

Fighting the great recession

Should economic growth fail to recover next year, and a second package is needed, it should focus on infrastructure investment that can create jobs and support income in the near term, boost the country's productive capacity and raise potential growth in the medium term.

JYOTI RAHMAN

NO country has been immune from what is being dubbed as the Great Recession -- the sharpest synchronised global slump since the Great Depression. Bangladesh is no exception. Compared to the average economic growth of 6.3% recorded in the past five years, the growth estimate for the current financial year is 5.9%, and it may dip to less than 4.5% next year according to a range of forecasters. This growth slowdown will undoubtedly have flow-on effects on employment and poverty alleviation.

To combat this, the government announced a Tk 34 billion package on April 19. Interestingly, only about an eighth of the package is geared towards exports. More interestingly, the readymade garments (RMG) sector -- the country's largest export earner -- received nothing. The bulk of the package is for agriculture, power generation, and social safety (such as food relief) programs.

How should we think about the package? The discussion should start with the fact that the government's ability to spend

is limited. The ADB forecasts that the fiscal deficit will remain higher than 4% of GDP in the next fiscal year. We have had deficits of that size before. And this deficit is much smaller than the double digit relative to GDP deficits in the US or the UK, but the inequities of global capital markets are such that massive borrowing by rich countries' governments will leave the poor ones, like ours, with limited sources to finance their deficit.

This could mean borrowing from the private sector, which will mean less private investment, and therefore slower growth. It could also mean axing of the development budget or under implementation of development programs, which will further hamper economic development. It could mean asking the Bangladesh Bank to print money, which will eventually ratchet up inflation. Or it could mean relying on the international financial institutions, who will ask for conditionalities that may or may not be beneficial.

Faced with this unpalatable choice, whatever the government did, some sector would have been left out. But still, does it make sense to overlook the major exports

sector?

The government has noted that the export sector has held up reasonably well thus far into the recession -- the size of our export slump appears minuscule next to those of our neighbours (Chart 1).

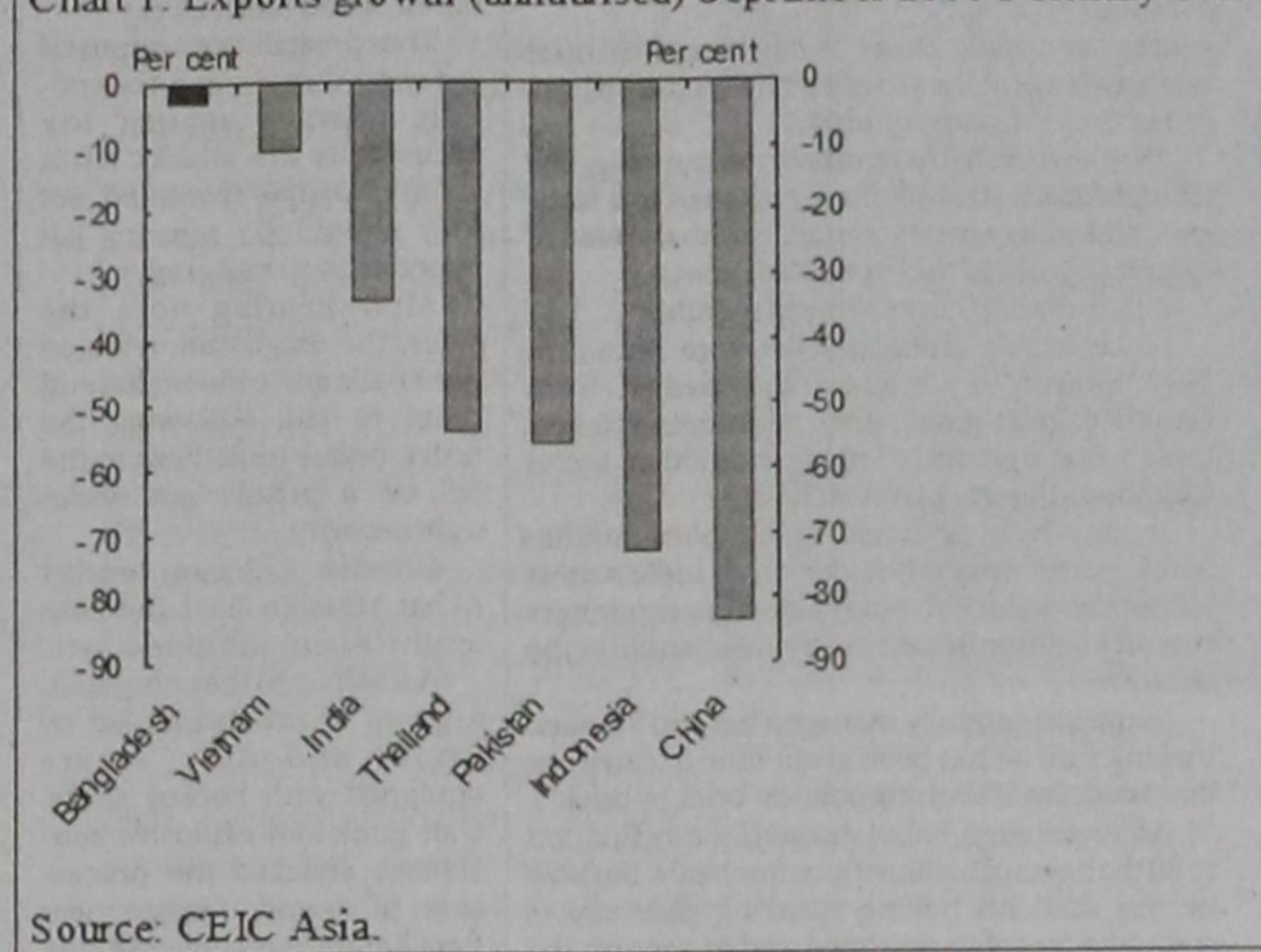
Our RMG sector actually grew between September 2008 (when the Great Recession entered its most virulent phase) and Feb 2009 (the latest available data for Bangladesh). At the beginning of the recession, experts noted that our RMG sector might not suffer as much because we sell mainly to the low-end market. This so-called "Wal-Mart effect" appears to have been borne out by the data. During the same period, however, exports of leather goods and frozen food fell at rates experienced by exporters in other Asian countries.

As such, it makes sense that these sectors, rather than the RMG, received whatever assistance the government could provide.

There is more to the story about assisting the exports sector. Experience from our Asian neighbours suggests that export-led industrialisation is one of the most effective ways to reduce poverty and increase living standards. However, it is not clear that we will be able to rely on this strategy for coming out of the Great Recession.

With the households in the rich world heavily indebted, some commentators argue that their appetite for buying cheap products from the emerging world might be greatly reduced even when the recession ends. Meanwhile, much of the rich

Chart 1: Exports growth (annualised) September 2008-February 2009



world is likely to have very high rates of unemployment, and to protect domestic manufacturing jobs, western governments may well be tempted to hide behind protectionism.

There is much uncertainty about both of these factors, and, therefore, the outlook for our exports sector. However, we do know this much; our RMG sector has proved resilient and is globally competitive; we have an excessive reliance on this one sector, and should diversify our exports base; and our other export indus-

tries may not survive the recession without assistance.

From this light, the decision to "rescue" the non-RMG exporters does appear sensible. But why only an eighth of the package for the exporters though?

The answer lies in the fact that the bulk of the package is about "stimulating" the economy. Because of the recession, our growth has slowed, and by spending money, the government aims to resuscitate the growth process.

The government, it seems, is particu-

larly focussed on the agricultural sector. This makes sense. While the fall in rice (and other food) prices has been welcome news for the consumers, for the farmers this has been at best a mixed blessing. The government aims to boost farm production, and contain rural poverty, through the stimulus measure. Increased allocation for social safety programs are directly aimed at keeping the purchasing power of the poor afloat.

Will this stimulus work? The truth is, no one really knows. Large-scale fiscal stimulus has not really been tried in recent decades, and economists don't really know much about their effectiveness. This is as true in the US as it is in Bangladesh. That is why policymakers should try a range of programs. While much has been said about the omission of the RMG sector from the package, it is striking that almost nothing has been said about the relative absence of any infrastructure spending (other than on energy) from the package.

Should economic growth fail to recover next year, and a second package is needed, it should focus on infrastructure investment that can create jobs and support income in the near term, boost the country's productive capacity and raise potential growth in the medium term.

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The real game-changer?

The swivel moment of the campaign came when Varun Gandhi, in a flurry of immaturity, revived every toxic memory that Advani wanted the electorate to forget. He compounded the mistake by glorying in its aftermath.

M.J. AKBAR

CONTRARY to a view inspired by late Raj fiction, the British valued India as much as they held Indians in contempt. The British Empire in the subcontinent owed far more to the man who saved it around the world, the Duke of Wellington, than to Robert Clive, who has got excessive credit from history. Clive defeated a tottering, self-indulgent Nawab of Bengal; Wellington buried Scindia's ambitions at Assaye and destroyed Tipu Sultan at Seringapatnam.

They were the two most powerful Indian princes of the 19th century, perhaps the only ones who could have checked the British. Indians, said Wellington, were "the most mischievous, deceitful race of people [...] I have not yet met with a Hindu who had one good quality and the Mussalmans are worse than they are." At least he was secular in his prejudice.

When the British Raj was on its deathbed, its great champion Winston Churchill sneered that Indians would never be able to understand democracy. He thought that they would be a disaster and come running back to Mother England. I shall spare you the precise quotations; we don't want you

to get unnecessarily angry on a day when there is so much else to digest. He was not alone. In 1967, the Times of London, now the pipsqueak of a fading power rather than a thunderer of the Empire, wrote the obituary of Indian democracy. It survived.

However, there was a growing view that the 15th general election would leave behind just the kind of mess Churchill predicted.

The Indian voter has just proved once again that those who underestimate India do not understand India.

The most important result of this election is that the elimination of regional parties from national space has begun. This was the message in north, south, east and west where Congress expanded its space at the cost of both friends and foes. Chandrababu Naidu will survive to fight another election, but the votaries of Telangana have probably been marginalised out of reckoning.

The Congress did better than Sharad Pawar, grew in Punjab, hammered the Left, aborted Mayawati's national ambitions and checked Mulayam Singh Yadav. In fact, Mulayam Singh Yadav may face the humiliation of being the unwanted guest at the party for a second time, since the Congress

can now afford to sniff at the support he offers.

The two regional powers that triumphed, Nitish Kumar and Naveen Patnaik, won because of their individual qualities rather than because of the parties they lead. The Congress and the BJP, between them, will occupy two-thirds of the seats in the next Lok Sabha. This is the real game-changer because the next general elections will be a straight contest between these two parties in most of India.

This election was a "successful" base camp for a much higher ascent. The true Congress summit is the achievement of a single-party majority in the Lok Sabha after the next general election. When this peak was outlined against a still bleak horizon during the Panchmarhi resolution years ago, it seemed a thrust too high, but its moment has come. Just as it did in this election, it will seek to grow at the expense of either ally or enemy.

The Congress already had candidates in 14 seats in Tamil Nadu; the next time, it might contest all 39. It will pressurise Sharad Pawar to merge into the parent party or perish. Mamata Banerjee in Bengal might be more resistant, because she knows that she cannot dominate the Congress as much as she can her own party, and total power can be very alluring. But the Congress can live with a variation or two, as long as Mamata does not, through self-inflicted wounds, revive the Left in Bengal. In any case, there are great pickings elsewhere for the Congress. It will, of course, hope to exploit the anti-

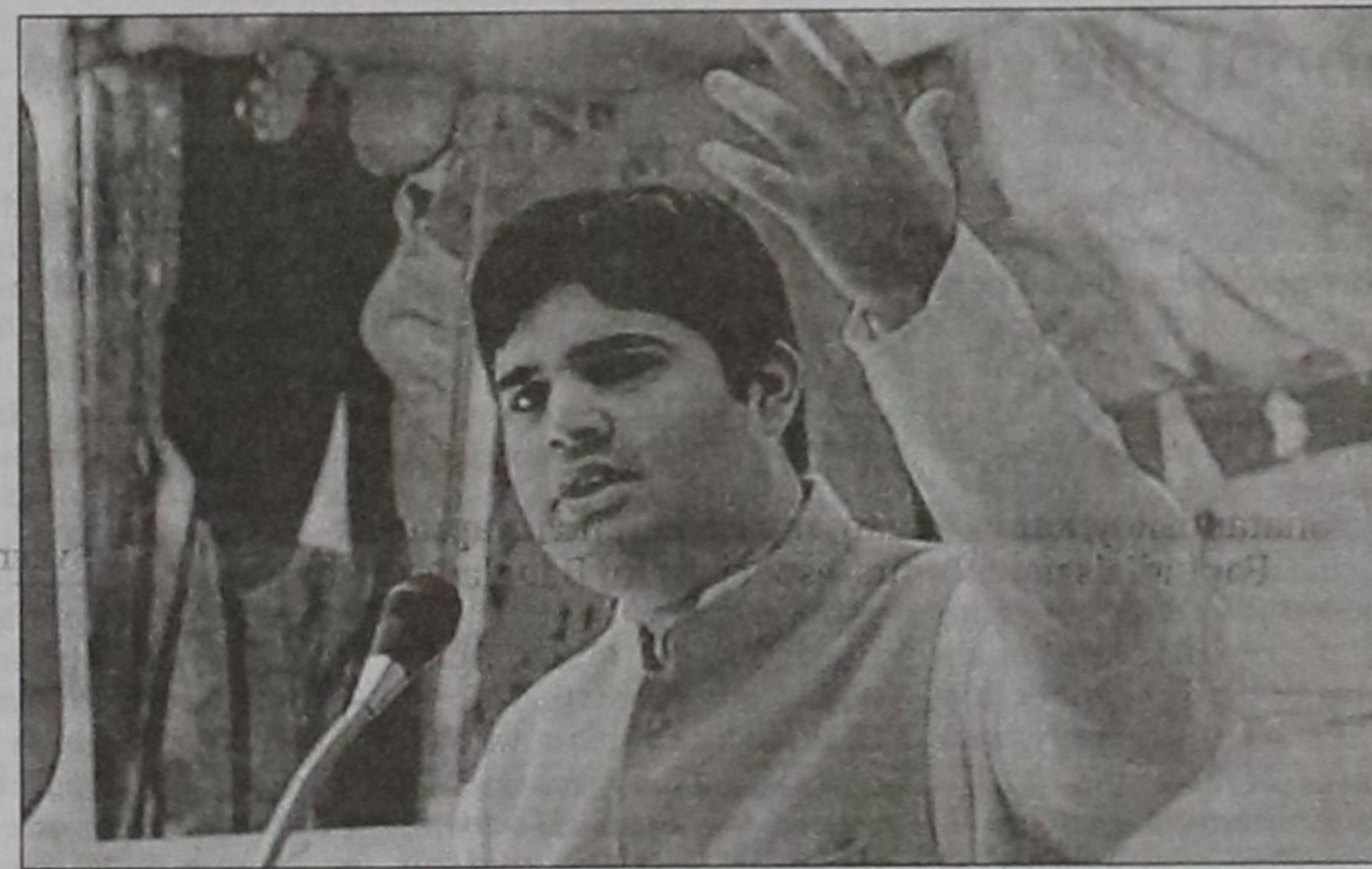
incumbency factor in the BJP States in the North, particularly if the BJP goes into disarray after its second collapse from high expectations. The last time the Congress had a majority on its own was under Rajiv Gandhi.

The restoration will be in the hands of the son, Rahul Gandhi, who has earned his political legitimacy in this election. Mrs. Sonia Gandhi's role as leader of the party will ebb as the pace of transition speeds up. It is highly likely that at some point there may even be a transition in government, with Dr. Manmohan Singh making way for Rahul Gandhi. Dr. Singh has already done more than anyone expected for the party, and he might prefer the comfort of retirement since he has had a serious heart attack.

Will the BJP, suffering from a second unexpected defeat, be able to resurrect its fortunes and face an aggressive Congress? Some things are apparent. It will need to choose the person who can lead the party into the next general election without much delay.

The BJP realised that development and governance were the decisive issues. But although its venerable leader L.K. Advani tried to define the party around modern needs, he was tripped by the rhetoric of those who thought that the country still wanted to hear the war cry of social conflict.

The swivel moment of the campaign came when Varun Gandhi, in a flurry of immaturity, revived every toxic memory that Advani wanted the electorate to



Winner amid BJP descent.

forget. He compounded the mistake by glorying in its aftermath. BJP leaders realised the danger. The Madhya Pradesh party publicly asked Varun Gandhi to remain in UP, and not bother about the neighbouring state. But the leadership merely distanced itself from the young man, when it should have disowned him.

This is the major lesson for the next leader of the party: India wants peace with prosperity because Indians realise that prosperity cannot come without peace. Narendra Modi may be a powerful and effective leader in Gujarat, but the stamp of one defect will always mar his future. He can be a successful number

two at the national level, but will remain a divisive number one.

We have also just witnessed the last election of the older generation. Youth is not just arithmetic; you have to be young in your outlook, and be able to identify with the aspirations of those seeking a profitable place in the international economy, as much as the poor who feel that they are being marginalised in the domestic economy. It is difficult to span both edges of this challenge, but no one said that public life was easy.

Defeat can be a moment of transition, unless you succumb to despair.

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Pakistan, Taliban and global security

It would be a mistake for Washington to treat India as mostly at the margins of US consideration of policy toward Pakistan, as a lesser player on issues related to the future of Pakistan.

ROBERT D. BLACKWILL

THE Obama Administration is devoting enormous thought to Pakistan. In my judgment, the evolving situation in Pakistan is potentially the most dangerous international situation since the 1962 Cuban missile crisis. An unintended consequence has been to re-hyphenate India with Pakistan.

Since Talibanisation of Pakistan would affect India as much as it would the US, it may be time to talk candidly with India and work together with other nations on a common strategy to contain Pakistan's Wahabist extremism.

As Biden has warned: "It is hard to imagine a greater nightmare for America than the world's second-largest Muslim nation becoming a failed state in fundamentalists' hands, with an arsenal of nuclear weapons and a population larger than Iran, Iraq, Afghanistan, and North Korea combined."

Obama deserves great credit for his April 29 statement: "On the military side, you are starting to see some recognition just in the last few days that the obsession with India as the mortal threat to Pakistan has been misguided, and that their biggest threat right now comes internally."

It has been many years since an American President has spoken so pub-

licity to the leadership and people of Pakistan.

In my view, the US has four vital national interests concerning what the Obama Administration calls Af-Pak: first, to prevent Pakistan's nuclear weapons and materials from coming into the possession of Islamic extremists.

Second, to ensure that Afghanistan does not again become a sanctuary for terrorists to launch attacks against the US and its allies and friends.

Third, to avoid war between India and Pakistan.

Fourth, to prevent the Taliban and its radical collaborators from gaining control of Pakistan.

Although under the dynamic leadership of Ambassador Richard Holbrooke policymakers are attempting to positively influence Pakistan, every single important trend that I can identify is negative and getting worse.

The chairman of the US Joint Chiefs of Staff, Admiral Mike Mullen, recently confirmed that elements of Pakistan's Inter-Services Intelligence (ISI) maintain links with militants on Pakistan's borders with both Afghanistan and India.

General David Petraeus, head of the US Central Command, noted that "in the fairly recent past" the ISI appeared to have warned terrorists that their positions had been discovered. Meanwhile,



Setting the world on fire?

Wahabi-based fanaticism and violence inside Pakistan has been spreading from the Taliban's northwestern mountain strongholds into Punjab.

The possible effect of such an enveloping US preoccupation with Pakistan seems on its way to re-hyphenating the US-India relationship, leading the Obama Administration to see India largely through the lens of deeply disturbing developments in Pakistan, at the expense of strategic cooperation writ large between Washington and New Delhi.

This will produce growing US interest in trying to reduce tensions in the India-Pakistan relationship, not least because

Islamabad will speciously argue that tensions with India and the Kashmir dispute are preventing it from moving robustly against the Islamic terrorists within its midst.

So India may well encounter eventual US pressure on the subject of Kashmir. This would be ironic since the Indian government reached a momentous breakthrough on Kashmir which did not survive Musharraf's downward spiral and ultimate fall from power.

The Obama Administration's efforts to internationalise the Pakistan problem and improve the situation in Pakistan are well advised. However, it would be a mistake for Washington to treat India as

mostly at the margins of US consideration of policy toward Pakistan, as a lesser player on issues related to the future of Pakistan.

After all, India has always been the object of Pakistan's obsession.

Let me make another point concerning Pakistan. Some Obama Administration officials opine that the US, India, and Pakistan are now together in facing "a common threat, a common challenge, a common task" in seeking to defeat Islamic terrorists based in Pakistan and Afghanistan. If only that were so. But it is not. The fact is that the Pakistan army has always regarded Islamic terrorists as an abiding policy instrument against India and a crucial element in Pakistan's enduring concept of strategic depth. These objectives are deep in ISI's DNA and there is no magic wand available in Washington that will make that hard fact disappear.

It has to be noted that no one in Washington has a set of penetrating prescriptions that promise to end the internal slide of Pakistan. Neither has India taken such measures. Conditioning military assistance on the Pakistan army acting vigorously against the Taliban and its allies should be a US requirement.

Training the Pakistan army in counter-insurgency techniques makes sense. Working out joint management of Predator attacks would reduce the public outcry in Pakistan.

Diversifying Nato supply routes into Afghanistan to avoid over-dependence on Pakistan would help. Staying out of Pakistan's domestic politics is a must. But none of this gets in the next year or

two at the fundamental problem. Islamic extremism is systemically on the rise in Pakistan, and elites there do not appear to have the will or the means to resist.

It is also important to understand that US policy instruments are too weak to affect significantly these evolving and disturbing societal trends in Pakistan. That is a preeminent task for Pakistanis. But maladroit US actions can make the situation in Pakistan worse.

Finally, there should be intimate, intensive, and utterly private US-India talks on how to deal with a turbulent and increasingly chaotic Pakistan in the period ahead, including examining the policy implications of various specific scenarios regarding deteriorating events in Pakistan.

I recognise that this is an exceptionally sensitive suggestion, but it is absolutely necessary for a host of reasons, not least because it would be the US and India that would be most affected by a Talibanisation of Pakistan. How can it be that we are not comprehensively and candidly talking together about it? Indeed, there may come a time if Pakistan continues its gradual descent into anarchy when the US and India may be forced to adopt together, along with Iran and other nations, a strategy of attempting to quarantine the Wahabi infection as much as possible within Pakistan and to try to minimise its export.

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