National budget measured through five senses



DEBAPRIYA BHATTACHARYA

CCORDING to the great **h**philosopher Immanuel Kant, "all our knowledge begins with senses, proceeds then to understanding, and ends with reason. There is nothing higher than reason." In my energetic preoccupation

with analysing the national budget of our country-spanning more than two and a half decades—I have often tried to reason based on empirical evidence regarding the state of the economy, usually receiving little reasonable response in return. Thus, this time around, I have decided to fall back two steps (a la Kant) and explore whether appealing to our senses will generate a more productive communication.

Our five sense organs play an important role in our everyday life. They also build on one another to define our overall perception. While there is no unanimity of views about the hierarchy of our senses, SIGHT—our visual perception—is usually ranked the

So what would provide a visual perception of a national budget? To me, it is its fiscal framework, designed based on the government's incomes, expenditures and deficit. Although Bangladesh has maintained sustained macroeconomic stability over the last decade, it has systematically failed to collect tax and non-tax revenues in line with its economic growth momentum. The country's total revenue to GDP ratio remains one of the lowest in the world. Moreover, there is a noticeable slowdown in the collection of direct taxes, which is only a quarter of the total intake. Effective introduction of the new law on Value-Added Tax (VAT) will be, of course, an added



challenge in this regard.

Such a situation has highly limited the government's ability to finance its ambitious Annual Development Programme (ADP) with its own revenue surplus. Thankfully, implementation of the ADPs has remained routinely below the target, thereby keeping the budget deficit under control. The quality and delivery of the ADP project portfolio remains a matter of concern. Currently, spending on salary and allowances within the government's recurrent expenditures is growing faster than all other comparable

So how is the budget deficit being tackled? The government has regularly fallen back on domestic borrowing (largely by selling costly National Saving Certificates) and resorting to highly priced foreign loans (leaving the available overseas grants and concessional

loans unutilised). There are early signs of a debt build-up. It is, thus, visible that the fiscal framework is in a less-than-a-stout form to provide a strong hand to sustained high GDI growth. Let us see what credible measures will be proposed in the upcoming budget to strengthen the fiscal framework. The second sense I would like to apply

for understanding the upcoming budget is SOUND. Through sound, in this case, we perceive noise, not music. The loudest noise in the economy is coming from the banking sector and the capital market. Both the debt market and the equity market remain in a state of atrophy. This had been one of the prime reasons for the melancholy performance of the domestic private investment. The share of private investment in GDP has been stagnating for the last four years, and foreign direct investment has also

been lacklustre. Recent misplaced fiddling with the interest rate in the face of growing non-performing loans has failed to address the core problem of mal-governance in these areas. We would be keen to hear what policy measures the budget will offer, beyond certain traditional fiscal incentives, to put the banking sector and capital market back to business.

In contrast to the relative importance of sight and sound, there is less unanimity of views regarding the ordering of the remaining three senses, namely touch, taste and smell. Anyway, I take them up in the aforementioned sequence. The sector that would need a delicate

TOUCH in the upcoming budget is the external sector. In recent years, due to the high growth of imports, even the robust exports earnings and remittance flows are not being able to halt the slide in the balance-ofpayments deficit. The current account is in the red, while there are early signs of mounting debt burden. Stress on the foreign exchange reserve is also becoming visible. As a result, the exchange rate of national currency is under pressure and a downward adjustment is called for. However, out of concern over inflation, the government may opt for providing for fiscal incentives to the foreign exchange earners (exporters and remitters), in lieu of making Taka cheaper. The expression of the delicate touch would, thus, be expressed through the measures addressing the developing tensions on the balance of payments situation.

The TASTE of the upcoming budget will be assessed through what it proposes for the productive sector, particularly concerning the relatively voiceless, domestic market-oriented small and medium industries and services. Two sets of issues have gathered special importance this year. First, the unsustainable condition of the state-owned enterprises expressed through the miseries of the jute

sector. Will the budget offer any innovative programme in this regard, beyond further capital infusion? Second, the much-neglected agriculture, where the rice farmers are being deprived of their rightful market price. Here again, beyond the promises of larger and more effective procurement, will the budget think of any effective mechanism to reverse the terms of trade in favour of the farmers? Let us keep our palate clean.

The SMELL of the upcoming budget, whether sweet or foul, will be defined by its attempt to be inclusive, by trying to reach out to those "left behind", if not "pushed behind." Against the backdrop of the overall improvement in human development indicators, this concern is underpinned by the fall in employment growth, especially among the educated youth. Income and asset inequality is also rising along with sustained divergence in educational and health outcomes of the poorer population. Will the budgetary allocations for health break out from the paltry 1 percent of GDP mark and that of education from the 2 percent of GDP limit? One would also be keen to see progress in putting in place a universal social protection scheme.

The challenges currently afflicting the country's economy may make its smooth and sustainable transition towards a high middle-income country hazardous. Arguably, an annual budget, even if prepared with full five senses, will not be able to do the full trick. The issues emanating from our five senses clearly indicate that the country would need to embark on rigorous reforms breaking away from the influence of the entrenched beneficiaries of mal-governance. For that, we shall have to wait, as in a mystery movie, to see what "Sixth Sense" is demonstrated by the new finance minister in this regard.

Dr Debapriya Bhattacharya is Distinguished Fellow, Centre for Policy Dialogue (CPD).

BIMSTEC By Choice: The Road Ahead



BHATTACHARYA

Bangladesh President Abdul Hamid and leaders of six other BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) countries attended Indian

Prime Minister Narendra Modi's swearing-in ceremony in New Delhi, on May 30, it once again brought the focus back on a regional grouping whose geography ranges from the Himalayas to the Bay of Bengal. The Indian external affairs ministry may have termed the invite to the BIMSTEC leaders as being in sync with its "neighbourhood first" policy. But more importantly, it reiterated the powerful message that New Delhi is the fulcrum of the seven-nation grouping that acts as a bridge between South Asia and South East Asia.

The buzz about BIMSTEC was amplified by two more events that closely followed Modi's oath-taking. First, new External Affairs Minister S Jaishankar, in his first public engagement at the Growth Net Summit of public policy group Ananta Aspen Centre on June 6, talked about BIMSTEC as the centrepiece of New Delhi's "neighbourhood first" approach. Second, the very next day, he embarked on a trip to Bhutan, his first since becoming the minister. Third, Modi undertook his first official visit abroad by travelling to the Maldives and Sri Lanka. Bhutan and Sri Lanka are members of BIMSTEC.

This was the second gathering of BIMSTEC leaders in India in less than three years, the previous one having been organised in Goa in October 2016, a month after the cancellation of the SAARC Summit that was to be held in Pakistan in the wake of the terror attack on an Indian army camp in Uri, Jammu and Kashmir. The attack had left 19 troops dead. After Goa, the fourth BIMSTEC Summit was

held in Kathmandu in August 2018. There is one common signal running through the three events between Goa and Modi's oath-taking—that regional cooperation in South Asia and BIMSTEC, five of whose seven members make up the SAARC, is moving smoothly, albeit slowly, without Pakistan.

The Goa gathering of BIMSTEC leaders, including Prime Minister Sheikh Hasina, came just a month after the Uri attack by Pakistan-based terror group Jaish-e-Mohammed, leading to the cancellation of the SAARC Summit in Islamabad in November that year as India and some other member-countries, including Bangladesh, boycotted it. But the rumblings about the shape of things to come were available two years ago at the SAARC Summit in Kathmandu. In his speech at the Summit, Modi had said that "opportunities must be realised through the SAARC or outside it" and "among us all or among some of us." In short, he cautioned against the risk of the SAARC being felled by the obstructionist approach of Pakistan and the regional association falling by the wayside.

The Kathmandu Summit unanimously agreed on two key initiatives-motor vehicles agreement and cross-border trade in electricity. However, Pakistan played the spoilsport and refused to sign in. Even then, India had not given all hope. Modi himself undertook a significant outreach when he, on his return from a visit to Afghanistan in December 2015, made a surprise stop-over in Lahore to greet the then Pakistan Prime Minister Nawaz Sharif on his birthday. But in less than a year came the terror attacks on the Indian Air Force base in Pathankot and the Uri incident, which together hammered what now seems the final nail in the SAARC's coffin, prompting India to look for an alternative in the BIMSTEC and give it a big push.

A significant portion of Modi's "neighbourhood first" policy in his first five-year term as prime minister tended to come unstuck as Pakistan continued on its path of cross-border terror, India-



Indian Prime Minister Narendra Modi and other BIMSTEC leaders in a group photograph with the HODs of Ministerial delegations and senior officials, during the 4th BIMSTEC Summit, in Kathmandu, Nepal on August 31, 2018. PHOTO: PTI

Nepal ties came under strain over the issue of "economic blockade", and the Abdulla Yameen government in the Maldives took a pronounced anti-India stand.

India's stable relations with Bhutan and a remarkable upswing in its ties with Bangladesh and Afghanistan were the brightest spots in India's "neighbourhood first" narrative. Of course, ties with Nepal, too, were back on track in 2017-18. Barring Pakistan, India's relations with all other South Asian countries now look much brighter, spiced up by the exit of the Yameen regime and installation of the Mohamed Solih government in the Maldives, which, Indian media reports say, could be the destination for Modi's first foreign visit in his second term. The Maldives was the only South Asian country he had not visited in his first stint as PM.

By inviting the leaders of BIMSTEC to his swearing-in ceremony, Modi has increased

the stakes in the success of the future of the grouping, which had struggled to move forward in its 19-year-old history since its inception in 1997 till the Goa outreach summit in 2016. The BIMSTEC Summit in 2018 identified counter-terrorism, a development fund, connectivity, mountain economy and blue economy as thrust areas of cooperation, apart from a large range of 23 sectors already existing.

Some commentators have wondered if the present focus on BIMSTEC is by default due to the total deadlock in the SAARC process caused by the stalemate in India-Pakistan relations. They have also wondered if-and this is a very big "if"—there is a perceptible improvement in ties between New Delhi and Islamabad, does it mean that the SAARC would return as the more favoured vehicle for regional cooperation and the BIMSTEC would again fall into disuse? The two regional groupings are stand-alone entities. There is

space for both even though many of their areas of cooperation overlap.

The prospects of the SAARC appear doomed unless Pakistan changes its attitude towards regional projects. Progress in the South Asian Free Trade Area Agreement, cleared in 2006, has remained stunted due to Pakistan's reservations. BIMSTEC and SAARC should not be seen as in competition with but rather as complementary to each other. BIMSTEC has its own raison-d'etre. It should be a mechanism of regional cooperation by choice, irrespective of the existence or collapse of the SAARC.

India has to be the livewire of BIMSTEC and ensure the success of the grouping after an almost listless two decades of its existence in terms of tangible achievements. The entire template of ties and achievements among BIMSTEC countries has so far taken place at bilateral levels and there is hardly anything to show for at the regional level. This narrative has to change and the primary responsibility is on India. S Jaishankar hinted at this when he said that India should pursue a "liberal" policy for BIMSTEC cooperation by taking steps to help other member-countries without insisting on reciprocity.

Constantino Xavier, a fellow at the Brookings India think-tank based in New Delhi, writing in an article, identifies two key ingredients of India's approach to BIMSTEC: 1) to expand its capacity to implement the projects jointly agreed on, and 2) to open up its economy to other member-countries. BIMSTEC countries are willing to plug into the rising Indian economy and derive benefits from it but have run into tariff and non-tariff barriers and a slow bureaucracy of India. Allowing greater market access to other BIMSTEC countries will no doubt hurt Indian domestic industries in certain areas, but the challenge for the Indian leadership is to resist that pressure, manage domestic grievances, and stay the course on opening its economy to neighbouring countries.

Pallab Bhattacharya is a special correspondent for The Daily Star.

ON THIS DAY **IN HISTORY**



APPLE LAUNCHES ITS FIRST APPLE II COMPUTERS

Developed and introduced by

founders Steve Jobs and Steve Wozniak, the Apple II computer was the first ever personal computer for a consumer market by tech giant Apple. They gained instant financial success and the company went public in 1980. Apple is today the world's largest technology company by revenue.

CROSSWORD BY THOMAS JOSEPH

ACROSS 1 Hunters' guns 7 Follow the rules 11 Inane behavior 12 Refer to 13 Medusa, for one 14 Dash 15 Available for emergencies 17 Barbecue treat 20 Perch

31 Quick bite

32 Put away

33 A very long time

23 Be in the red 24 Adjective for the 1950s 26 Campaign pro 27 Commotion 28 Writer Tarbell 29 Pep up

34 Useful gizmo 37 Sacred bird of Egypt 39 Kitchen comeons 43 Walking aid

me!" 44 Target at a party 19 Reacting in rage 45 Quiche base 21 The Beatles' 46 Like ranked "Sexy—" players 22 Golf bunkers DOWN 1 Equip 2 Groom's answer

3 Needle source 4 Company symbols 5 Bus. sch. course 6 Agreeement 7 Spotted cat 8 Swelling 9 Seventh Greek

letter

24 Like most roads 25 Pindar work 30 Van Gogh work 33 Make amends 35 Openings 36 Great Lakes port 37 Sparklers 38 Chips buy 40 Fuming 41 Chowed down 42 Blue

10 Longing

border

16 Fiery crime

17 Boxing ring

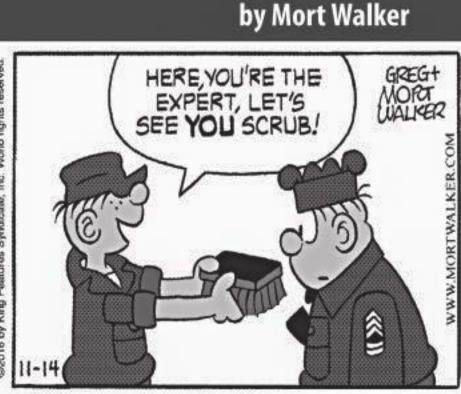
18 "You can't make

WRITE FOR US. SEND US YOUR OPINION PIECES TO dsopinion@gmail.com.

YES	TERI	DAY'	SAI	NSW	ER:	S				
В	R	Α	S	S		F	L	0	R	Α
R	Α	D	1	1		L	Α	Т	1	Ν
1	С	Α	N	T	R	E	S	1	S	Т
G	E	M		S		X		S	E	E
			С	U	В	E	S		0. 0	
S	Α	W	U	Р		D	0	Р	E	S
Α	T	0	Р				F	1	V	E
D	E	Ν	1	M		L	Α	Т	E	X
			D	Α	K	Α	R			
M	1	D		L	-	Т		В	1	T
Y	0	U	С	Α	Ν	T	L	0	S	E
T	W	E	E	D		E	Α	R	L	S
Н	Α	L	E	Y		S	W	E	Е	Т

BEETLE BAILEY





by Kirkman & Scott

