subsidy culture." Because of this subsidy culture and smuggling threat, fertiliser is being "rationed" out, therefore the real farmers get only a portion of their true requirement, pushing them to unplanned territory and hampering production.

It will not possibly be fair to say that the government is not aware of the fertiliser scarcity in our country, and that they are not doing anything. The agriculture ministry has already put emphasis on import of fertiliser, and undertaken other necessary steps.

The critical factor here is shortage of time. After import it takes about three months to take the fertiliser from the ports to the users. It is expected that the farmers will get hold of the fertiliser during middle to end of the *rabi* season, which means that the scarcity will continue.

This, however, reflects the weak fertiliser management system of our government. This could be handled well if the government could undertake monthly monitoring and evaluation. The players in the private sector have decided to discontinue imports if they do not receive the over-due subsidies. Their dues should be settled, and they should be encouraged to import fertiliser on time. The government agencies should further strengthen their monitoring system to avoid any untoward situation.

If we want to keep our 145 million people fed, and partially save them from the impact of extreme price hike in the international market, we need to take our agriculture seriously, help the farmers to improve their productivity, and proceed with high breed research and cultivation, even by subscribing to the Indian, Chinese, and Vietnamese examples. The farmers should also be given right price to keep them in business on the fields, and to keep on producing for the non-producing population.

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The self-absorbed dragon

For decades, the policy of the West has been to encourage the Chinese to renounce global revolution and power politics and to focus instead on how to get rich. China has done just that, becoming a successful, self-absorbed, status quo power. It's still not democratic, and should its economic growth falter, it could still fall prey to social protest and disorder, greater repression, a conservative military and resurgent nationalism. But if the West has anything to fear, it's not the resurgent Red Dragon, nor that China's government will succeed in its grand ambitions -- but rather that it won't.

ANDREW MORAVCSIK

China's growing military and economic power has become something of an American obsession. Recent books, like *Red Dragon* or *The China Threat*, combined with warnings from Washington -- like the Pentagon's designation of China as an emerging "peer competitor" -- have contributed to an abiding sense of fear. Analysts such as Robert Kaplan, pointing to Beijing's rising defense spending, now caution that "the American military contest with China in the Pacific will define the 21st century."

Yet inside China, things look very different. Far from being poised on the brink of expansion, the country remains extraordinarily insular -- a place where people seem to know and care little about the outside world.

In China, like everywhere, all politics are local -- but when your constituency totals nearly a quarter of humanity, the local pressures are particularly acute. Despite 30 years of growth, China today is still just a generation away from poverty, with half its population mired in abject conditions. Beijing's overriding concern thus remains the economy. Foreign policy is an afterthought; imperial ambitions, unthinkable.

Nowhere was the obsessive focus on domestic economics clearer than at the recent 17th Congress of the Chinese Communist Party. Such events always involve political theater. Two thousand-odd delegates sat in a strict hierarchy, some in colorful regional or military costumes, as they listened to speeches and rubber-stamped backroom deals.

But the event involved more than pure propaganda. Consider President Hu Jintao's two-and-a-half-hour opening speech. Standing behind a podium decked with soothing pink lilies and red poinsettias, Hu calmly announced China's current aspirations.

At their center: a fourfold increase in China's per capita GDP over the next 12 years, to be achieved by "rebalancing" the economy away from exports toward domestic consumption. Then followed nearly an hour of wonkish proposals: to liberalise banking and capital transactions, float the currency, improve education, provide unemployment insurance, outlaw gender discrimination, expand private property, improve the rule of law, strengthen education and so on. Hu's most passionate rhetoric was reserved for a call to protect China's environment -- a task he termed vital "to the survival and development of the Chinese nation."

But for the massive hammer-and-sickle behind him on stage, one could have mistaken the proposals for those of a Scandinavian social democrat (minus the democracy). Of course, Hu had to make clear that his prescriptions were consistent with Marxist ideology. But at the end of the day, his speech was rewarded in classic capitalist fashion: the Hong Kong and Shanghai stock exchanges closed at record highs.

Noticeably absent from the first 90 minutes of Hu's speech was much talk of foreign policy; the only mention of Taiwan came when Hu actually thanked its citizens for supporting China's economic modernisation. When he did finally turn to discuss the difficult island head-on, he spent barely five minutes on the subject.

After swearing (to applause) that China wouldn't permit Taiwan to secede from the "one motherland," Hu called for the "peaceful development" of cross-Strait relations and promised to negotiate anything, any time, with anyone in Taiwan who recognises a one-China policy.

The explanation for his pacific approach was simple: China's governing Communist elite has bet its political future on continued economic growth -- and nothing would endanger that more than military tensions with Taiwan or the United States. Beijing and Washington share the same nightmare: that Taiwan will declare independence, forcing the great powers into a conflict they'd rather avoid. This is why Hu recently stood shoulder to shoulder with President George W. Bush at a summit meeting in Australia, warning Taiwan not to rock the boat.

It's also why the Chinese military received even less attention in Hu's speech to the Congress than Taiwan did. When the topic came up, he mentioned the need to reorganise the People's Liberation Army, cut it by 200,000 troops and make better use of civilian technology -- and then gave a stern reminder that the party remained in control of the military. On foreign affairs, Hu reiterated China's policy of nonintervention, "soft power" engagement in Asia, and his belief that global interdependence has rendered "balance of power" politics obsolete. Rabble-rousing it wasn't.

For decades, the policy of the West has been to encourage the Chinese to renounce global revolution and power politics and to focus instead on how to get rich. China has done just that, becoming a successful, self-absorbed, status quo power. It's still not democratic, and should its economic growth falter, it could still fall prey to social protest and disorder, greater repression, a conservative military and resurgent nationalism. But if the West has anything to fear, it's not the resurgent Red Dragon, nor that China's government will succeed in its grand ambitions -- but rather that it won't.