

50 YEARS OF BANGLADESH

The path to development is riddled with challenges



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As we continue to celebrate 50 years of Bangladesh's independence, there is a need for an elaborate discussion about the development challenges we are about to face in the days to come. Bangladesh's development challenges are associated with its larger development goals. The country aims to become an upper-middle income country by 2031 and a high-income one by 2041. Also, there are stiff development targets to be achieved by 2030 under the UN's Sustainable Development Goals (SDGs).

If we look back at the past 50 years, Bangladesh has achieved huge progress after coming out of a devastating war in 1971. The country made a significant improvement in per capita GDP from a small base in 1971. Its economic growth performance over the last three decades has been particularly impressive. Bangladesh graduated from the low-income category (as per the classification of World Bank) to the lower-middle-income category in 2015, and is set to graduate from the Least Developed Country (LDC) category by 2026. The remarkable success achieved in RMG production and exports has made the country the second-largest RMG exporter in the world.

There have also been notable improvements in some social indicators. Both maternal and child mortality rates have declined substantially, while life expectancy at birth has increased dramatically. The country achieved universal gross enrolment in primary education. Also, there has been some notable progress in gender parity and women's empowerment. However, given its weak performance in terms of formal institutional capabilities (both economic and political), Bangladesh's achievements so far have prompted many to argue whether Bangladesh was an outlier in the development experience. Some recent political economy analyses, however, indicate that while Bangladesh did act like an outlier in terms of progress in some social indicators, things were different in case of its economic performance.

From the past experiences of development in Bangladesh, we can highlight four areas/lessons that will have an important bearing on the future: (i) the supremacy of pockets of functional informal institutions over weak formal institutions; (ii) the supremacy of a "deals environment" over a coordinated industrial policy; (iii) the challenges of effective regulation; and (iv) the challenges of state capacity.

Against an overall distressing picture of the formal institutions, Bangladesh has been successful in creating some pockets of functional informal institutions. Examples of such pockets include the well-functioning privileges and special arrangements made for the RMG sector, promotion of labour exports, agricultural research and development related to food security, and microfinance. The fundamental question, however, remains whether

Bangladesh will be able to achieve its larger development goals with the weaker formal institutions.

Informal institutions can have two distinct roles in various stages of development. If a country can steer informal institutions to make them growth-enhancing at an early stage of development, it can achieve strong economic growth and also some

A recent political economy analysis suggests that this "deals environment", rather than any coordinated industrial policy, has been a major feature of Bangladesh's development process. Such an environment is discriminatory and does not allow diversification of the economy. Though the "deals" involving RMG exports resulted in positive outcomes, many other sectors remained

in the banking sector or ad-hoc use of Statutory Regulatory Orders (SROs) in taxation and their misallocation, social damage and lost lives in Rana Plaza-like accidents, and rising inequality, with the culture of violating rules disproportionately benefitting the wealthy and harming the poor.

The economic costs of these violations of rules may be significant, despite how



improvements in the social sector. However, for the transition from a lower stage of development to a higher stage, whether the country can maintain a high growth rate and achieve further development goals depends on the dynamics of how informal institutions evolve and whether formal institutions become stronger and functional. Not many developing countries have been able to make this transition. Certainly, East Asian and most Southeast Asian countries are success stories in terms of using informal institutions efficiently at an early stage of development, as well as achieving some notable successes in the transition to functional formal institutions. Bangladesh's progress in developing formal institutions over the years has, unfortunately, remained weak, and this will certainly act as a binding constraint to its development process in the days to come.

Under the "deals environment" mentioned above, its industrial or—more broadly—development strategies, as well as significant investment or resource allocation choices, are frequently an outcome of agreements or "deals" made between the political and business elites. These arrangements are for specific activities or programmes that are decided on an ad hoc basis, rather than following a well-defined overall strategy.

Now that Bangladesh has reached the mature age of fifty, one expects a serious undertaking guided by well-thought-out plans to get rid of its development challenges.

PHOTO: STAR

Effective regulatory reforms in critical economic domains like the financial and taxation sectors will be extremely important in the coming days.

excluded and have not benefitted from the "deals environment".

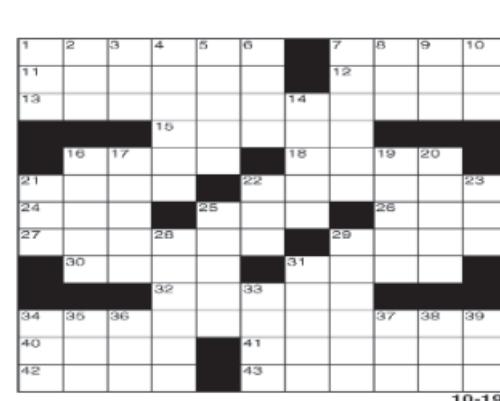
Bangladesh needs to pursue a coordinated industrial policy that is inextricably linked to the government's other policy instruments, such as the macroeconomic policy (e.g. the real exchange rate), public infrastructure, and SEZ management. Transparency and accountability regarding the implications of these policies for industrial development are also hugely important. There is a need to make a substantial improvement in the general business climate too.

The challenge that the government faces in regulating certain key activities to achieve more efficiency and equity in the economy is referred to as the "problem of effective regulation". In some cases, the legal framework for such regulation is an issue, which may be antiquated or otherwise inadequate for the goals pursued, and in which reform attempts have continually failed. In other cases, a framework may exist but there is simply not enough capacity to put it into action. The banking system's weaknesses, the difficulties to ensure ideal labour conditions in a crucial sector like RMG, or the poor performance of taxation are some of the examples of the latter case. The result is a waste of resources, such as excessive non-performing loans

difficult it is to assess them. Effective regulatory reforms in critical economic domains like the financial and taxation sectors will be extremely important in the coming days.

The challenges of state capacity are manifested in a variety of ways in which Bangladesh has to make a substantial improvement to achieve its larger development goals. Some of these challenges are obvious, such as a lack of public resources (e.g. low level of domestic resource mobilisation through taxation), resulting in limited provisions and low quality of public goods (e.g. very low level of public spending on health, education and social protection), a lack of public service capabilities, or lack of efficiency in the administrative structure. Other challenges are less obvious, such as corruption in most administrative clusters, which makes public service delivery inefficient and inequitable, cuts revenues, and discourages economic projects. The capacity of the state to implement its mega projects in a cost-effective and timely manner also remains a big challenge.

Now that Bangladesh has reached the mature age of fifty, one expects a serious undertaking based on lessons learnt from the past and guided by well-thought-out plans to get rid of these challenges.



YESTERDAY'S ANSWERS



BEETLE BAILEY



BABY BLUES



QUOTABLE Quote



ALICE WALKER

American author (born February 9, 1944)

The most common way people give up their power is by thinking they don't have any.

CROSSWORD BY THOMAS JOSEPH

ACROSS

- 1 Taunts
- 2 Chess win
- 11 "1984" author
- 12 Sleep like—
- 13 Bromantic activity
- 15 Outlet output
- 16 Hearty dish
- 18 Look upon
- 21 Abacus piece
- 22 Pigeon perches
- 24 Phone download
- 25 For each
- 26 "Norma—"
- 27 The Cisco Kid's horse
- 29 Sassy
- 30 Tibet setting
- 31 D.C. team, for short
- 32 Harp's ancestors
- 34 Post office activity
- 35 Cobbler's tool
- 36 Lethargic
- 37 Spain's capital
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