

# 'If Bangladesh doesn't act now, there will not be a second chance'

Is Bangladesh on track to be a middle-income country by 2021? Dr. Gustav Papanek, president of Boston Institute of Developing Economies, and a long-time friend of Bangladesh, has his doubts. Recently, The Daily Star's Faruq Hasan caught up with Dr. Papanek on his last visit to the country to talk about Bangladesh's development trajectory, his advice to the prime minister, and his love of the sitar.

**The Daily Star: Throughout your career, you have been a frequent visitor to South Asia. What keeps you being drawn to the region?**

Prof. Gus Papanek: I must say that it was rather through luck than any merit or endeavour on my part that drew me close to South Asia. After my doctorate from Harvard, I started working for the US government. My main job was to reduce our output: manufacturing, agriculture, you name it, I had to reduce it. This turned out to be a really boring job, plus I had qualms about reducing our food exports when there were so many people throughout the world who were starving.

Soon after, President Truman announced the first technical program for Asia, Africa and Latin America. They were looking for agricultural economists and I got a job there and it turned out that I was the only economist assigned to cover Asia! My job gave me a chance to really understand the region and I honed both my analytical skills and broadened my horizon. Then McCarthyism happened and the Republicans found an excuse to fire my whole department. Fortunately I wasn't jobless for long. I was hired by the Harvard Advisory Group to go to Pakistan with some very senior economists. Fortunately for me, I was the only one in the group who had any Asian experience and I was determined to prove myself to my senior peers. That was the start of my love affair with South Asia and I never looked back!

**You were surrounded by influential people both in America and here in South Asia. What was it like in the days during Bangladesh's independence?**

Henry Kissinger's office was right next to mine at Harvard and although I was never close to him, we exchanged our views on Bangladesh. To be fair, Kissinger listened to my opinions about establishing Bangladesh as an independent nation, but March 1971 happened during the same time as Nixon was planning to visit China. We needed Pakistan's help with China and

there was no way the US government was going to jeopardise our relationship with Pakistan. And hence we let one of the biggest calamities happen right under our nose.

When the Liberation War started, I was fortunate enough to have many Bangladeshi scholars as my students. The irony is that Harvard gained a lot from the sudden exodus of brilliant Bangladeshi students fleeing the war. I was very close to several of them and feel it a privilege to work with such precocious talent. Many of my Bangladeshi pupils like Anisur Rahman, Masihur Rahman, and S. A. Samad have gone on to have stellar careers and have made significant contributions to the development of the country. On a selfish level, I learnt so much about both the region and Bangladesh from them. Even while I was in Pakistan, I was friends with Mr. Habibur Rahman, who was the only token Bengali on the Pakistan Planning Commission. I was a frequent visitor to his house and loved hearing him and his wife play the sitar. However, even then I could notice the strong discrimination against Bengalis faced from the Pakistanis.

**Obviously you have seen Bangladesh evolve to where it is now. What do you think have been the biggest achievements and drawbacks in the last 39 years?**

One of my stark memories of Bangladesh was in 1974 during the famine. People were literally starving to death on the streets. I would go inside my hotel, and when I came out, I would most likely see another person on the streets, dead. It was absolutely heartbreaking.

Over the years, Bangladesh has grown from strength to strength and it is a changed country. Of course poverty is still rampant, but the economy has grown steadily and remittances have made a big difference both in rural and urban Bangladesh. What really needs to be changed is the attitude of both the politicians and technocrats.

**Could you elaborate?**

Let me put it succinctly: Over my visit during the last few weeks, I have made ten formal presentations to different formal bodies and organisations, aside from the numerous one-on-one interviews and discussions with technocrats and civil servants.

The message that I have tried to convey is simple: Bangladesh adds 2 million people every year to the workforce but the economy right now can only absorb a million or so, including workers who are emigrating to work overseas.

Those who do not find jobs, end up in the informal sector. The huge informal sector of the economy is going to take a heavy toll on Bangladesh's resources simply because for every one taka they produce and inject in the economy, two leak out because of consumption and expenditure. This is simply not sustainable if Bangladesh wants to retain any hope of joining the ranks of middle-income countries by the next decade or so, there needs to be more effort put to increase the manufacturing base of the country.

Yet I see no urgency on the part of both ministers and technocrats. Instead of them seeing a global picture, politicians are hidebound and compare themselves with their counterparts in the previous regime. Bangladesh is probably better off now than five years ago, but there is absolutely no room for complacency. In the global market, time is of the utmost essence.

**Let's talk a bit more about the transition from the informal to the formal economy. Why is this change important?**

Just look to your neighbour, India. India too has a huge population similar to the population density here. But Indian politicians realised in the early 1990s that having a large population is a liability unless they start contributing more to the formal economy. At that time, India was still suffering from the so-called "Hindu Rate of Growth," which basically translated to less than 5 per cent every year. This would never accelerate a huge country like India out of poverty.

So what the politicians finally did was to liberalise the economy, which was mired in paperwork and bureaucracy. In less than a decade, with the abolishment of distortions and permits, India started reaching close to double-digit growth rates.

The comparisons to Bangladesh are not perfect but still very valid and



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germane. The garments sector has done rather well over here but manufacturing has been rather slow. There simply hasn't been enough people moving from the informal sector -- where they remain under-utilised and inefficient -- to the manufacturing sector where they could be producing much more.

For this transition to be complete, Bangladesh really needs to broaden its industrial base: right now, it's just a one trick pony.

I can give you two examples of industries which are completely labour intensive and suited to the agricultural strengths of this country: the flower and fresh fruit and vegetable market. Yet, I see no effort taken by anyone to broaden the export base of this country. If only more workers seeped into a viable manufacturing sector, the multiplier effect would kick in: for every one job created by the manufacturing sector, there would be two other jobs created in different sectors to cater to this burgeoning base.

**If you were given the task to write a "Marshall Plan" for Bangladesh, what would you include?**

I wouldn't write a grand plan, it's as simple as that. Plenty has been planned already, it's time for action. I would, however, ask the following steps to be implemented:

Decision making related to manufacturing and exports has to be streamlined. Right now, technocrats, civil servants, and ministers don't seem to be empowered to take decisions on their own.

A manager at one of the EPZs has to kowtow to a minister before making any decision when she herself is in the best position to make a call. All decisions lead to the prime minister, and she simply has too much on her plate to act/decide on everything.

Right now, the system invites inaction instead of galvanising people who make decisions since they are either too scared to upset someone with their decision, or simply do not have enough self-belief in making the call. There are obvious examples of people taking important decisions that really matter: Dr Samad, Chairman of the Board of Investment of Bangladesh has single-handedly taken key decisions that have changed the net inflow of foreign investments coming into Bangladesh. His example, unfortunately, has been an exception rather than the norm.

The PM needs to be surrounded by people or a committee who are not afraid to frankly assess a whole host of situations. Fixing the problems will cost the government political capital and be painful, and no one will take the lead on this. But the PM has to realise

that not fixing the problem is worse than trying to fix it.

No one wants to tell the PM the bad news: that merely solving a particular problem, may it be the gas crisis or boundary talks with India, is not enough, but the decision making process has to be changed as well. And this committee surrounding the PM will also have to be empowered so that they can take decisions by themselves, instead of relying on the PM all the time.

Lastly, Bangladesh needs to realise that the country is competing with a whole host of countries who are trying to occupy the space that China will be leaving behind very soon. Both politicians and technocrats need to realise that the global supply chain is opening up so that countries like Bangladesh can produce parts of a whole host of goods ranging from auto parts to toys. But people here seem to be caught up in a cocoon of complacency where they are happy to be performing just marginally better than the last government.

But as I mentioned before, time is of the essence: in fact, I would say that the window of opportunity is open for another two years for Bangladesh to start attracting foreign companies and carve out a slice of the global pie for itself. If Bangladesh doesn't act now, there will not be a second chance.

## Challenges facing multipolar global economy



Poverty remains and must be addressed. Failed states remain and must be addressed. Global challenges are intensifying and must be addressed. But the manner in which we must address these issues is shifting. The outdated categorisations of First and Third Worlds, donor and supplicant, leader and led, no longer fit.

ROBERT ZOELLICK, *The Jakarta Post*

IF 1989 saw the end of the "Second World" with Communism's demise, then 2009 saw the end of what was known as the "Third World":

We are now in a new, fast-evolving multipolar world economy where North and South, East and West, are now points on a compass, not economic destinies.

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addressed. Failed states remain and must be addressed. Global challenges are intensifying and must be addressed. But the manner in which we must address these issues is shifting. The outdated categorisations of First and Third Worlds, donor and supplicant, leader and led, no longer fit.

Today, we already see the strains in multilateralism. The Doha World Trade Organization round and the climate change talks in Copenhagen revealed how hard it will be to share mutual benefits and responsibilities between developed and developing countries.

And this will be the case for a host of other looming challenges: water;

diseases; migration; demographics; and fragile and post-conflict states.

It is no longer possible to solve big international issues without developing country buy-in. But in discovering a new forum in the G20, we can't impose a new, inflexible hierarchy.

Nor can we address this changing world through the prism of the old G7; developed country interests, even if well-intentioned, cannot represent the perspective of the emerging economies.

But modernising multilateralism isn't all about developed countries learning to adapt to the needs of rising powers. With power comes responsibility. Developing countries need to recognise that they are now part of the global architecture and have an interest in healthy multilateralism.

We cannot afford geo-politics as usual. A "New Geopolitics of Multipolar Economy" needs to share responsibility while recognising different perspectives and circumstances, so as to build mutual interests. Take financial reform: Of course we need better financial regulation. But beware of unintended consequences like financial protectionism.

Regulations agreed in Brussels, London, Paris or Washington might work for big banks but could choke off economic opportunity and growth in developing countries.

Wall Street has exposed the dangers of financial recklessness, and we need to take heed and serious actions.

But financial innovation, when used and supervised prudently, has brought efficiency gains and protected against risk, including for development. A G7 populist prism can undercut opportunities for billions.

Take climate change: It can be

linked to development and win support from developing countries for low carbon growth, but not if it is imposed as a straitjacket. Developing countries need support and finance to invest in cleaner growth paths. 1.6 billion people lack access to electricity.

While we must take care of the environment, we cannot consign African children to homework by candlelight or deny African workers manufacturing jobs.

The challenge is to support transitions to cleaner energy without sacrificing access, productivity, and growth that can pull hundreds of millions out of poverty.

Take crisis response: In a world in transition, the danger is that developed countries focus on summits for financial systems, or concentrate on the mismanagement of developed countries such as Greece. Developing countries need summits for the poor. Hearing the developing country perspective is no longer just a matter of charity or solidarity: It is self-interest.

These developing countries are now sources of growth and importers of capital goods and developed countries' services. Developing countries do not just want to discuss high debt in developed countries; they want to focus on productive investments in infrastructure and early childhood development. They want to have free markets to create jobs, higher productivity and growth.

This new world requires multilateral institutions that are fast, flexible, and accountable, that can give voice to the voiceless with resources at the ready.

The World Bank Group must reform to help play this role. And it must do so continually at an ever quicker pace.

This is why we have launched the

most comprehensive reforms in the world's history, restoring boosting developing country voting rights and representation.

Yet problems need resources to fix them. The World Bank needs more resources to support renewed growth and to make a modernised multilateralism work in this new multipolar world economy.

Should the recovery falter, we would have to stand on the sidelines. This is why the World Bank is seeking its first capital increase in more than 20 years.

In the new multipolar global economy, most governmental authority will still reside with nation-states. But many decisions and sources of influence flow around, through, and beyond governments.

Modern multilateralism must bring in new players, build cooperation among actors old and new, and harness global and regional institutions to help address threats and seize opportunities that surpass the capacities of individual states.

Modern multilateralism will not be a hierarchical system but look more like the global sprawl of the Internet, interconnecting more and more countries, companies, individuals, and NGOs through a flexible network.

Legitimate and effective multilateral institutions, such as the World Bank Group, can form an interconnecting tissue, reaching across the skeletal architecture of this dynamic, multipolar system. We must support the rise of multiple poles of growth that can benefit all.

The writer is World Bank President.

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