

Bangladesh: State and Economic Strategies

Course: Policy Design and Implementation in Developing Countries

**Instructors: Professor Kenichi Ohno
Professor Izumi Ohno and
Professor Masumi Shimamura**

Presented By

Akkas Ahamed

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National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan

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Introduction

- Politico-economic and social factors,
- Economic and social reform programs,
- Prime minister Khaleda Zia regime's economic reforms,
- Consolidating the power of the ruling elites,
- Coalitions with traders and industrialists,
- Attaining their financial and economic objectives,
- Consequence: failing to improve the performance of the economy.

In the past two decades, 1947-1971

- Restructuring the public sector,
- Constructing a strong private sector,
- Liberalizing trade and exchange rate regimes,
- Civil–military bureaucracy,
- Feudalism and
- Patron-client politics.

State-socialist model

- △ Introduced by its Prime minister, Sheikh Mujibur Rahman in 1972,
- △ Nationalization of private sectors,
- △ Nationalization of jute and leather industries,
- △ Nationalization of banks and insurances,
- △ Bakshal (One-party system),
- △ Ceiling on foreign investment,
- △ Limited economic liberalization,
- △ Land reform,
- △ Fiscal reform,
- △ Constitutional amendment and socialism.

President Sheikh Mujibur Rahman



1971-1975

General Zia: *Economic liberalization*

- ◇ Revised investment policy of 1975,
- ◇ Construction of a strong private sector,
- ◇ Export-led economic growth strategy,
- ◇ Reduce budget deficits and inflation,
- ◇ Increase domestic savings,
- ◇ Export Processing Zone in Chittagong,
- ◇ It reactivated the Dhaka Stock Exchange,
- ◇ Established an Investment Promotion Center,
- ◇ Development of Finance Institutions,



President Ziaur Rahman
1975-1981

Contin'd

- △ Withdrawal of subsidies on such items as food, fertilizer and petroleum,
- △ Liberalizing the trade regime,
- △ Tax reforms,
- △ Export growth,
- △ Foreign exchange reserves management,
- △ The World Bank emphasized on denationalization and privatization,

Contin'd

- △ Large business groups offered financial and political support to Zia,
- △ Presidential elections of 1978,
- △ The *Jaitya Sangsad* (parliamentary) elections of 1979
- △ Zia formed political platform, the Bangladesh Nationalist Party (BNP),
- △ A true patrimonial state structure in Bangladesh,
- △ Zia allowed business to use public resources for private goals.

Criticism of Zia's Reform Policy

- ◀ Lack of a legal and regulatory framework,
- ◀ Becoming rich by abusing public resources,
- ◀ Private investors, emerged as 'willful defaulters,
- ◀ Virtually no legal action was taken against them,
- ◀ Corruption,
- ◀ Misuse of power,
- ◀ Military authoritarianism,
- ◀ Outcome: Economic growth, higher productions and increase of salary in the public servants.

General Ershad: legitimization and market reform

- Military takeover in March 1982,
- New industrial policy of 1982 (NIP),
- Revised industrial policy of 1986 (RIP1986),
- Transferring all sorts of industrial and commercial enterprises to the private sector,
- The regime transferred the ownership of 60 large jute and textile industries to private investors,
- The number of profit-making units rose from 32% in 1981 to 78% in 1985,



General H.M Ershad
1982-1990

Contin'd

- The IMF suspended its Extended Fund Facility,
- Failure to conform to all the adjustment-related conditionality,
- He decided to rely more heavily on the military than the civil bureaucracy,
- Ties with the business community,
- Outcome: Economic growth but huge corruption and poor governance in law and order.

Criticisms of Ershad's Policy

- Private entrepreneurs enriched themselves,
- Unofficial imports, in particular smuggling,
- The problems of loan default reached a precarious level,
- Loan defaults doubled in the 1980s, increasing from Tk.5.2 billion in 1982 to Tk.10.5 in 1990,
- Private sector accounted for 96.5% of total bad lending,
- The defaulters evaded legal actions.

Khaleda Zia: external pressure and the pace of reforms

- Massive liberalization programs,
- The National Industrial Policy,
- Local and foreign investors to set up export-oriented enterprises,
- It offered foreign investors tax exemptions,
- Freely import of machineries,
- Receiving long-term credit facilities from financial institutions,
- Financial sector reform,
- Rationalizing the tariff structure,
- Donor countries or organizations expressed concern about the slow pace of reforms,
- **Outcome: Economic development and Over Politicization and Regime Consolidation.**

Khaleda Zia



1991-1996



Tareq Rahman

Sheikh Hasina 1996-2001 & 2008-Present

- Economic reform and social welfare
- Constitutional amendment
- Trade liberalization
- Social security policy
- Look East policy
- High economic growth rate
- Creation of employments
- Patron-client politics
- Fiscal reform

Sheikh Hasina



1996-2001, 2008--



Sajeeb Wazed Joy

Why were the reform policies taken?

- Reliance upon foreign aid
- Bangladesh received a total of US\$7,564 million, 48% of the country's development expenditure
- Government–big business nexus pressurized Khaleda Zia's government
- Disappointment over 'the slow pace of trade reforms', particularly import liberalization
- In order to ensure electoral victory
- The BNP leadership to nominate the 'millionaires' in the crucial *Jatiya Sangsad* elections of 1991, 58%

Why were the reform policies failed?

- Business legislators and ministers used the liberalization program to ensure personal gains,
- Absence of consensus on economic reforms,
- It did not initiate any programs for educating people,
- The *Sramik Karmachari Aikka Parishad* (SKOP), an alliance of some 15 national trade union federations, launched a massive anti-reform movement,
- The absence of an effective reconciliation mechanism,
- The confrontational labor-government relationship.

Conclusion

- ▣ In particular, the two military regimes of Generals Zia and Ershad largely used economic reform programs as a tool to both legitimize and consolidate their unconstitutional power base.
- ▣ Both sought to develop political alliances with senior bureaucrats and businessmen, mainly through their reform measures.
- ▣ Reforms were used primarily to protect and enhance the goals of big business during the rule of Khaleda Zia.

Thank you for your kind attention

Q & A