

COLUMN

An analytical approach to growth agenda

WAHIDUDDIN MAHMUD

It is generally agreed that economic management in Bangladesh needs to be based on more serious and in-depth policy analysis—particularly at a time when the country is aspiring to modernise and globally integrate its economy with the aim of attaining the middle-income status. Any credible policy analysis, in turn, has to be supported by hard research on the ex ante rationale and design of policy as well as on evidence-based impact evaluation. For translating academic economics into public policy, a range of actors having professional interest in economics are involved: economic theorists, economic analysts and policy advisors, economic administrators or technocrats, and economic journalists. There is a further category called 'technopols' to describe the economic technocrats who assume the role of political responsibility. Dr Monmohan Singh is cited as an example, but our finance minister, Mr Muhith, also arguably fits that description.

From an economist's point of view, linking research to policy is not easy. There are tensions within the profession between high-tech

future, even the past is uncertain!

The danger of economists not engaging themselves in policy advice is that someone else will do that. While public discussions on economic issues are a healthy sign for democratic governance, relying solely on the so-called do-it-yourself or DIY economics can often lead to wrong decisions in public policy. The problem is that economists may not have enough incentives to do policy-related work, while economic administrators may work in an environment that does not encourage them to seek policy advice.

Keeping in mind the government's commitment to achieving high, sustained and poverty-reducing economic growth, let me suggest some promising areas of research-policy links, which are by no means exhaustive.

GOVERNANCE AND GROWTH

Bangladesh is an outlier in cross-country comparisons relating governance to economic growth; its economic growth performance has been much better than what would be expected with such poor governance indicators. Out of today's 25 largest developing countries according to the size of GDP in dollar adjusted for purchasing-power parity, Bangladesh ranks among the top 10 in terms of annual average GDP growth during 1980 to 2007. The case of pre-reform India might have been the opposite with the institutions of democratic governance already in place. Will better economic performance lead to demand for better governance, thus overcoming the vicious cycle of low incomes and poor governance? Or, is it the case that while the governance environment may have been barely adequate thus far to cope with an economy breaking out of stagnation and extreme poverty, it may increasingly prove a barrier to putting the economy firmly on a path of modernisation and global integration. The black-box of 'governance' needs to be unbundled in order to identify its growth-constraining aspects.

MARKETS FOR ESSENTIALS

Shabana Azmi, the noted Indian actress and a social activist, once remarked that India lived simultaneously in three centuries. That is certainly true of markets in Bangladesh, which show remarkable variations, such as in terms of the degree of competition, integration with the global economy, seasonality and perishableness of products, lack of product quality assurance, nature of price expectations and scope for speculative behaviour, and so on. The government is rightly concerned about any volatility in the prices of essential food items like rice, wheat, potato, fish, lentils, edible oils, sugar, spices, etc. for reasons of both producer incentives and consumer welfare. However, without a proper understanding of how the market works in each case, government interventions may be ineffective or even harmful.

PUBLIC-PRIVATE PARTNERSHIP

The government intends to promote investment under public-private partnership, particularly in infrastructure development. The organisational alternatives for any such partnership arrangement, such as through equity sharing or management contracts, need careful scrutiny, since this has important implications for cost-cutting, risk-sharing, quality of maintenance, supervision and regulation, and the so-called problem of 'incentive incompatibility'. The dismal performance of the fertiliser factory, KAFCO, founded under public-private partnership, is an example of the adverse consequences of incentive incompatibility—with some foreign equity-holders being responsible for the supply and maintenance of equipment and the government having the multiple roles of being a part-owner, the buyer of the product, and the supplier of the main raw material, that is, natural gas. Under such a complicated partnership arrangement, the conflict of interest and management inefficiency were almost inevitable.



Wahiduddin Mahmud

Manufactured exports account for more than 90 percent of the country's export earnings -- a unique feature among countries at a similar stage of development. But can Bangladesh sustain rapid export growth by relying on manufactured exports?

While most low-income countries depend largely on the export of primary or resource-based products, Bangladesh has made the transition from being primarily a jute-

exporting country to a garment-exporting one. The transition has been dictated by the country's resource endowment, characterised by extreme land scarcity and a very high population density, which makes economic growth dependent on the export of labour-intensive manufactures. Manufactured exports currently account for more than 90 per cent of the country's export earnings -- a unique feature among countries at a similar stage of development. But can a least-developed country like Bangladesh sustain rapid export growth by relying on manufactured exports? Having low wage costs can hardly compensate for its relative disadvantage in marketing skills and infrastructure (including transport, ports, product standards, and certification facilities). The garment industry has flourished in Bangladesh because of the confluence of a number of favourable factors, including creating an enclave-type arrangement.

Thus, Bangladesh's export base remains narrow as the impressive success in garment export has yet to be replicated in other industries. In this context, several questions need to be answered. Does Bangladesh's experience with the garment industry demonstrate the limitation of relying on enclave-type arrangements to facilitate export growth in a specific activity, while postponing institutional reforms for improving the investment climate generally? Given that the garment industry is extremely diverse in terms of size of factories and management cultures, what restructuring of the export-oriented garment sector will be needed in order to stay competitive, particularly as there will be more pressure for wage increases? While the government currently provides cash incentives to selected export items, how should one analytically approach such a 'pick the winner' policy? What prospects are there in making breakthroughs in such emerging export industries like pharmaceuticals, ceramic products, machine parts, processed foods, shoemaking or ship-building?

POPULATION DENSITY AND URBANISATION

The extreme conditions of land scarcity and population density make Bangladesh a test case of development, since there is no historical precedence of economic development taking place under such conditions. It is, therefore, not easy to make projections about how its economy and the landscape will look like, say, 20 to 30 years from now. Where will the increasing population and the labour force be accommodated in terms of economic livelihoods and physical habitation? How much land will remain available for agricultural production with the growth of urbanisation and the increase in the numbers of rural dwellings? What increasing numbers of the population can be accommodated in the Dhaka city (one of the two the fastest growing cities in the world for the last 30 years, Lagos in Nigeria being the other one) before its infrastructure crumbles down? Are the positive conglomeration effects in Dhaka more than offset by the negative congestion effects (the evidence suggests they are)? Should urbanisation spread through the expansion of semi-urban areas in the peripheries of existing large cities or should there be deliberate effort to expand the smaller cities and rural towns? What provision of public

goods will help that?

COPING WITH NATURAL DISASTERS

Bangladesh is known for having more than its share of natural disasters like floods, river erosion, cyclones and storm surges. The problem is now compounded by the grim prospect of having to cope with the likely adverse effects of global warming and the associated climate changes and the rise in the sea level. The country is well-known for its success in low-cost means of coping with natural disasters (in terms of reducing the number of deaths and providing immediate succour). But less is known and understood about the longer run adverse impact of such disasters on the livelihoods of the affected people. In order to make a compelling case for helping the largest at-risk population in the world in the context of global warming, more research is needed on the potential socioeconomic impacts of natural disasters and the possible avenues of adaptation.

APPROACHES TO POVERTY ALLEVIATION

The experience of poverty alleviation programmes including microcredit increas-

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ingly points to the need for combining top-down strategies for pro-poor growth with household-level interventions. While providing poor households with access to, say, credit, skill-training or improved infrastructure enhances their chances for upward economic mobility, much will also depend on the creation of employment and income-earning opportunities as determined by the macro-economic environment. A whole range of policies, based on evidence-based research, need to address the issue of matching household capabilities with expanding economic opportunities.

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research and policy-oriented work, and between formalistic non-contextual approach and applied research that is linked to the real world. Then there is the more mundane task of assimilating the available research findings and interpreting those in a particular policy context—what Maynard Keynes termed as the 'work of the dentist'.

Life with the economic practitioner is not simple either. Public policy can seldom be designed within a narrow economic context, but has to take into account the broader political and institutional environment. Also, the practitioner has to react promptly to emerging situations, whereas theory often can help only in indicating directions of change, but not the magnitudes and timing. The task is complicated by the possible delays in getting data, so that one has to reckon with the rewriting of the preliminary and provisional estimates into final estimates. For the practitioner, on a real-time basis, not merely the

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