

Where are we heading?



ZAHID HUSSAIN

The deliberations since August 5, 2024, appear converging towards prioritising political reforms as preparation for a fair election. Reforms in political behaviour are needed to build guardrails against the return of electoral autocracy.

By bringing down a despotic leviathan, the Anti-discrimination Student Movement (ASM) has earned the moral authority to be spokespersons for the whole nation. The despot is gone but the leviathan is around. The new dynamic is uncharted territory. Never before since independence has such a young and united force been so attention grabbing in the theatre of political power where the actors walk with God and dance with devils.

Student power made the difference. Political institutions have different consequences for different groups and individuals. The conflict over these social choices is resolved in favour of groups with greater political power. This is the reality in which the students have emerged as a force seeking change. The transition to a democratic political order will hinge on the role of this new countervailing force in reforming the political institutions. The ASM cannot be wished away.

The novelty of Bangladesh 2.0 is this student power. The ASM has captured de facto political power at the cost of lives, blood and sweat. Can they change political institutions without de jure political power in the future?

Powerful elites evaluate every potential change not only according to its economic consequences, such as growth and income distribution, but also according to its political consequences

We will not know unless we try. We know for sure that the old political model of de jure political power did not deliver. The question is not whether students should have de jure political power in the future. The question is what kind of power they want to have and how their expectations can be embodied in the efforts towards building a democratic and inclusive society. It is patently unwise to assume they don't know what they want and why.

Development is correlated with political institutions empowering groups with interests in broad-based property rights enforcement and effective constraints on state institutions and rent seeking by powerholders. There is sufficient uncertainty about the right economic institutions to make well-meaning political actors differ about what is good for their own people.

The July 2024 revolution in Bangladesh proved the conventional political elites wrong. They implemented policies which can now be loudly pronounced as bad for society at large. Fascist practices rose in many forms and persisted as a consequence of despotic choices. The incumbent political elite missed the

repressed public dissatisfaction from being in a rule by the rulers' law, no freedom trap morphing into a ticking time bomb. They did not need a Donald Trump to say, "you are fired!"

Resetting the rules of the game. The political powers to reckon with currently are the students, the army, politicians, civil society, media, and the business community. They will have to devise a social contract consistent with the ethos that inspired the July revolution. Conspiracy theories notwithstanding, the international partners are no more than cheer leaders as they were when the

forces, army, and also the imams and leaders from other religions. They built a basis for mutually advantageous exchange between the private sector and the state. They rigged the legal system to align societal behaviour with the interests of the ruling oligarchy.

Smelling the coffee. The difficulty of persuading dictators to leave power is glaringly palpable in the videos on the departure of Sheikh Hasina on August 5, 2024. Students got it done through a popular uprising. They have broken the monopoly of political power. What now?

an episode in which de facto power is deconcentrated from conventional political centres. Those with greater resources have lost command over their legitimate and intimate means. A couple of them were in a cage the other day. Since de facto power is intrinsically transitory and difficult to wield all the time, reforms in political institutions are crucial for creating making political power durably public goods friendly. We have a historic opportunity to let the newly emerged student power to orient political power in favour of democratic norms and practices, present and future.



Anti-government protestors gather at the parliament house in Dhaka on August 5.

PHOTO: AFP

electoral autocracy was riding high. There is an array of social contracts enforced by an oversight authority with the power to enforce the chosen contract. Such power emanates from the state by virtue of its de jure monopoly on the use of legitimate coercion. Unfortunately, there is no market equivalent to an oversight party such as courts that can enforce contracts in politics if the political players do not cooperate.

Consider a dictatorship. Promises by a dictator to obey the rules of democracy without relinquishing power are not credible as long as the political system remains a dictatorship. There is no higher authority to make the dictator stick to her promise. A similar problem plagues the reverse solution, whereby an existing dictator agrees to a voluntary transition to democracy in return for safe exit and solvency after relinquishing power. Those benefitting from a transition to democracy would be willing to make such promises. But once the dictator relinquishes political power, there is no guarantee that the promise will be honoured. Again, there is no higher authority guaranteeing enforcement.

Promising rule of law and delivering the law of the rulers elected through fair and, on past three occasions, rigged elections is the Bangladeshi illustration of what institutional economists call the commitment problem. Incumbents renege on their commitment to democratic practices by taking absolute control of the government machinery, legislature, judiciary, police, paramilitary

The old political power may have retreated temporarily, but there will be pushbacks to the incursions of student power in the annals of the elitist hierarchy. Powerful elites evaluate every potential change not only according to its economic consequences, such as growth and income distribution, but also according to its political consequences. Any change eroding the elites' political power reduces their privileges evoking both defensive and offensive responses.

In this context, the problems of political losers are much more important than problems of economic losers. Economic losers need political power to block changes harmful to their interests. You may wonder if they have the political power to block change, why wouldn't they allow the change to take place and then use their power to redistribute the gains to themselves? The answer is simple. Groups losing economically experience a reduction in their political power, making it impossible for them to redistribute the gains to themselves after the change. So, they resist overtly or covertly.

Even faced with severe underinvestment, elites in Bangladesh were reluctant to give away their power because it would reduce their ability to extract rents from the rest of society. Constraining their power would have increased the security of property and incentives to invest, but it risked undermining the ability of rulers to extract privileges. They did not mind having a larger slice of a small pie as long as their slice did not shrink.

Thanks to students, we are living

How do you play fair in a game in which there is no umpire? How do we find a new political settlement? Can all stakeholders agree on enforcement mechanisms to ensure political fair play now and in the future? Self-enforcing agreements require the participants to be sufficiently patient. In politics, patience is inversely related to the depth of uncertainty in the future.

Let us not miss this time! Nobel laureate Douglas North observed in his book *Structure and Change in Economic History*: "While we observe people disobeying the rules of a society when the benefit exceeds the costs, we also observe them obeying the rules when an individualistic calculus would have them do otherwise." What better illustration of the sagacity of this observation than the students of Bangladesh!

They managed traffic, cleaned public places, repaired damaged public assets, provided security and much more. It goes to show how people's beliefs in doing the right things galvanise social mobilisation, thus entertaining daydreams about changing the game.

The daydream comprises of norms, anchored in personal morality, fostering the trust necessary for political institutions and markets to function well. Norms broke down under the previous regime. The ruling coteries felt they had the licence to grab anything they can grab at the expense of others. Cheating in economic and social life spread like a virus.

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Banking sector reform: where and how?

MAMUN RASHID

We have been talking about banking sector reforms since long as our banking sector is plagued with insider lending, bad loans, low capitalisation and risk coverage, weak governance, sub-optimal automation, a lack of expert manpower and non-availability of better products to serve the emerging clients and cater their shifting demands.

Since the fall of the last regime, there have been several chaotic incidents in the banking sector—from the resignation of Bangladesh Bank (BB) governor and other top officials to the conflicts between rival groups at various banks, including Islami Bank—which send out an alarming signal.

These incidents are nothing but an indication about how quickly a sector, long lying on the edge of the precipice, can unravel when push comes to shove.

The leading vernacular daily the Prothom Alo and many other media as well as civil society forum, including expert groups from the development partners, at frequent intervals shed light on what led to the dismal state of this sector.

They talked about the BB's questionable steps taken during the erstwhile government to keep several almost failing banks afloat by providing liquidity support without collateral; alleged unethical connections of the BB governor and deputy governors with top loan defaulters; and the change of ownership forced on several banks even at the late hours including the Islami Bank, creating an environment of mistrust.

Moreover, the BB's choice of lending foreign currency loans from the reserve to various influential businesses through the Export Development Fund (EDF), without proper evaluation, also resulted in many classified loans.

I can't believe 20 local businesses currently owe BB about \$70 million taken out of the foreign currency reserve.

The default loan amount of Tk 1.822 trillion itself is also under scrutiny. Experts estimate that the actual figure would be close to Tk 4 trillion if not more, considering rescheduled and bad/written-off loans and those currently under legal dispute as well as with doubtful security and collateral backing.

Meanwhile, depositors of the known to be weak banks, many of which were forced to change ownership, having tough time to withdraw their savings. Yet, the owners of the banks are taking out loans under different names.

While some of these irregularities were mentioned in the BB's own reports, several central bank officials alleged that many such activities have remained out of BB's and Bangladesh Financial Intelligence Unit's regulatory radar. This raises serious questions about the responsibility and ethics of top officials of not just the central bank but also the governing bodies of several private and public commercial banks.

There is no doubt that political appointments in the banking sector, incorrect or manipulative accounting practices, nepotism, weak due diligence and the lack of transparency in the lending process brought the sector to its current state.

New Governor has been appointed with good visibility re: the destination. Few deputy governors are also being reportedly recruited. Finance adviser himself is a former governor. Once they settle down well in their new roles, it is therefore, imperative that the interim government urgently launches an investigation to find out the actual amount of default loans, identify and bring to book the big defaulters along with officials who aided these questionable borrowings.

Like many other similar countries, the government must prioritise depositors' interests and prevent any further withdrawal of money by the unholy nexus or individuals close to the big offices, borrowers, and defaulters that are bleeding the sector dry.

Use of the political clout through sub-servient or susceptible to pressure officials must stop.

Though we must allow the government to clean the dust on the carpet first, an attempt to run a deep-dive and well-thought banking sector reform in keeping with ever-evolving market scenario and globalisation warrants should also start soon. Otherwise, we can't make our banking sector inclusive and on the similar pace with other competing countries.

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China, Saudi Arabia top buyers of Russian fuel oil

REUTERS, Moscow

China and Saudi Arabia were the top destinations for Russian seaborne fuel oil and vacuum gasoil (VGO) exports in July, traders said and LSEG data showed on Friday.

Russian fuel oil and VGO seaborne exports last month rose 7 percent from June to about 4.05 million metric tons, helped by completion of seasonal maintenance on Russian refineries.

Russia's offline primary oil refining capacity for July at 2.5 million tons was below June's level by some 44 percent, according to Reuters calculations based on data from industry sources.

Since the European Union's full embargo on Russian oil products went into effect in February 2023, countries in Asia have been the main destination for Russia's fuel oil and VGO supplies. In July direct fuel oil and VGO shipments from Russian ports to China rose by 18 percent month-on-month to 0.7 million tons.

China imports straight-run fuel oil and VGO for refining feedstock, pooling it with Urals crude oil, according to market sources.

Loadings to Saudi Arabia almost doubled from June to 0.7 million tons, mostly destined for power generation plants during the hot summer season when power consumption is peaking, Reuters calculations and LSEG data show.

Russian fuel oil and VGO supplies to India decreased 7 percent in July to 0.48 million tons, while "dirty" oil product shipments to Fujairah rose to 320,000 tons from 200,000 tons, and to Turkey to 264,000 tons from 95,500 tons.

China youth unemployment jumped to 17.1% in July

AFP, Beijing

Youth unemployment in China ticked up to 17.1 percent in July, official figures showed, the highest level this year as the world's second-largest economy faces mounting headwinds.

China is battling soaring joblessness among young people, a heavily indebted property sector and intensifying trade issues with the West.

Chinese Premier Li Qiang, who is responsible for economic policy, on Friday called for struggling companies to be "heard" and "their difficulties truly addressed", according to the state news agency Xinhua.

The unemployment rate among 16- to 24-year-olds released Friday by the National Bureau of Statistics (NBS) was up markedly from June's 13.2 percent.

The closely watched metric peaked at 21.3 percent in June of 2023, before authorities suspended publication of the figures and later changed their methodology to exclude students.

Nearly 12 million students graduated from Chinese universities this June, heightening competition in an already tough job market and likely explaining

July's sharp increase in joblessness.

In May, President Xi Jinping said countering youth unemployment must be regarded as a "top priority".

Among 25- to 29-year-olds, the unemployment rate stood at 6.5 percent for July, up from the previous month's 6.4 percent.

For the workforce as a whole, the unemployment rate was 5.2 percent.

However, the NBS figures paint an incomplete picture of China's overall employment situation, as they take only urban areas into account.

The new unemployment figures come on the heels of other disappointing economic data from Beijing, including figures showing dampened industrial production, despite recent government measures aimed at boosting growth.

Industrial production growth weakened in July, with the month's 5.1 percent expansion down from June's 5.3 percent and falling short of analyst predictions.

China's major cities also recorded another decline in real estate prices last month, a sign of sluggish demand.

Demand for bank loans also contracted for the first time in nearly 20 years, according to official figures published earlier this week.

International challenges are also mounting, with the European Union and the United States increasingly imposing trade barriers to protect their markets from low-cost Chinese products and perceived unfair competition.



People are seen attending a job fair in Beijing, China. Nearly 12 million students graduated from Chinese universities this June, heightening competition in an already tough job market.

PHOTO: AFP/FILE