A BURMESE DÉJÀ VU

Most countries have a military; the Myanmar military has a country

AMITAVA KAR

With a constitution that granted it sweeping powers and a compliant parliament, the generals are now presiding over a Potemkin democracy.

As thousands of Rohingyas from Myanmar have been fleeing persecution and poverty, adrift on rickety boats on the seas of Southeast Asia in search of a better life—I wondered what kind of a country allows such an atrocity to happen with the whole world watching.

The army has ruled Myanmar since 1962. And with a constitution that granted it sweeping powers and a compliant parliament, the generals are now presiding over a Potemkin democracy. The result is a country where the government allocates only 3 percent of its budget to healthcare while 29 percent goes to the military.

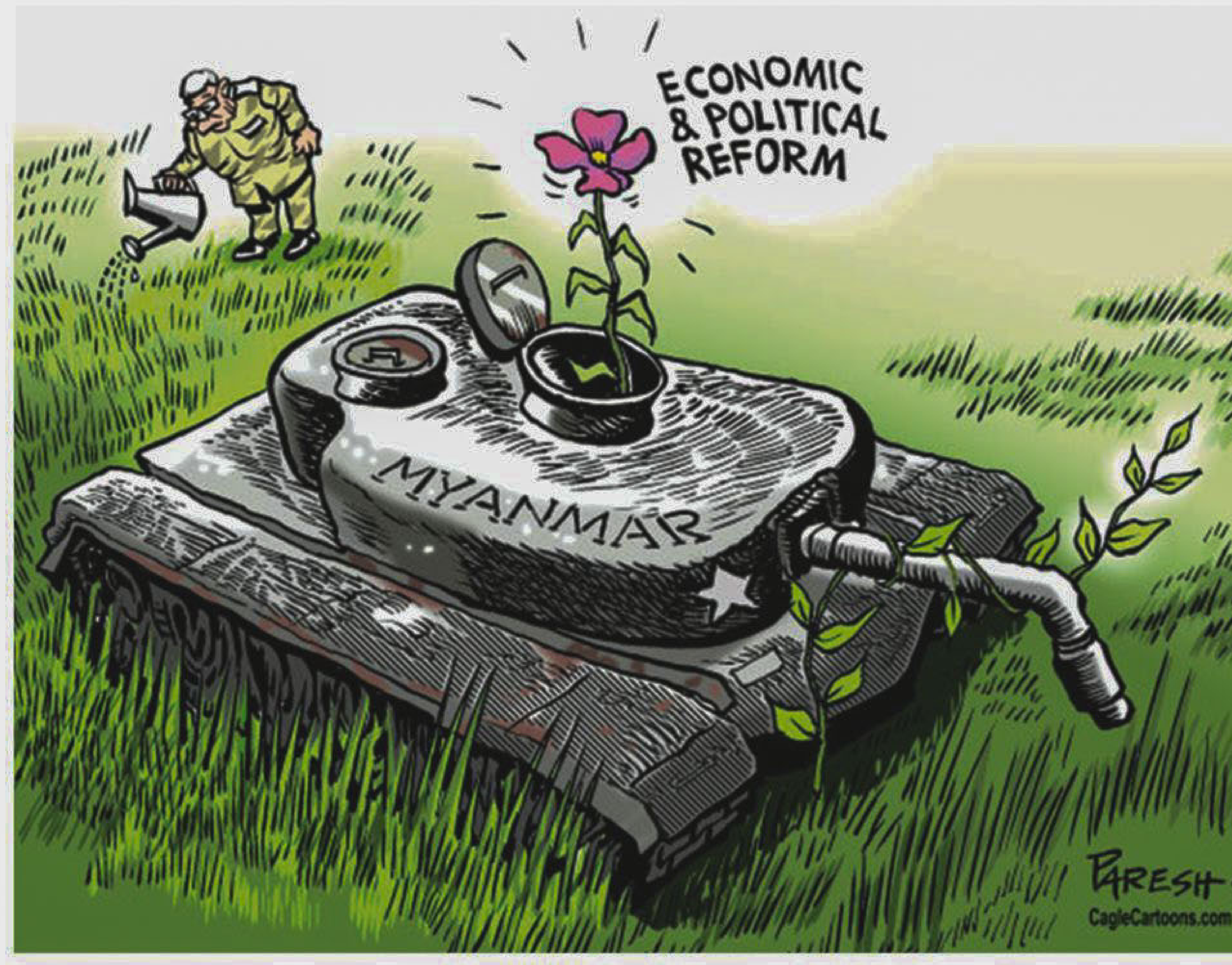
Everything is in short supply - electricity is erratic, telephones are unreliable and there are few ATMs. Less than 50 percent of children complete primary education. AIDS has become a "generalised epidemic", with 1.2 percent of the population infected with HIV. Almost 100,000 new cases of tuberculosis are detected every year. Even basic supplies such as bandages and painkillers are often scarce. The generals, however, are in total denial. They depict the rosy picture of an economy that is growing at a steady rate of 10 percent or more a year.

It's hard to take them seriously when it comes to understanding market forces. For instance, they used to fund big budget deficits by printing money (or "borrowing" it from the central bank), a policy resulting in double-digit inflation. No wonder the Heritage Foundation, a top US think-tank, considers Myanmar's economy the most distorted in the world, second only to North Korea's. That has, however, hardly stopped the ranks of the army from more than doubling since 1988, to roughly 380,000. And the revenue from gas exports has allowed the regime to upgrade its stockpile of weapons.

Since gaining independence from Britain in 1948, the country's numerous minority ethnic groups, which comprise about 40 percent of the population, have been in constant conflict either with the central government or with each other. The roots of these conflicts lie in promises contained in the Panglong Agreement. Signed by Aung San, a leading architect of Myanmar's independence (and father to Aung San Suu Kyi), as well as Kachin, Chin and Shan representatives, the agreement promised broad regional autonomy to the ethnic minorities and said that a "separate Kachin State…is desirable". The government has yet to deliver on either promise.

Conditions are particularly bad in the border areas. As many as 10,000 people get killed each year in the border region while many more die of disease or starvation. Reportedly, the army often resorts to murder, rape, arbitrary arrest, and forced labour - abuses systematically and specifically aimed at ethnic minorities.

Strangely enough, the international community and neighbouring countries have become much friendlier in recent times after years of sanctions and boycotts. US President Barack Obama's visit to the country in 2012 and 2014 offered hopes of political and economic reforms. In 2012, the pseudo-civilian government of President Thein Sein released many political dissidents from jail or house arrest, signaling the advent of liberalisation. China, hardly a champion of democracy itself, has had good relations with the regime historically. This friendship with China has also prompted an anxious India to invest more in Myanmar.



COURTESY: WWW.ASIAOBSERVER.ORG.

But now the military is tightening its grip again and progress on major issues has stalled. Under the Constitution, the military controls a quarter of the seats in parliament, enough to block any amendments. On June 25, it flexed its muscle once again blocking moves to rescind its veto power in parliament and refusing to ease a rule that prevents Aung San Suu Kyi from becoming president. Adding to the already complex calculus of power is the increasingly out of sync relations between President Thein Sein, a career army bureaucrat, and commander-in-chief Senior General Min Aung Hlaing.

After showing a brief moment of promise, Myanmar seems to be backsliding into the throes of authoritarian rule.

The writer is an engineer-turned-journalist.

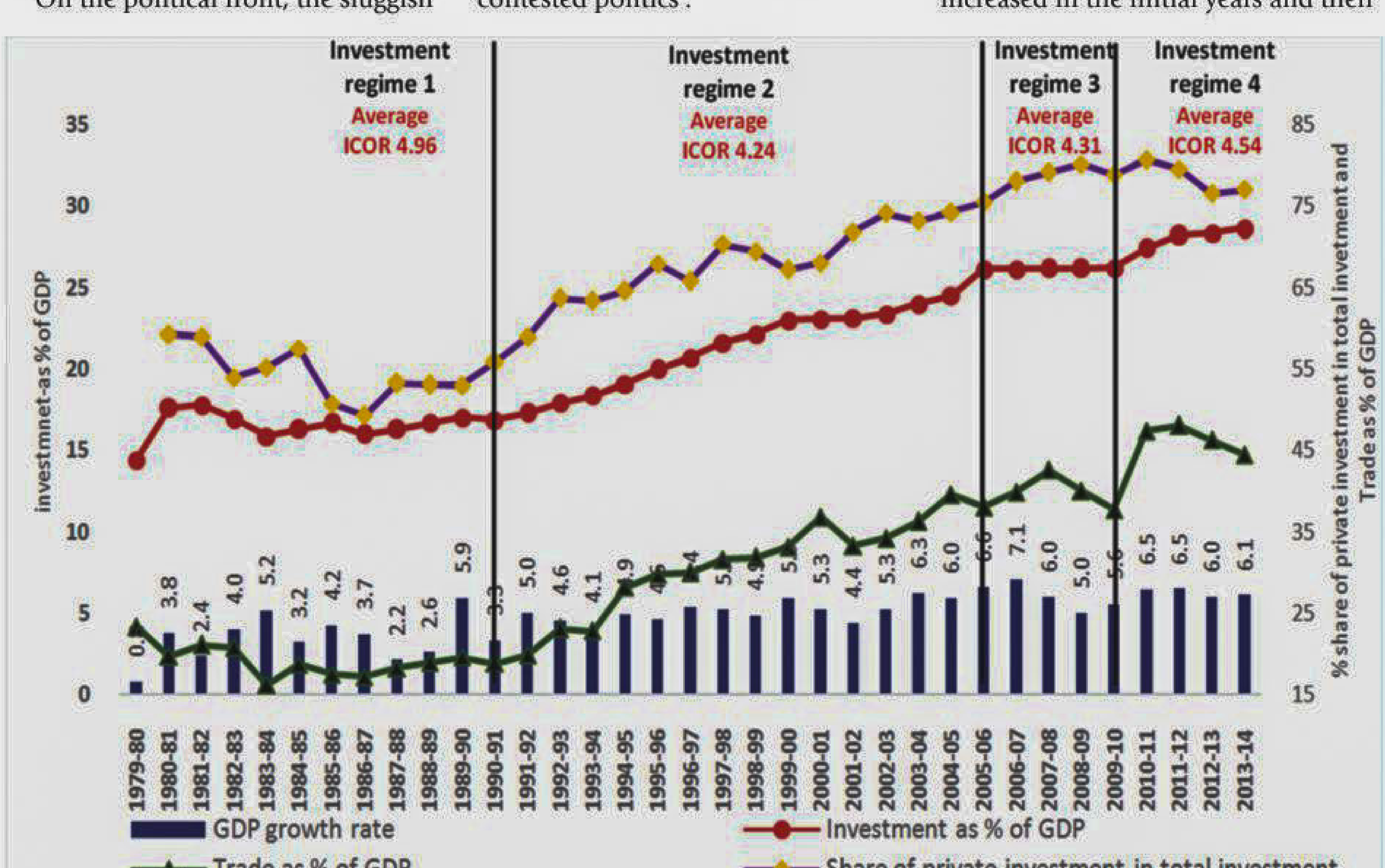
Bangladesh needs a new investment regime

SELIM RAIHAN

LOOKING at the trend in the investment-GDP ratio since 1979-80, we can suggest four different investment regimes in Bangladesh. The first regime (1979-80 to 1989-90) is characterised by low level of investment-GDP ratio with an annual average of 16.5 percent. This regime generated large fluctuations in GDP growth rates and the annual average GDP growth rate was only 3.5 percent. The second regime (1990-91 to 2004-05) saw a steady rise in investment-GDP ratio with an annual average of 21 percent. This regime yielded an annual average GDP growth rate of 5 percent. The third regime (2005-06 to 2008-09) experienced a higher but virtually flat investment-GDP ratio of 26.2 percent and a resultant rise in annual average GDP growth rate to 6.2 percent. Finally, the fourth regime is the current one (2009-10 to 2013-14) with a rise in annual average investment-GDP ratio to 28.2 percent, with 6.3 percent annual average GDP growth rate.

These four investment regimes can be tagged with different economic and political environments in Bangladesh. One economic indicator is the degree of openness. During the first regime, the economy was highly protected as is manifested by a very low level of trade-GDP ratio. However, since the second regime, through different economic measures, the economy became more and more trade-oriented, as the trade-GDP ratio experienced a steady rise over the years since then. The third regime, however, experienced a rise in the trade-GDP ratio at the beginning and then a fall. The striking feature of the fourth regime is that, the recent years are experiencing a gradual fall in the trade-GDP ratio, which is a matter of concern. This is also linked to sluggishness in economic reforms in recent years.

On the political front, the sluggish and low level of investment during the first regime was accompanied by a military dictatorship. The second regime of the steady rise in investment was under the regime of 'parliamentary democracies' with high prevalence of 'contested politics'. The third regime of stagnant investment was associated with a 'military backed' caretaker government with complete absence of 'contested politics'. And finally, the fourth regime has been a regime of 'parliamentary democracies' with a low level of 'contested politics'.



Source: Raihan (2015)

One very important aspect of these investment regimes is the trend in private sector participation in the economic growth process. If we look at the trend in the share of private investment in total investment, the first regime was characterised by a low and declining share of private investment. However, during the second regime, large contribution to the rise in investment came from the rise in private investment and its share in total investment. During the third investment regime, the share increased in the initial years and then fell in the later years. However, under the fourth regime, with the fact that the investment-GDP ratio has become somehow stagnant in the recent years, the share of private investment in total investment has fallen with the rise in the share of public investment, which is essentially unsustainable.

One very striking feature is that in the recent two investment regimes, the productivity of investment has fallen. One way of measuring the productivity of investment is the Incremental Capital-Output Ratio (ICOR), which is the 'ratio of investment as percent of GDP' to 'GDP growth rate'. The higher the ICOR, the lower the productivity of investment. During the first regime, the annual average ICOR was as high as close to 5. However, during the second regime it came down to 4.24. The third regime saw a rise to 4.31. But, alarmingly, the fourth investment regime has an average ICOR of 4.54. This suggests that in recent years, there have been noticeable rises in the inefficiencies in the economic institutions and resultant falls in the returns to investment. This is clearly manifested by the fact that though during the third and fourth investment regimes, the annual average GDP growth rates have been little over 6 percent, the investment-GDP ratio in the fourth regime was 2 percentage points higher than that of the third regime, indicating that the economy is now needing more resources to generate the same level of GDP growth rate! This also points to the alarming fact that a mere rise in investment-GDP ratio would not ensure higher GDP growth rate in the future.

There is no denying the fact that economic diversification is very important for economic growth process to be sustainable. It is important to mention that as against the first investment regime, the second investment regime was able to generate some essential diversifications of the economy through significant expansion of some non-agricultural sectors. One such example is the growth of the export-oriented readymade garment sector. However, in the later investment regimes, there has not been much progress in further diversification of the economy in general and the export basket in particular. There remain large policy induced and supply side constraints, inhibiting further diversification of the economy.

All these suggest that there is a need for a new investment regime in Bangladesh. This new investment regime calls for some substantial policy and institutional reforms aiming at considerable rise in private investment and its efficiency.

What is needed are: (i) a new paradigm of macro, trade and investment policies aiming at economic diversification, (ii) reducing the cost of borrowing through financial sector institutional reforms, (iii) reform of the economic institutions tuned to further growth acceleration and growth maintenance, (iv) stability in the political institutions and presence of higher degree of 'contested politics', (v) efficient public investment in social and physical infrastructure, facilitating further private investment, (vi) attracting large FDIs, with emphasis on regional cooperation in South Asia, and (vii) improving the overall governance of the macroeconomic policy environment.

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QUOTABLE Quote

Martha Gellhorn

Then somebody suggested I should write about the war, and I said I didn't know anything about the war. I did not understand anything about it. I didn't see how I could write it.