

A 'blended regime' drives economic, political crises



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Bangladesh is now in the depths of both economic and political crises. The economic crisis is manifested in macroeconomic instability, specifically the prolonged high inflationary pressure, fast depleting foreign currency reserves, low tax revenue generation, vulnerability of the banking sector, unstable performance of exports, low remittance inflow through formal channels, high degrees of capital flight, and widespread institutional failures. Some of these problems are long-standing, while others have come up only recently.

The political crisis is stemming from the acute uncertainties and associated complexities of the upcoming general election as the main opposition party on the streets, BNP, is demanding an election under a neutral, interim government and is set to boycott the forthcoming election if its demand is unmet. There are allegations that the past two elections under the current government were broadly imperfect, with minimal voter participation.

The problem is deeply rooted in our political history. The political agreement over the neutral caretaker government issue was broken after the election in 2008. This was a result of broad partisan mistrust of the caretaker government system, perhaps seeing that the apparent "neutrality" of the caretaker government worked heavily against the incumbent regime, especially since, in all cases of general elections held under the caretaker government, the incumbent party lost. Also, the deep-rooted animosity between AL and BNP, which has grown over time, fuelled the decision to abolish the caretaker system. Among many other events that invigorated this animosity, a decisive one was the August 2004 grenade attack on the then opposition party AL, with a strong allegation being that the heinous attack was sponsored by the then incumbent BNP government. Since then, the strategy of both political parties has been "supprimer l'autre" or to "suppress the other."

On the economic front,

the right policies and actions at the right time. The problem lies in the nature of the "blended regime" in Bangladesh, which is associated with weak state capacity, a weak regulatory environment, state capture by a segment of business sector elites, and the dominance of cronies.

What is a "blended regime"? Most developing countries are characterised by blended regimes of different degrees. A blended regime can consist of a blend of two contrasting aspects of the political economy of development—the "developmental state" on the one side, and the dominance of cronies and a high level of rent-seeking activities on the other side. The elements of a blended regime's developmental state include the use of the state to promote economic and social development, efforts to reduce poverty, enhancing growth drivers to generate sustained economic growth, developing notable physical infrastructure, and expanding social services for the poor.

On the flipside of a blended regime, we see the dominance of cronies and a high degree of rent-seeking activities. At the heart of the blended regime is the alliance of the actors who support this regime. Effective management of rent generation through developmental activities and the distribution of rent among the actors in this alliance are what ensure the stability of the blended regime. Developmental activities provide economic legitimacy to the regime, whereas points of political legitimacy for the blended regime can vary depending on country-specific contexts. Interestingly, while cronies and rent-seekers block attempts at making necessary reforms to effectively move towards being a developmental state, their anti-development activities are often covered up with the successful delivery of a handful of development projects.

In Bangladesh, the actors in the blended regime are powerful political and business elites, and other apparatuses of the state machinery. There has been a broad consensus among these actors regarding major

policymaking.

As a result, even when policies for reforms are adopted, they mostly remain limited to paper, and the government fails to implement them. The failure to carry out critical economic and institutional reforms on time due to policy paralysis can result in a high cost to the economy and to society. In Bangladesh, the manifestation of the anti-reform coalition and resultant policy paralysis can be seen in the banking sector, taxation sector, in exchange rate management, health and education sectors, export diversification, control of corruption, legal system, and more.

The period succeeding the 2024 general election is going to be a crucial one for Bangladesh. While a credible and participatory election is necessary to confront the political and economic crises, the need to undertake reforms in critical economic and institutional domains is felt more strongly than ever.

In the banking sector, separate authority of the central bank and the finance ministry over private and public banks, respectively, needs to be abolished. The central bank should be given full and independent authority to oversee and regulate the overall banking sector in Bangladesh. The central bank should be run by professionals who will undertake and implement monetary policies, exchange rate policies, and foreign reserve management policies without being under any political influence. The banking sector laws need to be reformed to diminish the influence of cronies in private banks. Also, stern action needs to be taken against major loan defaulters. The legal system for the banking sector must be modernised if authorities are to take effective actions against the corrupt.

In the taxation sector, the aim of a reform should be to reduce corruption and increase transparency and accountability. The National Board of Revenue's policy formulation and implementation need to be separated into two functions. Policies and laws need to be reformed with the aim of reducing pervasive tax evasion and tax exemption.

There is no denying that maintaining or accelerating growth calls for diversifying the export basket. In Bangladesh, this would require an explicit, transparent, and accountable industrial policy with effective support measures provided to non RMG sectors. As for the RMG sector, the labour rights and working condition issues therein need to be



Almost 30 years into the COP, we've found fresh dilemmas, but not enough action.

PHOTO: REUTERS

What's the point of COP28?



Kazi Amdadul Hoque is the senior director and head of Climate Action at Friendship, a social purpose organisation.

KAZI AMDADUL HOQUE

Last year at COP27, there was a phrase going around: "You broke it, so you fix it." At COP28 this year, we're here to ensure this happens. As delighted as I was last year that a fund was announced, the actual implementation process is yet to be defined. This year, attendees are looking forward to knowing more regarding "global stocktaking," and it is past high time to do so. We have our eyes on the countries that are being affected the most by the climate crisis, and the countries that are contributing the most to it. However, it seems that we are caught in an ideological fight, going back and forth between questions of historical responsibility and national response.

We don't have the time anymore, and we, as the climate action community, are tired of saying this ad nauseam. Compensation is still non-existent, and contributions are being "greenwashed" through existing projects and commitments, thereby not actually creating any new funds and having no net effect. This will not do. Almost 30 years into the COP, we've found fresh dilemmas, but not enough action. We witnessed how the terminology shifted from phase-out to phase down last year, and now the support for fuel industries has been doubled. According to the International Monetary Fund, globally, fossil fuel subsidies were \$7 trillion in 2022, reflecting a \$2 trillion increase since 2020 due to government support and surging energy prices because of multiple wars across the world.

The climate justice alliance calls for a review of this consensus-based systemic barrier to reaching and ensuring timely decisions, which are a must during this climate breakdown. When parties remember their bilateral and multilateral agreements and their agendas follow the lowest-common denominator strategy, it often compels them to agree to decisions while sacrificing their own priorities. Without naming

names, everything that is discussed days prior gets vetoed and is turned to naught. COP, then, almost three decades in, has become a dispute between environmental science and economic and political agendas.

The OECD reported recently that climate finance by developed countries reached \$89.6 billion in 2021. The report also indicated that the accumulated sum is likely to have exceeded the \$100 billion goal in 2022. However, by 2022, two years after the 2020 deadline set at COP15 to hand over the funds, none of it had been disbursed.

There is also a growing concern about the quality of finance and transparency related to the delivery and utilisation of climate funds. If I refer only to Bangladesh, in the National Adaptation Plan, developed in 2022, an appraisal of the cost of the 113 interventions (including 90 high-priority and 23 moderate priority ones) amounted to an investment equivalent to \$230 billion for 27 years (2023-2050), an implementation period that runs until the 13th Five Year Plan cycle of Bangladesh. But we are yet to see if anything has or will come of this.

Political and economic agendas do not exist on a separate plain from climate concerns. The environment—the very planet we live on, the air we breathe, the water we drink—cannot be one item in a list of things to get around to fixing. Saving our environment has to be the overarching default; the mainstream. We cannot go from one COP to another as if each iteration was a figment of our imagination, starting afresh every time.

At COP28 this year, I am hoping, perhaps despite myself, for a discussion that will be more honest, open, self-reflective, and (most importantly) action-oriented. I believe the global stock-taking report from this year's COP, alongside the Intergovernmental Panel on Climate Change's Sixth Assessment

Report will convince political leaders to refresh their commitment to be coherent and transparent in order to be accountable to the next generation.

Even with a keen eye on negotiations, I understand how much harder it is to do than it is to say. That table is an immense bottleneck, and always has been, but we cannot simply state something and wave it away for another time. There is no other time than now.

This is precisely why policy and action have to go beyond governments, which likely will not, and sometimes cannot, act alone without support from private organisations, civil societies, and even UN bodies. Without involving these non-state actors, we are using only a fraction of the resources available to us.

Alongside this, we have to ensure that funding channels are free of red tape and complexity. Convoluted protocols and procedures in banking and financial sectors are an unnecessary clot that is stalling the process.

Solutions for socio-economic problems already exist. Interventions for every demographic—minorities, women, children, the handicapped, and the socioeconomically marginalised—do not exist in a vacuum. They are all interconnected, and the solutions, therefore, have to be integrated, robust, and holistic. Climate change has to weave through and be a part of every other solution—and not be a peripheral concern. All the provisions need to be adapted to account and adjust for the environment, in order to not be a wasted effort. Given how human rights are silently impacted due to climate change consequences in many parts of the world, we need to revisit the Universal Declaration of Human Rights and other global commitments to ensure the required modification for a just world.

Moreover, the climate adaptation and mitigation solutions that do exist are often neglected in the search for a bigger, "better" solution. We cannot wait for big solutions when locally-led interventions can do more with less—more effectively and faster. The crisis plaguing our climate, unlike a nation's political, social, economic, or logistical crisis, is a universal one. None of us are alone in this, and have to act together. No blame, no claim. Let's take responsibility.



VISUAL: SALMAN SAKIB SHAHRYAR

Bangladesh managed to demonstrate notable success in the past despite severe weaknesses in economic, legal, and political institutions. This phenomenon has been termed as "the Bangladesh paradox," wherein success was achieved against the overall distressing state of institutional quality. I have previously argued that this was only possible as the country was successful in creating some "growth-enhancing pockets" of informal institutions that cater to the needs of major growth drivers—namely ready-made garment (RMG) exports and remittance inflow from Bangladeshi migrant workers abroad. While the settlement of political issues—especially those related to the modalities of holding elections—was broken, the settlement among elites over these two growth drivers remained intact.

So, why do we now have such crises? These are an inevitable outcome of the past, of receiving high dividends from the growth-enhancing pockets of informal institutions, which created an inflated comfort zone and did nothing to improve the quality of our formal institutions. As a result, when dividends from the existing growth drivers started drying up and the economy started facing a new set of challenges, there was a failure to undertake and implement

economic policies and political agendas, and on the generation, distribution, and management of rent from critical economic domains (such as the RMG sector, the power sector, domestic protected sectors, and from megaprojects). One important outcome of having a blended regime in Bangladesh has been that such rent-seeking activities and the dominance of cronies—despite notable achievements in some developmental activities—have led to an "anti-reform coalition" to prop up from among the powerful actors of this regime. As a result, long sought reforms in critical economic and institutional domains remained unaccomplished. Anti-reform coalitions, cronyism, and rent-seeking activities also seem present in the circles of major political and business elites outside of power.

The aforementioned anti-reform coalition in the blended regime has also led to policy paralysis in Bangladesh, which can be described as a situation where critically important laws and reforms are not undertaken or—even if they are undertaken—not implemented due to a lack of commitment from the government or inability of the country's political and economic elites to reach a consensus regarding the reforms. This is also reflected in the indecisiveness of the government in many areas of public

addressed properly.

In public finance management, improving the state's administrative and regulatory capacity with greater transparency and accountability can reduce rent-seeking opportunities. Simplifying laws and administrative procedures, and eliminating responsibility overlaps, will enhance the quality of the implementation of development projects of all scales and timelines.

To note, a few new dimensions have been added to the ongoing political and economic crises because of changes in geopolitical dynamics. Bangladesh, being a smaller developing country, needs to maintain reasonably good relations with major global players for the good of its future development process. Unwanted external pressure due to any major deviations from reasonably good relations may deepen our prevailing political and economic crises.

In order to address the crisis of Bangladesh's blended regime, there is a need to break the anti-reform coalition and fix policy paralysis. After the upcoming national election, the prospect of launching important reforms will depend on whether or not a strong political leadership can mobilise support for reform among actors of the power coalition.

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