

Bangladesh Economists' Forum

Growth and Governance: Making the Transition

Wahiduddin Mahmud

**21-22 June,
2014**



The First BEF Conference | Radisson Blu Water Garden Hotel Dhaka

Growth and Governance: Making the Transition

The quality of governance reflecting institutional development has been increasingly recognized as an important ingredient of economic growth. It is also recognized that low levels of income and poor governance may perpetuate each other. How can low-income countries like Bangladesh come out of this trap? If some headway can be made in institution building despite low income, the resulting “governance surplus” may enhance the effectiveness of economic reforms in accelerating economic growth. Pre-reform India or China are possible examples. The other path to come out of the trap could be to achieve by some means accelerated growth despite poor governance, which in turn may eventually create demand for better institutions of governance; but this will mean that governance will act as a hindrance to growth rather than being a facilitator. That surely is an uphill task and is unlikely to be sustained for long.

Bangladesh has in recent decades achieved reasonably rapid and accelerating economic growth along with even more remarkable progress in social development indicators. Out of today’s 25 largest developing countries (according to the size of GDP adjusted for purchasing-power parity in dollar), Bangladesh ranks among the top 10 in terms of annual average GDP growth during 1980 to 2007 (Growth Commission 2008). During this period, Bangladesh has achieved an annual growth in per capita real GDP well ahead of the average of all developing countries. This has been possible despite the fact that the country has had to grapple with many growth-retarding factors: the desperate initial conditions following the liberation war, lack of resources and extreme land scarcity, vulnerability to natural disasters, a low-skilled labour force, widespread corruption, and a record of systemic governance failure. Some have even called this a “development surprise” (Asadullah et al. 2014, Mahmud 2008, Mahmud *et al.* 2008).

Where does Bangladesh then stand in the growth-governance nexus? Of course, governance as a concept is not easy to define and its interpretation may be contextual to country-specific circumstances. Most global governance indices are based on perceptions, making cross-country comparisons even more problematic. Nevertheless, econometric estimates with cross-country data do provide support to the hypothesis that the poor countries may indeed be often caught in a trap of low income and poor governance (Mahmud et al. 2011). As for Bangladesh, its governance scores according to various global indices since the 1980s have mostly remained near or below the bottom 20 percent of all developing countries.¹ The only period of exception when Bangladesh was ranked according to some governance indices above the bottom quintile was during 1996 to 2001; there was perhaps a perception in that period that democratic system seemed to be working with successive regime changes taking place through peaceful credible elections. Since then, Bangladesh’s governance rankings have been steadily deteriorating, and the question of how long

¹ These governance indicators include the World Bank’s World Governance Indicators (WGI) which is available from the mid-1990s and the International Country Risk Guide (ICRG) database spanning from 1982 to 1997 (Mahmud et al. 2011).

Bangladesh can remain an “outlier” in the growth-governance nexus has resurfaced (Mahmud et al 2011).

It is true that country-specific circumstances do matter and that each country has its own way of dealing with governance problems. Nevertheless, the question remains: How has the progress achieved thus far in Bangladesh been possible given the country’s allegedly poor record in governance? How, for example, could a governance-challenged environment be overcome by the main drivers of economic growth in Bangladesh: agricultural productivity, small-scale entrepreneurship, readymade garment export, and remittances from workers abroad? Although the governance environment may have been barely adequate thus far to cope with an economy breaking out of stagnation and extreme poverty, it may increasingly prove a barrier to putting the economy firmly on a path of modernization, global integration, and poverty reduction. There are indications that institutional weaknesses may be reaching the tipping point beyond which they become binding growth constraints. Notice, for example, that Bangladesh has had a unique record of experiencing accelerated average annual growth of GDP per capita in every five-year period since the last half of the 1980s; but the on-going growth stagnation may jeopardise the continuation of that record beyond 2010.

There are alternative ways of conceptualising how the required transition in the governance system may come about to make it possible for economic growth to move into a higher trajectory. A few broad aspects of this possible transition may be pointed out.

First, in a low-income but modernising country like Bangladesh, governance effectiveness in terms of rules and standards varies widely across different segments of society and economy. There are obvious cases where being a poor country is no excuse for lacking in international standards, such as, for example, the management of air traffic control system. On the other hand, there are grey areas like “rule of law” or “human rights” in which we are aspiring to achieve the First World standards in the Third World socio-economic realities. Overall, the challenge is to gradually expand governance effectiveness and good practices beyond some existing enclaves. Unfortunately, the reverse seems to have been happening in Bangladesh.

The government agencies or institutions like the Local Government Engineering Department, or the Rural Electrification Board or the Basic Bank (a state-owned bank) were once cited as pristine islands of excellence in an otherwise governance-challenged environment; but each of these institutions subsequently became victim of malfeasant politics. The integrity of Nobel Prize winning Grameen Bank is now under threat. Even the enclave-type arrangements that helped the export-oriented garment industry to bypass the governance problems are now proving inadequate because of questions being raised about the factory and labour standards. True, Bangladesh does not have the worst forms of employment conditions like bonded child labour as is still prevalent in many parts of the developing world; but the lapses in labour standards in the garment industry in Bangladesh are relatively more visible because the industry caters to the global market. Similarly, the credibility of our

financial sector or the quality of our economic diplomacy will increasingly become major determinants of how far we can benefit by leveraging the emerging global economic order.

The second aspect of transition is to move from a centralised and personalised system of governance dispensation to one that is impersonal and rule-based. While we have moved from state controls to market orientation of the economy, we need to create a system of governance that can successfully manage the intricate interaction between the state and a well-functioning globally integrated economy (Mahmud 2008a). Managing such an economy requires many inputs that markets do not provide: rules, standards, training, certifications, infrastructure, security and a host of other services that can be provided only by professionally competent and well-resourced government agencies. This also needs a governance system that decentralises power to identify problem, work out solutions, and monitor performance such that decisions are made promptly and with much more information.

There is a need to shift from reactive ad hoc decision-making to a more proactive, informed and analytical approach. Unfortunately, there is little indication that we are moving in that direction. For example, the remedial measures for recovering the global image of our garment industry tarnished by the Tazreen and Rana Plaza disasters are proving to be much costlier compared to preventive actions that might have been taken beforehand. Again, some of the currently proposed large infrastructure projects seem to be driven either by their prestige value, or by interest-groups' lobbying, or even by geo-political considerations; but there seems to have been little analysis for setting priorities based on any proper evaluation of social costs and benefits.

Third, strengthening the credibility and integrity of state institutions is integral to a process of governance transition. Even in the mature rich democratic countries, the motives of elected public representatives are held in the public eye with a degree of suspicion. It is the non-elected state institutions that most enjoy the confidence of the public – be it higher judiciary, the authorities responsible for holding elections or recruiting for the public service, or the other watch-dog bodies. This is where we have done poorly. The successive governments have transformed some of these watch-dogs into lap-dogs. Without restoring the credibility of these institutions, any attempt to put together the Humpty Dumpty of our democracy is bound to fail.

Last but not least, we need to inculcate some degree of cooperation and accommodation in our otherwise individualistic approach to political and economic entrepreneurship. In politics, we have feudalistic hierarchical relationships based on patronage politics instead of collective action among equals. Thus far, individualistic entrepreneurial drive has been the main contributing factor behind our economic growth. It is no accident that we are the world leader in the microcredit movement, but have failed miserably in sustaining any successful model of co-operatives, including the once famous Comilla model of co-operatives. Even the impressive gains in Bangladesh in many social development indicators were achieved through self-interested behaviour in adopting

affordable low-cost solutions rather than through community based actions to demand and sanction public service delivery (Mahmud 2008, Mahmud et al. 2013).

The individualistic approach to entrepreneurship may be historically rooted in our rice-based economy, where easy rain-fed cultivation used to require little mutual help among farmers, in contrast to most other regions where cultivation was more labour-intensive or dependent on maintaining an irrigation system.² Whatever be the reason for this cultural trait, we may now increasingly need more cooperative arrangements – such as in making the maximum use of scarce land, or in achieving urbanisation and industrialisation in an environmentally sustainable way. Similarly, a more cooperative and accommodative approach among political parties will also be needed to sustain any workable form of democracy. The narratives on Bangladesh have for sure changed over the years: it is no more considered a “test case of development”. But the country still remains a test case of whether economic development and democracy promotion can proceed hand in hand in such a low-income country.

² The lure of easy cultivation is also the likely reason why the deltaic Bengal attracted migrants from outside. The present high density of population in Bangladesh cannot be explained by historically high population growth rates, since there is no evidence that the death or birth rates in this region had any significant exceptionality.

References

- Asadullah, M. N., Savoia, A and Mahmud, W. (2014), “Paths to development: Is there a Bangladesh surprise?”, *World Development*, Vol. 62, pp. 138-54.
- Growth Commission (2008), *The Growth report: Strategies for Sustained Growth and Inclusive Development*, Washington, DC: The World Bank on behalf of the Commission for Growth and Development.
- Mahmud, W. (2008) “Social development: pathways, surprises and challenges”, *Indian Journal of Human Development*, Jan-June 2008, Vol. 2, No.1 (can be accessed at http://ponpo.som.yale.edu/seminar_docs/09-10/wahid.pdf).
- Mahmud, W. (2008a), “*Bangladesh: development outcomes and challenges in the context of globalization*”, in Ernesto Zedillo (ed.), *The Future of Globalization: Explorations in Light of Recent Experience*, London and New York : Routledge (Taylor and Francis Group).
- Mahmud, W., Ahmed, Sadiq and Mahajan, Sandip (2009), “Economic reforms, growth and governance: The political economy aspects of Bangladesh’s development surprise”, in Michael Spence and David Brady (eds.), *Growth and Leadership*, World Bank on behalf of the Commission on Growth and Development (Washington, DC), 2009 (can be accessed at www.growthcommission.org/storage/cgdev/documents/gcwp022web.pdf).
- Mahmud, W, Asadullah, M Niaz and Savoia, Antonio (2011), “Governance and growth: Is Bangladesh an ‘Outlier’?”, Policy Brief, London School of Economics: International Growth Centre (can be accessed at <http://www.theigc.org/publications/policy-brief/governance-and-growth-bangladesh-outlier>).
- Mahmud, W., Asadullah, M. N. and Savoia, A. (2013). “Bangladesh’s achievements in social development indicators: explaining the puzzle”, *Economic and Political Weekly*, November 2, Vol. XLVIII, No. 44.

