

CONNECTING THE DOTS

Bangladesh -- a part of the 'Next 11'



A. R. CHOWDHURY

BANGLADESH received a number of foreign dignitaries from India, Japan and the United States last week. The positive attention it received in the international media could be summed up by an article in *The Wall Street Journal* which, referring to the Bangladesh trip by

Secretary of State Hillary Clinton, concluded that "this weekend, a country once dismissed by former US Secretary of State Henry Kissinger as a basket case, gets to show one of his successors how wrong it has proven him."

This positive publicity for Bangladesh is not confined only to the political arena. Goldman Sachs lists Bangladesh among its "Next 11" (N-11), countries that have the potential to become major economies.

Today, I would like to comment on how the international investors view the emerging markets in general, and several groupings, in particular. It would be interesting to see how Bangladesh fares in their thinking.

A decade ago, Jim O'Neill, former head of Goldman Sachs Economic Research, had coined the term BRICs -- Brazil, Russia, India and China -- to explain how the rise of these countries might shape the world economy. It was expected that the higher growth in these economies could offset the impact of graying populations and slower growth in the advanced economies.

Over the last ten years, the rise of the BRICs and the emerging world has been one of the defining stories of the era. From contributing just one-fifth of global growth or less until the 1990s, the BRICs have contributed nearly half of overall global growth in the past decade.

This contribution is likely to hold at high levels for the BRICs. But in terms of the role of the BRICs in driving global growth, the most dramatic change is behind us. The bigger changes may now occur elsewhere.

There is more potential for other emerging market economies -- the N-11 and beyond -- to

increase their role. So who are these N-11 countries? This grouping includes Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam.

While the N-11 countries share certain characteristics, they are not at the same level of economic development. I would categorise them in two sub-groups: countries in the first group have greater industrial capacity and are typically beginning to export heavy manufactured or refined products, while the second group is still largely reliant on primary exports, with some industrial capacity.

Of the N-11 countries, Bangladesh, Iran, Nigeria,

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Pakistan and Vietnam can be categorised in the second group, while all the others except South Korea can be categorised in the first group. South Korea is the only N-11 economy that could be categorised as a developed economy, owing to its high level of industrialisation and relatively stable macroeconomic fundamentals.

As the N-11 countries grow larger and their weight in the global economy increases, they would also become more important contributors to global growth. Of course, this depends on the continued ability of these economies to maintain the kind of growth conditions that would allow that shift. But the important story here is that there may be more room for non-BRIC emerging market economies to increase their global growth contributions than for the BRICs themselves.

Goldman Sachs and J.P. Morgan project that average growth rates in the N-11 could increase from 4% in the recent decade to 5% in the next decade, although this coming decade represents their peak potential too. Beyond that, as both the BRICs and N-11 economies move up the develop-

ment curve, undergo their demographic transition and continue to converge to advanced economy levels, average growth rates are likely to decline steadily.

Why may that be the case? To understand this, consider decomposing the projected growth rates for the BRIC economies into their constituent factors -- capital deepening, growth in the labour force and productivity improvement. All these factors have pushed GDP growth rates higher in these economies.

In coming years, as labour force growth first slows and then in coming decades actually starts to shrink and detract from growth, the overall BRIC GDP growth rates would decline. And, increasingly, the BRICs growth story is likely to be dominated by continued capital deepening and productivity growth.

The same process plays out in the N-11 countries also, as shifts in the demographic structure of their population lower the contribution to growth from labour force expansion. But with the BRICs further ahead in this process, the N-11 may record faster average growth rates than the BRICs economies.

The recent interest in the N-11 countries among international policymakers and investors speaks to the imperative for these countries to sustain their recent better growth experience. Turning the dream of the N-11 into reality will not be automatic. Bangladesh, as part of the N-11, will find that translating that potential into actual growth is hard.

Over the years, factors have been identified that sustain growth -- including good educational outcomes, credible and stable institutions, rule of law, accountability and transparency, sound macro and microeconomic policies, openness, etc. The policy makers in Bangladesh will have to take that extra step to formulate policies to install the necessary factors in place that would help to utilise the economy's potential and take the country to the next step.

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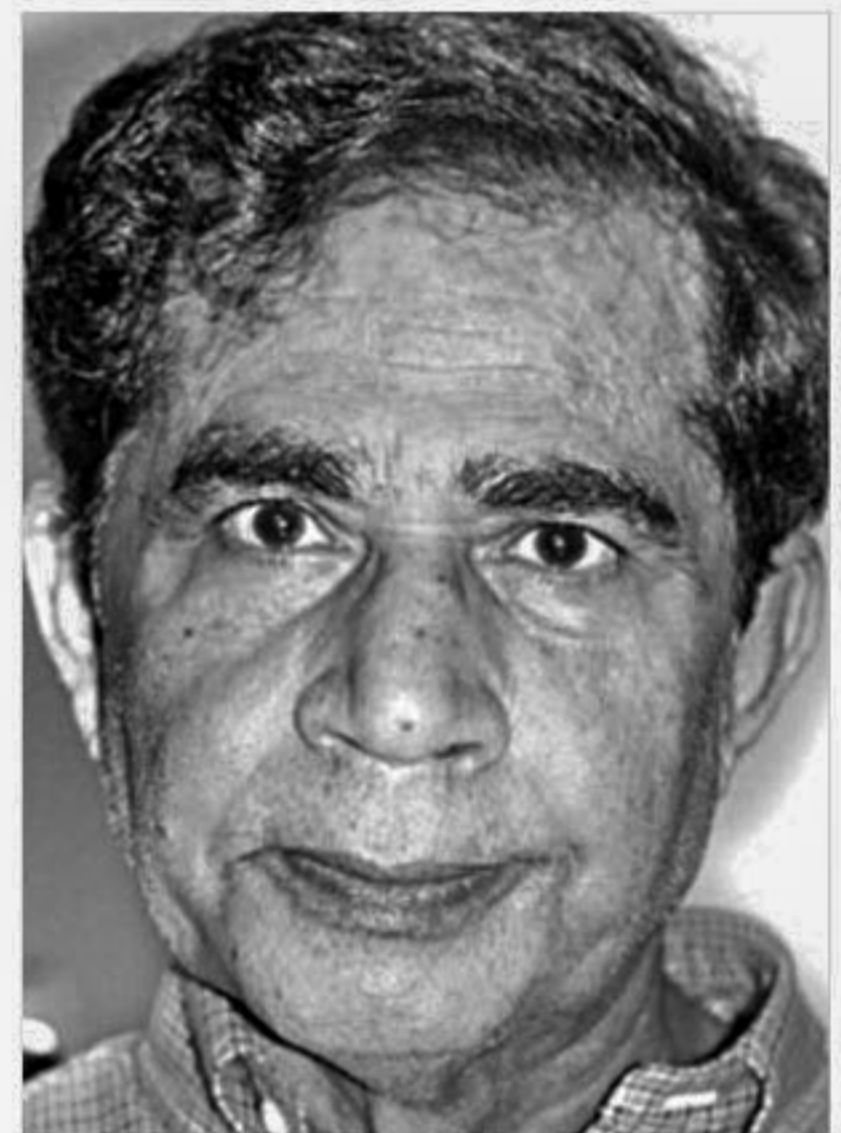
EXCLUSIVE INTERVIEW

'This impasse can be broken only through practising democratic norms and abiding by the rule of law'

A.S.M. Shahjahan, former Inspector-General of Police (IGP) and ex-adviser of the caretaker government in 2001, talks to Zaheen Zaema Khan and A.B.M. Shamsud Doza of The Daily Star on the present political situation and deteriorating law and order situation.

The Daily Star (TDS): How do you evaluate the present political situation? Is it going to be a zero-sum game?
A.S.M. Shahjahan (AS): We are facing a very critical time. The two major political parties are not willing to budge an inch. I am sure that our political leaders are capable of understanding what the people of this country want and what is good for them. It is essential for them to avoid conflict right now and come to a compromise for the betterment of the country and to show respect to the desires of the people of this country. They must remember that conflict will not deliver anything productive to the country.

Understanding between the political leaders is very much needed at a critical time like this. I am very hopeful that it will not lead to a zero sum game and the leaders will avoid the path of conflict. I know that we are not seeing light at the end of the tunnel right now as the political leaders are refusing to budge from their positions. But it is essential



A.S.M. Shahjahan

that some sort of compromise is reached. I hope the opposition will join the next Parliamentary session. It is extremely necessary and I hope dialogue can take place both outside and inside the Parliament.

TDS: What about the present law and order situation?
AS: Unfortunately it needs a lot of improvements. A chain of crimes in the past remains undetected, due to which no progress can be made on the sensational crimes occurring now. This is not a good sign. If crimes tend to remain undetected then the hands of the law cannot touch the criminals and they become more active. I think more efforts should be given to detect these crimes and also to prevent them in the future. People's sense of security has been adversely affected as offences such as murder, kidnapping and abduction are taking place so regularly and remaining undetected. What is important is the political commitment and sincere and professional attitude of the law enforcement and intelligence agencies to improve the situation, along with participation of the community.

TDS: Is it a problem of governance or of law enforcement?
AS: The problem lies in both. I have total confidence in the ability of our detective branch, of our law enforcement agencies. But it is disheartening that a number of sensational cases have remained undetected. The sincere efforts of professional law enforcement officers can produce good results.

TDS: Our home minister recently said: "Where is the time in the midst of competing concerns?" What do you say about that?

AS: I think priority should be fixed on the basis of the public interest. The interest of the people and the community should be given the highest preference. The need of the people and assurance of their security are supreme.

TDS: Our home minister has recently claimed to be the most successful home minister? How do you look at it?
AS: No comments on this issue.

TDS: Do you find any relation between the present political crisis and the deteriorating law and order situation?
AS: Of course. There is no scope to see the law and order situation apart from the politics. Political, social and economic situation all have impact on law and order situation. The ice must be broken in the political front. Both the parties have to sit for dialogue to sort out their differences and show their commitment to protection of the people.

TDS: What is the way out of this impasse?
AS: It mostly depends upon the political parties. They have to pay heed to the public demand.

TDS: You have recently said that the electorate should take corrective measures to deal with the faults and wrongdoings in the political arena. What are the corrective measures and how could these be implemented by the electorates?

AS: Prescription should be based upon the diagnosis. Prescription without diagnosis is unethical in medicine it is also unethical in politics. Our politics is afflicted with lack of mutual respect, lack of tolerance, and vengeful attitude. All these ills are related with disregard to the need of the people. People do not want bloodshed, torching of vehicles, and panic creating activities like *hartal*. They want solution based upon development of the country and protection of the public interest. This understanding of the situation is very vital. I think there is no alternative to dialogue between the two major political parties. People have to speak out to create pressure on them. Media has to do so. This impasse can be broken only through practising democratic norms and abiding by rule of law.

Growth, employment and governments

RIZWANUL ISLAM
HERE are some recent news items on the global economic front:

- According to the ILO's report titled "World of Work 2012," global unemployment has started to increase since late 2011;
- The rate of unemployment in the Euro Zone (17 countries that use Euro) increased from 9.9% in March 2011 to 10.9% in March 2012;
- In some countries like Spain, over half the youth are unemployed;
- In USA, unemployment rate declined to 8.1% in April 2012, but has remained way above the pre-crisis (2007) level of 4.7%. What is worth noting is that the pre-crisis level of output has been exceeded with 5 million less workers.

Recapitulating some pieces of news on the political front:

- In France, Mr. Francois Hollande, the socialist party candidate, has won the presidential election (bringing a socialist to power after 17 years);
- In the Netherlands, the centre-right coalition government has fallen;
- Despite a degree of success in steering the US economy out of recession, Mr. Barack Obama faces a tough re-election challenge in the US presidential election;
- In the parliamentary elections in Greece (held on May 6), the pro-austerity parties saw support for them declining sharply. This has resulted in political uncertainty;
- Mr. Mario Draghi, the President of the European Central Bank recently told the European Parliament that a "growth compact" is needed, although he did not elaborate what he meant and how the growth compact was to be achieved.

The political importance of growth, employment and unemployment is clear from the pieces of news mentioned above. Voters in many countries are getting impatient with continued economic crisis and worsening employment situation. The key question in this respect is: why are so many countries finding themselves in such a difficult situation despite some success in coming out of the Great Recession of 2008-09? One answer is the premature attempt at reducing budgetary deficit and public debt by adopting a strategy of austerity in their budgets. The theory behind that strategy was that austerity and fiscal consolidation, by creating confidence among investors, will help increase investment and hence economic growth. But that thesis, as warned by several economists, has not worked; growth through the route of austerity and fiscal consolidation has not happened. In fact, country after country (e.g., Ireland, UK, Spain, to name a few) have gone back into a sec-

ond (double dip) recession. Does the experience summarised above have any implication for Bangladesh? In my view, yes, it does. Consider the following:

- After several years of decline in the growth of GDP, there was an upturn in growth in 2010-11. But the outlook for 2011-12 indicates that a reversal is almost certain;
- As for exports and foreign exchange earnings, the economy is heavily dependent on two items, viz., export of ready-made garments and remittances. Even a slight negative impact on any of these items makes the economy jittery. The vulnerability of the economy is indicated by the government's turning to the IMF for a credit of \$1 billion;
- On the employment front, for a variety of reasons, open unemployment is not a good indica-

It has been seen that even with modest growth, employment performance can fall short of requirement. In such situations, governments need to get into the act.

tor of the labour market situation in a country like Bangladesh. And yet, even open unemployment has increased during 2005-10 -- a period when economic growth was quite good. Underemployment (which is a better indicator) increased for male members of the labour force. Moreover, the share of self-employment and unpaid family workers (which are regarded as indicators of vulnerable employment) in total employment increased during the period mentioned above;

- On the political front, general election is due in a year and a half. Whether voters in Bangladesh take into account the growth and employment performance seriously is not very clear. But if the present government intends to use performance in these areas as its strength, the record will need to improve substantially.

How serious is the government about economic growth and employment? Judged by the projections and targets of GDP growth, the government can certainly be called ambitious. The Sixth Five-Year Plan aims at achieving an average GDP growth of 7.3% per annum during the Plan period (2010-15) and a growth of 8% in the terminal year of the Plan. But it is not clear whether the Plan (or the ambition expressed through it) is backed by real efforts.

Take investment, which is critical for growth. In recent years, investment as percentage of GDP has

hovered around 24-25%. That may be adequate for a GDP growth of 6 to 6.5% annum. But for moving to 7-8% GDP growth, the investment rate would have to be much higher, perhaps 30-35%. The major factors that act as constraints on investment (e.g., shortage of power, inadequate infrastructures, governance, etc.) are well-known and are recognised even by the government's policy makers. Unfortunately, however, significant improvements in any of these fronts are yet to be seen.

On the side of policies, macroeconomic policies are critical in achieving targeted growth of output and employment. Bangladesh is currently pursuing a restrictive monetary policy -- ostensibly to curb inflation -- although it is by no means certain whether inflation in the country is a demand-driven one and monetary policy is the most appropriate tool to fight that. In such a situation, it would have been advisable to pursue a growth oriented fiscal policy. Given the renewed tutelage of the IMF, it remains to be seen what transpires through the budget that is going to be announced in less than a month. The signals that have come up till now in this respect appear to be confusing. While mention is made of shortage of resources constraining the needed growth in the size of the budget, willingness to be a bit bold in terms of the size of budget deficit has also been expressed. What is not seen is a clear recognition of the need for a growth oriented budget in an environment of restrictive monetary policy and a willingness to tap the full potential for augmenting revenue resources and to create fiscal space needed for such a budget.

If growth is at least talked about, there is very little mention of employment in the policy discourse. Of course, it is expected that employment will result from growth. But the link is not automatic, and it has been seen that even with modest growth, employment performance can fall short of requirement. In such situations, governments need to get into the act. Indeed, the present government's election manifesto did contain a declaration of a programme for ensuring 100 days of employment per household per year. While there was some effort in this regard in 2009-10, the programme was allowed to become dependent on donor funding, and was not incorporated into the regular budget of the government. The issue of guaranteeing the availability of jobs was not even considered. On the other hand, if conceived, planned and implemented seriously, such a programme could not only play an important role in reducing poverty, but could also contribute to garnering of votes from the poorer section of the voters. It does not seem that the government gave serious thought to this issue.

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