

Economic Transformation and Social Development in Bangladesh

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Bangladesh embarked on structural adjustment towards the mid-1980s and in the following decade, its economic performance notably improved. To consolidate this progress on economic and social fronts, Bangladesh needs to strengthen its institutions of economic and political governance. The following collection of 12 papers sheds light on some important aspects of the economic transformation and social development-taking place in Bangladesh

Bangladesh faces the enormous challenge of achieving accelerated economic growth and alleviating the massive poverty that afflicts nearly 40 to 50 per cent of its 135 million people. Strategies for meeting this challenge have included a shift away from state-bureaucratic controls and industrial autarky towards economic liberalization and integration with the global economy, on the one hand, and building human capital and empowering the poor, on the other. Policies of substantial budgetary allocations for health and education (admittedly within a small total resource base) were also combined with institutional innovations and public-private partnership to venture to develop a human capital base from the very poor initial conditions.

Bangladesh embarked on market-oriented liberalizing policy reforms, known as structural adjustment, towards the mid-1980s. These reforms were initiated against the backdrop of serious macroeconomic imbalances, which had been caused in part by a decline in foreign aid and in part by a preceding episode of severe deterioration in the country's terms of trade. The beginning of the 1990s saw the launching of a more comprehensive reform programme, which coincided with a transition to parliamentary democracy from semi-autocratic rule.

During the 1990s, Bangladesh notably improved both its economic performance and its human development indicators. Even with a significantly reduced and declining dependence on foreign aid, the economy appeared to begin a transition from stabilization to growth. The growth of GDP had been relatively slow in the 1980s by the standard of the contemporary south Asia, at about 3.7 per cent a year; but it accelerated to 4.4 per cent in the first half of the 1990s, and to 5.2 per cent in the second half. The acceleration in per capita income was more marked because of the slowdown in population growth from an average of 2.4 percent per annum to 1.5 percent between the two decades.

Progress in the human development indicators was even more impressive, and Bangladesh ranked among the top performers in the 1990s in the extent of improvement in the UNDP Human Development Index.

Bangladesh is to consolidate its development gains and make further progress in poverty alleviation and social development.

Today there are signs, however, that unless institutional reforms are carried out on an urgent basis, not only will further progress be jeopardized but even the sustainability of the past achievements may be at stake. Institutional reforms, which have

lagged behind economic policy reforms, are needed to address a whole range of factors adversely affecting investment incentives and production efficiency. There is a growing concern regarding how far the economic growth momentum can withstand a 'weakening' of the institutions of economic and political governance. The prevailing confrontational politics is not only hindering democratic consolidation, it also carries the risk of causing serious economic disruption. The governance gap may adversely affect the substantial gains attained in the social sectors as well. Here again, there are new challenges in sustaining the progress, particularly in respect of meeting the increased resource needs and for improving the quality of service delivery mechanism.

The papers presented here shed light on some important aspects of the economic transformation and social development taking place in Bangladesh. They represent a spectrum of views on the achievements of Bangladesh as well as future risks and challenges.

The paper by Isher Judge Ahluwalia and Zahid Hussain presents an overview of the achievements and challenges of the development experience of Bangladesh over the past three decades. A careful empirical review of the development outcomes by the

authors establishes Bangladesh's impressive record in social development, poverty reduction and accelerated economic growth over the three decades ending with the 1990s. The review shows, however, that more recently, the momentum of growth has slowed down somewhat, and the course of social development is also entering a more challenging phase. The paper critically examines the policies and institutions that brought about the profound economic and social transformation over the period from 1971 to 2001. It draws attention to the critical need for institutional reform and better governance if Bangladesh is to consolidate its development gains and make further progress in poverty alleviation and social development. collection of papers on Bangladesh.

Wahiduddin Mahmud examines Bangladesh's macroeconomic performance in light of the market-oriented policy reforms. By reviewing the trends in fiscal, external and in investment-savings balances, the paper analyses how, despite falling inflows of foreign aid, Bangladesh achieved macroeconomic stabilisation and an acceleration of economic growth in the 1990s. The author concludes that, for consolidating the transition from stabilisation to growth, improvements are needed in many areas such as revenue mobilisation, the efficiency of the financial system and the overall investment environment.

Bangladesh has achieved a remarkable success in attaining a near self-sufficiency in the production of rice, making the phenomenon of famine a matter of the past. Raisuddin Ahmed traces the transformation of the rice economy of Bangladesh over the last two decades or so. His paper examines the factors behind the growth in rice production and the role of market-oriented policy reforms, particularly in respect of the liberalization and privatization of agricultural input markets. The author argues in favour of strengthening the role of the private sector in the input markets while emphasizing larger allocations of public resources for agricultural research and water resource development.

Analyzing yet another interesting aspect of Bangladesh's rice economy in his paper, Paul Dorosh argues that trade liberalization that permitted the import of rice and wheat in the private sector has enhanced national food security in Bangladesh. In particular, he highlights the positive contribution of rice imports from India in the recent years of major production shortfalls. At the same time, the paper makes a case for a flexible rice trade policy to protect farmers from the potential disincentive effects of continued food aid and low-cost commercial imports.

The contribution of non-farm activities to generation of employment and growth of rural incomes in the early stages of development is well recognised in the development literature. Mahabub Hossain uses the data available from two national level sample surveys of rural household to analyse the changes in the structure of the rural non-farm economy and its contribution to the growth and distribution of rural incomes in Bangladesh during the 1990s. According to his findings, the rural non-farm sector has played a dynamic role, offering increasingly more scope for productive employment through technological improvements and diversification of the rural economy. He warns, however, that the growth of this sector may worsen rural income distribution unless the poor have better access to education and physical capital.

Sadiq Ahmed and Zaidi Sattar examine the impact of trade liberalisation in particular, and of economic deregulation in general, on economic growth and employment generation. The rapid growth of ready-made garment industry - and, to a lesser extent, that of export-oriented shrimp production - are discussed as evidence of direct beneficial impact of increased trade openness. Besides, as the authors argue, trade liberalisation also indirectly contributed to stimulating other parts of the economy, thus contributing to pro-poor growth.

Apart from the overall trade policy reforms, the evolving bilateral trade relations with India are of particular importance for the policy-makers in Bangladesh. Nurul Islam reviews in his paper a range of issues pertaining to the Indo-Bangladesh trade relations, including cross-border illegal trade, the comparative trade regimes in the two countries, investment cooperation and the implications of the proposed Free Trade Agreement. In particular, he explores the prospects and ways of increasing exports from Bangladesh to India, thus addressing the existing bilateral trade imbalance. The paper concludes that mutually beneficial agreements are facilitated if the various aspects of economic cooperation are seen in a comprehensive framework and if there is willingness in both countries to take a long view.

Microcredit is Bangladesh's home-grown innovation for poverty alleviation. Muhammad Yunus, the founder of Grameen Bank, traces in his paper the evolution of the ideas and practice of microcredit as pioneered by his bank. Over the years, the microcredit programmes have grown in Bangladesh providing a widening range of services to meet the economic and social needs of its members, mostly poor women. The paper puts forth suggestions regarding the emerging issues of financial

selfreliance and the institutional sustainability of microcredit programmes.

Simeen Mahmud reviews Bangladesh's achievements in health and population, and examines the role of government policy in bringing about this significant social change. Emerging challenges in the sector are highlighted and the strategies for state provision of health and family planning services in view of these challenges and the pro-poor development agenda are discussed. It is concluded that reducing socio-economic inequalities in health outcomes and improving aggregate health indicators further will be extremely difficult in the future without significant transformation in the quality of care and the management of service provision.

On the education front, Bangladesh has achieved remarkable success in expanding primary education, especially for girls, despite continuing prevalence of widespread poverty and social repression of women and girls. Naomi Hossain and Naila Kabeer argue that underlining this success is a confluence of both demand and supply-side factors in bringing about a profound social change. They explore the changing structure of economic opportunities and gender relations affecting parents' perception of the value of female education. The authors conclude that the current challenge of improving the quality of education may prove more difficult than the expansion of access to education.

Rehman Soblian attempts to trace the roots of the governance problem in Bangladesh to the structural features of its polity. These features include the existing politics of confrontation, weaknesses in the practice of parliamentary democracy, the malfunctioning of political parties, the role of money and muscle power in politics, and the rent-seeking collusion among the political parties, state machinery and the vested commercial interests. Efforts for improving governance must be directed towards persuading the political parties of the advantages of reforms in the existing political institutions. The paper also advocates civic actions in creating widespread awareness of the benefits of better governance, thus raising the political costs of malfasant governance.

The social development scene in Bangladesh is characterised by a strong presence of non-governmental organisations (NGOs). Sajjad Zohir discusses the evolution of the NGO sector in Bangladesh and evaluates its contribution to social development. The NGOs emerged following the war of liberation to help the communities in distress as part of post-war rehabilitation. Afterwards, with assistance

from foreign donor agencies, they expanded their activities to deliver a variety of services including microcredit, essential healthcare, informal education, women empowerment and rights advocacy. The paper also looks at some of the emerging issues like the partnership between NGOs and the government agencies and the role of NGOs as entrepreneurs in commercial activities.

Overall, what emerges from these papers is that Bangladesh is passing through an important phase of transition; and this transition is taking place on both fronts of economic and social development. The economy has greatly reduced its dependence on foreign aid and has made some beginnings in moving from macroeconomic stabilisation to sustained and accelerated growth; but a consolidation of this process faces many challenges and risks. Most of these challenges relate to domestic issues of policies and institutions such as in the area of public finance, the financial system and the investment climate. But much will also depend on the risks and opportunities arising from the changes in the global economic scenario and on how domestic policies and institutions respond to such changes.

One of the immediate external risks arises from the impending expiry of the Multi-Fibre Arrangement at the end of 2004 and its likely effect on Bangladesh's export of ready-made garments - the country's flagship in the global market. Bangladesh has successfully exploited its reserved or preferential access to garment markets of the industrialised countries provided by the MFA; it has thus made the transition from being primarily a jute exporting country to a garment-exporting one. The transition has been dictated by the country's resource endowment, characterised by extreme land scarcity and surplus labour. The country now faces the challenge of increasing its production efficiency and export competitiveness to maintain its high export growth and move towards a more diversified industrial and export base. The importance of adequate and high quality infrastructure services - including power, transport, ports and telecommunications in this process cannot be emphasized enough. It requires reforms in both policies and institutions.

In social development, Bangladesh has shown the way. Both policies and institutional innovations have delivered impressive progress in social development indicators. Bangladesh's achievements are particularly remarkable in reducing infant and child mortality rates, eliminating gender disparity in primary and secondary school enrolment, and in reducing population growth through the adoption of birth control. Bangladesh

belongs to a regional belt, stretching across northern Africa, west Asia, Pakistan, and northern India, that is characterized by patriarchal family structures along with female seclusion and deprivation. This makes its achievements all the more noteworthy.

How does one explain these achievements? The progress achieved so far represents in part a 'catching up', since two decades or so ago, Bangladesh was in fact a laggard in social development indicators among countries with similar per capita income levels. But the situation has now clearly reversed and the question asked is how the progress has been possible under the prevailing poverty levels. Again, while favourable budgetary allocations have helped, Bangladesh's public social spending remains quite low in per capita terms, even by south Asian standards. It is also noteworthy that some of the spectacular achievements in health indicators could be achieved with low cost technology (in particular, oral rehydration technology for diarrhoea treatment, leading to a decrease in child mortality) and by creating more awareness (e.g., about immunization, contraceptive use). New ideas catch on rather quickly in Bangladesh, perhaps facilitated by the density of settlements and their lack of 'remoteness'. The political commitment and the strong presence of NGOs have also definitely helped.

But if those explanations are true, they also indicate that further progress may prove more difficult. As the scope for low-cost, 'easy' gains gets fully exploited, the level of public health expenditure and the quality of health services become more important in making further progress. Lowering the maternal mortality rate, for example, requires the provision of relatively costly health services. Similarly, while remarkable progress has been made in school enrolment, there are serious concerns now about the quality of education. Also, the aggregate indicators hide the fact that the poor households remain largely disadvantaged in respect of health and educational achievements. Clearly, the challenge in these areas increasingly lies in mobilizing more resources and improving the quality of service delivery mechanism. It is in this sense that the process of social development in Bangladesh has reached a transitional phase. It is very important, at this stage, to provide an institutional environment through reforms in which there is more accountability of the public sector agencies and better collaboration between these agencies and the NGOs in working together for the common cause of alleviating poverty and social development

The problem of poor governance is a recurrent theme among most of the papers presented here. There is no doubt that, to consolidate the progress on economic and

social fronts achieved thus far, and to meet the risks of slippage, Bangladesh needs to strengthen its institutions of economic and political governance. But the impact of governance on development performance is a highly complex, and as yet poorly understood, subject. How can one explain, for example, Bangladesh's success in many areas of economic and social development in the presence of the allegedly poor and deteriorating quality of governance, such as manifest in widespread corruption and inefficient administration? Has governance failure gone beyond the 'tipping point' so as to act as a barrier to further progress? Is the governance problem politically intractable, or is it only a symptom of institution-building not being able to cope with the pace of progress? If politics is dominated by rent-seeking behaviour only, how does one explain the government's commitment underlining many of the success stories discussed above? Or, given the weaknesses of democratic institutions, do civic activism and widespread public awareness act as an informal mechanism of accountability? The papers presented here may help to answer some of these questions.

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