
AMDADUL HUQ / DRIK NEWS

Macro-economic performance and puzzles

Translating potential savings into actual savings require strong public investments in infrastructure building to crowd-in (rather than crowd-out) private investment. Of course the right kind of projects and good governance with little rent-seeking options remain the key to this arena.

ABDUL BAYES

IN an international Conference organised by the Bangladesh Institute of Development Studies (BIDS) in connection with its Golden Jubilee Celebration few years back, my favourite teacher and world-famous economist Dr Azizur Rahman Khan (best known as AR Khan) revealed a few pertinent puzzles that he observed in our macroeconomic calculus. I strongly feel that his seminal observations, presented below and at times paraphrased - of that time are worthy of notes even now for teachers and students of macro-economics as well as for policymakers.

It is good news that Bangladesh witnessed a "rapid" rise in domestic savings rate (as per cent of GDP) over the last decade and a half from about 14.5 per cent in 1990-91 to 20.3 in 2005-06. A Planning Commission document shows that the savings rate is 20.5 per cent now. On the other hand "national" savings rate (again as per cent of GDP) - comprising domestic savings, workers' remittances, net factor income from abroad (almost always a negative item), and other net unilateral transfer from outside (presumably official and unofficial gifts to the government, NGOs and private individuals) - also went up gradually over the same period. This peaked at 32.8 per cent in the most recent period compared to 27.7 in 2005-06 and 19.6 in 1990-91.

AR Khan reckons that, apparently, Bangladesh saves at roughly the same rate as rest of South Asia and low-income countries as a group. Investment as a share of GDP has also increased as rapidly as savings during the comparable periods - 24.6 per cent of GDP now as against 16.9 in 1990-91 and 24.7 percent in 2005-06. Prima facie, an increase in both savings and investment rates points to Bangladesh's success in macroeconomic management and accelerating economic growth rate. Between 1990-95 and 2000-05, the rate of increase in investment rate was at par with GDP growth rate suggesting no diminishing returns to investment.

The first puzzle was invoked by a qualitative upward shift in the entire time series of savings and investment rates in the revised GDP series (new series) as compared to the old series. For example, in 1999-2000, the domestic savings rate is shown to be 18.8 per cent of GDP in the new series which is more than twice the rate according to the old series (8.7 percent); the investment rate is shown to be 23 per cent that is nearly a quarter higher than the rate according to the old series (18.5 per cent).

The puzzle thus peeps in the absence of a lack of a convincing demonstration that the upward adjustment truly represents the intrinsically improved performance in savings and investment scenario. Of course, it could be that relative prices shifted in favour of investment goods (dominated by imported components) and against consumption (dominated by non-traded component). But this explains only a part of the whole puzzle. Quite obviously, methodological differences could account for the rest. Second, the crude incremental capital output ratio (ICOR) is about 4.2 in the early 2000s, whereas it is 3.6 or a shade lower for South Asia and the low-income countries as a group. Third, the notion that increased growth has been due to increased investment raises questions about the periodic changes in sectoral growth rates. Weather can explain a part of agricultural growth rate but fluctuations in industrial growth rates beg appropriate explanation.

A more serious puzzle hovers around the consistency of data on savings and investment with the widely held notion that Bangladesh is mainly an aid-driven country. According to the olds series, and as Khan argues, Bangladesh had consistently been witnessing "net capital inflow" defined as an excess of investment over national savings.

But the new series shows that national savings exceeded investment in each period indicating that Bangladesh did not have net capital inflow in the entire period under review in the order of 3 per cent of GDP on average, and about 7 per cent in the most recent past. If true, this would be a startling finding for an economy which is well-known, and officially recognised, to be substantially dependent on external resource inflow. More importantly, that would reject the "bottomless basket" hypothesis.

Again, while the gap between savings and investment as share of GDP remained roughly unchanged 4.5 per cent in the first five years of 1990s and 4.7 per cent in the first six years of the new century there had been a radical shift in the structuring of the sources of the gap. Net factor income has become an increasingly larger (negative) proportion of GDP and other net unilateral transfer steadily declined as a share of GDP. However, the declining share of these two sources has been overtaken by remittances, which more than tripled as a proportion of GDP. The fact that remittances more than offset the entire savings and investment gap although in general but especially during 2000-01 to 2005-06 -- shows that inflow from all other sources made no contribution to financing the gap between investment and domestic savings.

The puzzle then is to explain the continued dependence of Bangladesh on foreign capital inflow; the evidence of which is all too clear: government budget is substantially dependent on net foreign financing, to the extent of 2 per cent of GDP or about a third of public investment, in addition to the amount needed to pay external debt and save the NGOs from collapse. Paradoxically then, aid dependence coexists with a situation in which the entire domestic investment is more than fully financed by domestic savings and remittances.

The researcher views that net aid inflow leads to one or more of the following possible outcomes: (a) a large import surplus, the classic method of foreign aid absorption, either by increasing imports or reducing exports; (b) an increase in foreign exchange reserves; and (c) private capital outflows. As explained, aid inflow has not financed any apart of import surplus; there has indeed been an increase in reserves (no more than 0.8 per cent of GDP). Since this is far less than the net foreign aid inflow, one is forced to consider the remaining alternative: private capital outflow.

Private capital outflow as revealed by the official statistics is just one of the several kinds of capital flight that may have been taking place. Recent investigations into corruption, and particularly the crackdown during the caretaker government, have amply shown that a major chunk of this has been the payments extracted from import procurements (mostly of capital goods) and investment contracts and much of these payments have flown out without leaving a trace on official accounts.

The fact that crude ICOR has been so significantly higher in Bangladesh than the average of South Asia and the low-income countries group may partly be due to the higher rent on investment and procurement contracts in Bangladesh than in comparator groups. Another category of capital flight may consist of under-invoicing of exports for which there are plenty of incentives. And finally, capital flight also took place by way of diverting potential remittances from Bangladeshis working broad.

Aggregate capital flight must have been substantially high although accurate measurement is yet to come. But two implications of these phenomena of development policy should not take a back seat in our mind. First, aggregate investment in the economy is not limited by a supply of investible resources as often thought but by the incentive to invest.

The reforms of the import-substituting industrialisation in the past failed to come up with a rational incentive structure that would keep capital inside. Second, translating potential savings into actual savings require strong public investments in infrastructure building to crowd-in (rather than crowd-out) private investment. Of course the right kind of projects and good governance with little rent-seeking options remain the key to this arena. Finally, the institutions need to be reformed to pave ways and means for innovative outcomes.

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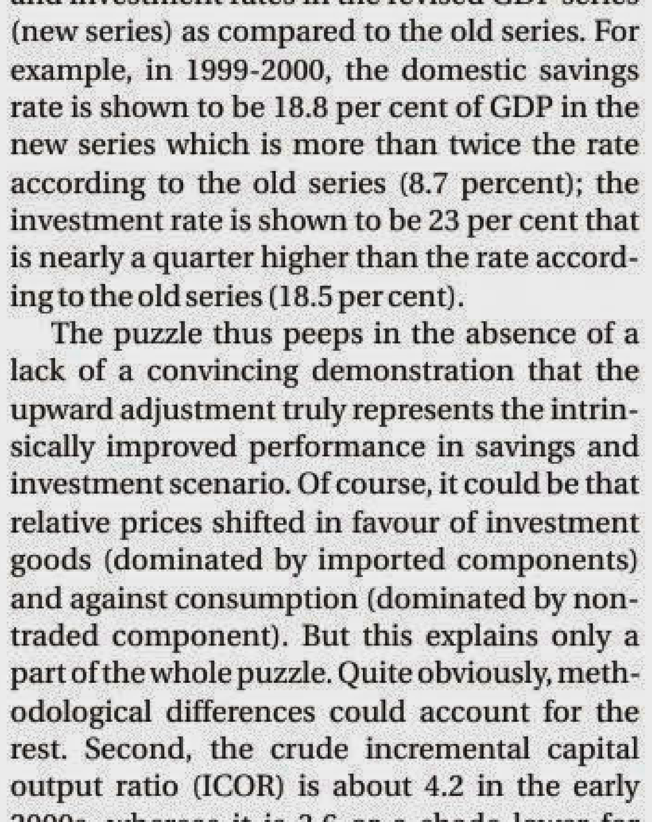
Glimpses of K.G. Mustafa

SYED BADRUL AHSAN

K.G. Mustafa was already a well-known name in journalism when I was in school. And the first time I heard of him and of other illustrious figures in the world of Bengali journalism was when my father reflected on what the newspapers in East Pakistan were writing in the era of Field Marshal Ayub Khan. There was no way I could read Mustafa's reports or his commentaries. In the first place, I was at the time yet to get a grip on my understanding of written Bangla. In the second, the newspapers Mustafa and his peers worked for in East Pakistan did not make their way to Baluchistan, where my family happened to be. That was in the 1960s.

In the early 1970s, just out of school and into college here in Dhaka, it became something of a regular pattern for me to hear of Mustafa, Abdus Salam, Abdul Gaffar Chowdhury, Zahur Hossain Chowdhury, Waheedul Haque, Santosh Gupta and so many others. At that point, it was not to be my good fortune to meet any one of them. Additionally, I did not have the slightest idea that someday I would simply drift into journalism. But one day in the late 1980s, I did find myself on the editorial staff of *The New Nation*, per courtesy of Waheedul Haque and Shihab Sarkar. Some months after I joined the newspaper, Waheed Bhai introduced me to K.G. Mustafa, who happened to be dropping by. It was quite a surprise for me discovering an eminent individual, which Mustafa clearly was, devoid of any pretence or pretension and demonstrating none of the hauteur which came so naturally, to our horror, to so many other men. Mustafa had a smile that was infectious. He made me, a rather callow young man at the time, feel at home. I went home happy. Months later, as Mustafa (and I had by then begun calling him KG Bhai) took charge of the daily Purbokone in Chittagong, he asked Waheed Bhai if I was willing to join his newspaper as a bureau chief. That was the first, and perhaps the last, time I literally shivered in fright. My Bangla was atrociously poor. I could join Purbokone but within days I would prove myself a disgrace. Waheed Bhai passed the message on to KG Bhai.


K.G. Mustafa

In the 1990s, as the frequency of my writing for the newspapers and sometimes weeklies went up, I realised that one of my readers was KG Bhai. It was a phone call that I made to him one day (I do not recall the precise reason behind that call) that showed how much he cared. When he picked up the phone, I gave him my name, said it was Badrul. He sounded cheerful and on that note asked, "Syed Badrul Ahsan?" The way he stressed that "Syed" bit made me break into loud laughter. After that, there were times when we talked, though I do confess that despite the ease of his manners with me there was still a diffident me somewhere in his presence. Stepping into the Press Club sometimes with Waheed Bhai, I spotted K.G. Bhai sipping tea. It was enlightening listening to these two men reflect on the times that had flown. On those sultry afternoons, it was the history of politics and journalism that these men, without knowing they were doing it, drilled into me.

In the summer of 1997, K.G. Mustafa was part of a Bangladesh media team touring London. The objective was to understand the workings of television and radio in Britain and apply their methodologies in an autonomy-driven Bangladesh Television and Bangladesh Betar. The visits to the media offices were often exhausting, but K.G. Mustafa was one individual whose sense of humour kept us all going. There was something coruscating about him, a brilliance that made of that tour an experience in a gathering of wisdom.

My last meeting with K.G. Mustafa was some years ago. Dusk had fallen. He was stepping into Mohammadpur town hall market. Wondering if he would recognise me, I went up to him and asked him how he was doing. "Ah, the Syed," he beamed. "I read all your articles with great pleasure."

The night has now taken him away.

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Between promise and delivery

Prime Minister Manmohan Singh has called Maoists an existentialist threat. So far, his government is treating it as a law and order matter. It is a hunger and oppression problem.

M.J. AKBAR

IT was such a relief to learn, from no less an authority than home secretary G.K. Pillai, that Maoists aim to overthrow the Indian state by 2050. That gives us four decades during which the plus-40 bourgeois can die in their beds; those blessed with first jobs in 2010 can retire in comfort, and hope for a ringside view of the revolution; and those below 20 can worry -- unless, of course, they have joined the revolution.

Frankly, if by 2050 we have not managed to eliminate poverty, there won't be much of an Indian state left to overthrow.

The government has a shorter timeframe: it believes it can eliminate Naxalites from the 34 districts where they are still impregnable, within seven to eight years. Pillai is a fine officer and an excellent home secretary, but the solution to the Maoist threat does not lie in his domain. Whether the Naxalites fortresses increase from 34 to 100, or dwindle to zero, will depend on whether the government can make impoverished India part of the narrative of rising India. This will not happen if government functions on the static principle of "business as usual."

Prime Minister Manmohan Singh has called Maoists an existentialist threat. So far, his government is treating it as a law and order matter. It is a hunger and oppression problem: life subsists at near-starvation levels in the catchment areas of Maoism; and public protest is suppressed brutally by the police, who treat the tribal poor as a contemptible species. This brutality is hidden behind a thin veneer of lies, which we -- the whole establishment, whether politicians, civil servants, businesspersons or media -- condone through our silence.

There seems to be a curious, and incomprehensible, edge of helplessness in the prime minister's statements, as if he is unable to escape the trap of "business as usual." He told parliament, for instance, that the government had been a failure on sugar prices. To begin with, it is his government that he is talking about. Second, he is publicly and directly accusing a senior colleague, agriculture minister Sharad Pawar, of mismanagement.

So what happens? Nothing. Mea culpa is meaningless if those who are culpable are not held accountable. But of course, to apply this dictum to only Pawar would be subjective. Dr. Singh admitted in parliament that minorities (code word for Muslims) were under-represented in government jobs. Admission is fine, but this government has been in power for six years: what has it done to resolve the problem? The Prime Minister did try, which is why the Ranganath Mishra commission was constituted; but he has not found the will to implement its recommendations. The Marxists in Bengal have done so, incidentally. Our democracy's parameters have shifted from promise to delivery.

The gap between promise and delivery could also affect the principal thrust of the prime minister's second term, progress in relations with Pakistan. Certainly, Dr. Singh means well, but good intentions are, alas, not good enough. BBC News -- not an Indian propaganda vehicle -- has just sent out a story from Islamabad, which says: "Since 2009, militant activity has been on the increase in the Kashmir region.

Initially militant groups in Kashmir appeared to be operating on their own -- but there is evidence to suggest that they are once again under the protection of Pakistan's intelligence establishment. Training camps are once again being set up on the Pakistani-controlled side of Kashmir.

Recruitment is also up in Pakistan's Punjab province, which has provided most of the *shaheeds* or "martyrs" for the militants. In fact, so emboldened have the militants become, that one militant alliance, the United Jihad Council (UJC), held a public meeting for militants in Muzaffarabad in mid-January 2010. The meeting was chaired by, among others, former ISI chief Lt Gen Hamid Gul. It called for a reinvigorated jihad (holy war) until Kashmir was free of "Indian occupation."

The resurgence of militancy coincides with Dr. Singh's efforts to revive the peace process, which began through second-track channels and led to the joint statement at Sharm-el-Sheikh in Egypt. Islamabad, in other words, read Delhi's goodwill as weakness. It also believes that India will buckle under pressure from two prongs: escalation of terrorism, and American pressure on India to settle on Kashmir. Pakistan's foreign secretary Salman Bashir nodded discreetly towards the international community during his press conference in Delhi, even as he thanked Dr. Singh personally and profusely for reopening talks.

Delhi has to get real if it hopes to fend off impending crises. India will survive the Maoist insurgency by ending poverty, and in no other way. This is only possible through good governance, which is impossible without accountability. And peace with Pakistan is a welcome hope, which we applaud; but it is risky to shake hands with anyone holding a gun.

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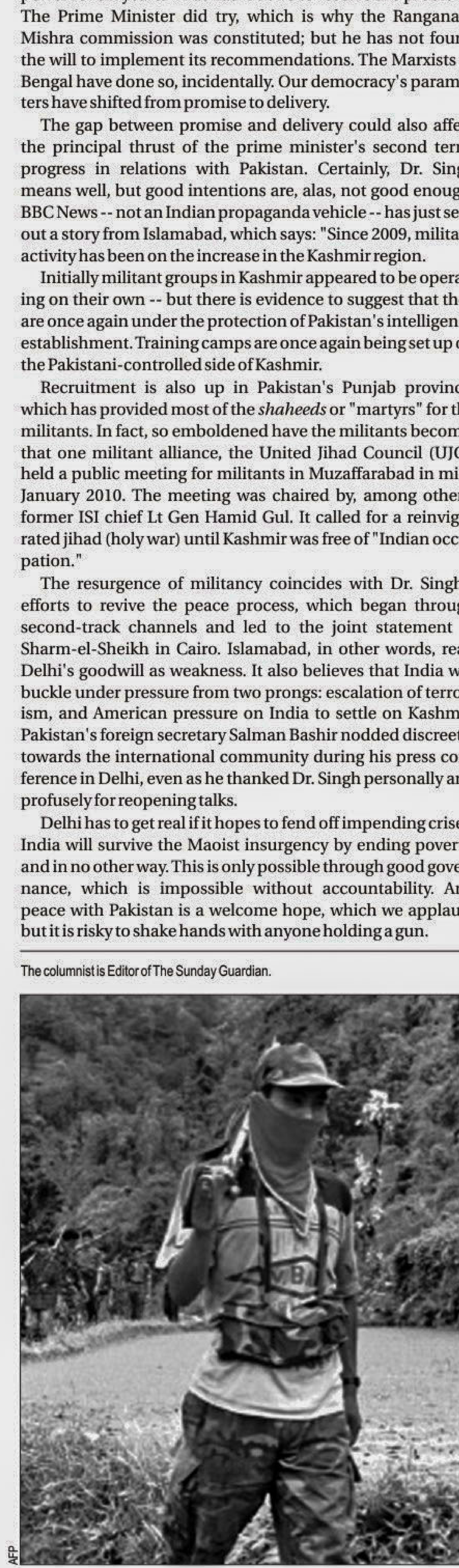
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