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K. A. S. Murshid
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Introduction

The story of Bangladesh is an extraordinary tale of struggle against immense odds. It is the story of a nation state that broke into the world stage dramatically after an armed struggle against what became viewed as an occupation army attempting to remain in power through massive repression and large-scale killings that sent over 10 million people into India to seek shelter and refuge.[1] Before these events, Bangladesh was an unremarkable part of Pakistan (East Pakistan) whose main value for the ruling elite was its jute exports that enabled the country to earn valuable foreign exchange – much of which was appropriated for investment in West Pakistan, especially in the emerging industrial sector there. Bangladesh was overwhelmingly rural and agricultural with a high population density and massive illiteracy, malnutrition and poverty. This is where it was stuck: as the rural backwaters located in the biggest delta in the world periodically visited by violent storms and floods, and debilitating epidemics. This state of affairs continued, largely unchanged over 24 years since gaining independence from Britain in 1947, until the country broke away from West Pakistan and became Bangladesh in 1971.

While the economy remained stagnant as part of Pakistan, the same cannot be said of its politics. A nascent but vocal middle class emerged, consisting of students, teachers, lawyers, journalists and government officers. This group was strengthened by an emerging industrial working class – all largely drawn from the ranks of the peasantry, including surplus peasants. This served to challenge the traditional political power structure, which was dominated by feudal elements under the banner of the Muslim League – the party that was instrumental in the creation of Pakistan (Jalal 1994; Naqvi 1986). This newly emerged middle class became the logical political base of the Awami League (AL) formed from a breakaway group of the Muslim League. The AL adopted a distinctly more democratic, secular and 'progressive' stance compared to the Muslim League and quickly drew a large following from the new, aspiring middle classes.

It was therefore only a matter of time when the disparity and inequality between the two 'wings' of Pakistan would become apparent, which, combined by the reluctance of the ruling military–bureaucratic–feudal elite based in the west to share power with the east, did not bode well. The story of the emergence of Bangladesh from the ashes of Pakistan has been extensively written on (Choudhury 1972; Islam 1978; Owen 1972; Thorp 1987). In this book we address ourselves to a different question. The journey of Bangladesh from hopelessness to hope, from extreme forms of aid dependence to relative economic independence, from abject, widespread poverty to relative prosperity would appear to be nothing short of a miracle. The Bangladesh experience has been commented upon – most compellingly by Amartya Sen (2013) and Drèze and Sen (2012) but also by the London-based *Economist* magazine as well as by a number of Bangladeshi and international scholars, as seen in their contributions to the prestigious British medical journal *Lancet*[2] and others.[3] So, what was so unusual about Bangladesh's development journey? How did the 'test case' turn into a paradox or puzzle, thrusting the country into a new development trajectory that attracted considerable attention at home and abroad? The politicians were of course quick to claim credit, profusely singing praise and apportioning accolades at having transformed the country. Some even referred to it as a 'role model'.[4] While one may debate the extent of progress made at various levels while at the same time pointing awkwardly to adverse indicators related to corruption, governance, institutional weaknesses and poor implementation of development projects, the numbers do add up. There is little doubt that a new set of powerful dynamics have been set in motion, not unlike similar dynamics that have been observed elsewhere, especially in Southeast Asia or East Asia. This came as a shock to local and foreign observers, who completely failed to predict these outcomes, and therefore had to resort to phrases like 'puzzle' and 'paradox' to make up for it. Thus, while the 'what' questions have received attention, the same cannot be said of the 'how' or 'why' questions.

These questions have not been adequately confronted in the literature, although a development narrative has emerged within mainstream official thinking that probably errs on the side of overstatement. First, it is important to critically revisit this narrative to clearly articulate what have been the country's major achievements. This needs to be a detailed exposition that is carefully and credibly conducted based on the best available data.

Naomi Hossain (2017) made a brave attempt to grapple with some of the issues raised in this book but in my view became entrapped in a restrictive framework and an inability to comprehensively address Bangladesh's complex development dynamics. I find some of her basic assumptions somewhat problematic but nevertheless commend her work for extending our appreciation of Bangladesh's development history.[5]

This book provides an analytical–descriptive narrative of the Bangladesh journey by trying to forge a comprehensive, integrated story that is holistic but at the same time able to track key development dynamics at the sectoral, sub-sectoral and macro levels. This is a much-needed exercise to dispel the notion that the 'Bangladesh surprise' can be reduced to certain singular dimensions, such as the trauma of 1971 or 1974, low-cost health solutions, ready-made garments (RMG) and remittances, or women's empowerment and micro-credit. What has been attempted here is to develop an integrated story that places such piecemeal explanations within a broader, integrated and coherent appreciation. It is hoped that this book would be able to make a small contribution towards filling this large gap in the story.

However, it is important, given the nature of this book, to begin at the beginning, with an introduction to the 'initial conditions' the country faced after secession from Pakistan in 1971. Bangladesh was the original development 'basket case', the demeaning term used in Henry Kissinger's state department for countries that would always depend on aid. The Nixon government in the United States (US) went out of its way to be hostile to the Bangladesh movement, which was seeking to secede from Pakistan in 1971. Nixon's position was overwhelmingly influenced by one overriding factor – his intense desire to enter into a dialogue with China and to open up diplomatic relations with that country. His channel to China was through Pakistan, a country that was close to China, and in particular through its president General Yahya Khan, with whom Nixon established a close personal rapport (Bass 2013; Jahan 2013). Therefore, despite the dire reports emanating from East Pakistan (as Bangladesh was then known) and the frantic memos sent to Washington by the US Consulate in Dhaka describing in graphic detail the lead up to the military crackdown in Bangladesh on 25 March 1971 and the subsequent atrocities reaching genocidal proportions, Nixon and Kissinger remained unmoved and unrelenting, and did nothing to reign in the Pakistanis. The subsequent violence, with some 3 million people officially thought to have died, led to an outpouring of refugees on a scale not witnessed before in Bangladesh, perhaps even globally. This presented India with a huge administrative, financial and security burden – a burden that was not sustainable. By and large, the international community kept aloof, and it became clear to India that the only way to end the violence was through military intervention. Fortunately, the Soviet Union and the Eastern Bloc supported India and provided the necessary diplomatic cover (and implied military threat) to make this happen. Bangladesh was finally rid of the Pakistan Army on 16 December 1971 after a brief but bloody war launched jointly by Indian and Bangladeshi forces, taking more than 94,000 Pakistani prisoners of war (POWs).

The government in exile was able to return to Dhaka to take over the reins of power in the fractured state with the declaration of victory by the Joint Forces.

A Bengali-led government finally assumed power after some 770 years from the collapse of the Sena dynasty in Eastern Bengal following the Turkish invasion of 1203 led by Bakhtiyar Khilji and the fall of the Sena capital of Nabadwip (modern-day Nadia, now in West Bengal, adjoining Bangladesh). The Sena rule continued in Eastern Bengal, based in Vikrampur near Dhaka until 1230 (Sarkar 1927; Islam 2011).

For much of recorded history, Bengal, especially Eastern Bengal, remained splintered, loosely governed and frequently ruled by local chieftains. It came under more centralized rule sporadically under the Mauryas, Guptas, Maghadhians, Palas and Senas, and later under the Turks and the Moghuls, and, of course, the British. Forests, rivers and lowlands combined with difficult logistics made this area very difficult to govern. It was only with more modern infrastructure and communications (especially the railways) under the British that the scale of exploitation of Bengal took on astronomical proportions. During British rule, as many as seven famines were recorded by historians (1770, 1783, 1866, 1873, 1892, 1897, 1943–44).[6] Records of famines in the pre-British period are almost non-existent.

The birth of Bangladesh therefore is a historical anomaly – no other South Asian nation or subnation or ethnic group has acquired an independent status. Bengalis have their own country for the first time in recorded history or at least since the emergence of a separate Bengali identity based on a language that took root around 1,000 years ago, flowing from Sanskrit, Pali and Prakrit (Banglapedia 2015a).

The emergence of Bangladesh is also unique from another perspective. This is the first country in South Asia that was able to free itself not only politically but also from the deeply entrenched power structures sanctified by caste, class and religion – the former stemming from the dominance of caste elites among Hindus that remains a huge challenge in India even today but which has greatly diminished in modern Bangladesh, especially with the out-migration of caste Hindus since 1947, when the subcontinent was partitioned along religious lines.

Even when Hindu dominance ended, there was a second form of dominance to contend with. This was the dominance of non-Bengali-speaking Muslims who drew their authority from supposed or actual lineage from Muslim immigrants of the Sultanate period or later, freshly aligned with their co-linguists among the Pakistani ruling elites after 1947. The chief political vehicle used by this group was the Muslim League, whose popularity steadily declined from 1947 to 1971 as it was unable to keep in step with growing Bengali nationalism and the demands for a greater share of the national economic wealth. The liberation of

Bangladesh dealt the final blow to Muslim League aspirations, creating the much-needed economic and political space that Bengalis could aspire to fill. Thus, for the first time, the people of this region were able to rid themselves of the deeply embedded, structurally sanctified systems of exploitation carried out by Hindu and Muslim elites over the ages – a true subaltern revolution that appears to have gone largely unnoticed and deserves deeper analysis.

The Main Building Blocks

Bangladesh has achieved remarkable successes in a number of areas. One of the most important developments has been rapid urbanization, and the rise of an entrepreneurial class based mainly in Dhaka, encouraged by a policy that allowed primitive capital accumulation through access to bank credit (and subsequent default), project financing by donor-fuelled, state-sponsored financial institutions, over- and under-invoicing overlooked by the state, and patronage enjoyed by people with connections to politics, the military and the bureaucracy. It would also be true to say that there was significant 'old' capital as well, dating back to the 1950s, 1960s and 1970s, which flourished in independent Bangladesh. This class could even be described as 'semi-independent' in the sense that its origin was not 'comprador' in nature, meaning that its rise was not principally linked to agency, commission or middlemen services provided to foreign businesses but was essentially an indigenous phenomenon.[7] The emergence of the indigenous capitalist class in Bangladesh is of great significance in the pursuit of private-sector-led, public-sector-supported growth. This is discussed in Chapter 10 in the context of the rise of Dhaka Megacity.

Several other momentous milestones were initiated within the first two decades of Liberation. The most well known of these was the micro-credit revolution that swept Bangladesh, pioneered by Professor Muhammad Yunus, the founder of Grameen Bank. The direct and indirect effects of micro-credit were profound, although its role in poverty eradication and development is not without controversy.

Almost of equal significance was the phenomenal rise of local non-governmental organizations (NGOs) led by pioneers like the Bangladesh Rural Advancement Committee (BRAC) and Rangpur–Dinajpur Rural Service (RDRS) along with Grameen, the Association for Social Advancement (ASA) and Proshika.[8] These pioneers, especially BRAC and Grameen, experimented with and developed grassroots development models that subsequently set the pace, tone and even content of the nature and form of rural development interventions adopted by the NGO movement as a whole and even by relevant government bodies like the Bangladesh Rural Development Board (BRDB) (Chapter 9).

The third factor, which in some ways may be considered the most important factor of all, was the initiation of the Green Revolution in rice in the country. The key here was irrigation and the availability of high-yielding seeds and chemical fertilizers, which posed a considerable challenge to policymakers. By the 1990s, these challenges were largely resolved, laying the basis for the eventual realization of a long-term national obsession, namely self-sufficiency in rice production. This in turn enabled broad-based growth and exceptional outcomes in nutrition and growth of the rural non-farm (RNF) sector (Chapters 3, 6 and 9). A crucial factor not often discussed in the food security literature is the supportive role of the rice market, which is taken up for detailed analysis in Chapter 4.

Family planning and fertility decline is an area that registered one of the earliest successes. While the factors behind the decline were intensely debated, the outcomes surfaced even when various Malthusian controversies were still raging. Falling fertility and the success with the Green Revolution transformed rural Bangladesh from its traditional slumber (Chapter 9).

Reference must also be made to industrialization and RMG exports and remittances whose origins can also be traced back to the early years. These were the two most important sources of foreign exchange, employment and growth to have emerged, displacing the long dominance of jute exports and external aid in Bangladesh's economy and ultimately allowing it some space in its macro-management capacity (Chapters 5 and 7). While Bangladesh's industrialization narrative remains confined to the emergence of RMG, Chapter 8 brings out 'other stories' that point to promise and potential that becomes apparent on closer scrutiny.

An area in which Bangladesh's achievements have been spectacular is its social sector outcomes, including health, education and women's empowerment – outcomes that appear not to have been associated with high levels of public expenditure. Various attempts have been made to explain this phenomenon by, among others, Sen (2013) and Asadullah, Savoia and Mahmud (2014). Chapter 9 provides a different historical–analytical perspective to the debate.

On the back of the Green Revolution, rise of RMG and international remittances, we also witnessed the rising contribution of the RNF sector that underwent structural change and expansion. The RNF sector's contribution in terms of wages, employment, poverty reduction and growth soon outpaced that of the farm sector and created a more productive economic space within the rural economy (Chapter 6).

In other words, changes took place across a number of crucial sectors in the decades following the liberation of Bangladesh in 1971. This was a time when the basic foundations were introduced and gradually took root that would serve the country well in the years ahead. All these beginnings took place against the backdrop of severe political instability, authoritarian rule and a restive, impatient populace. At the same time, the country moved steadily away from its socialistic aspirations to a market-led development model underpinned by trade liberalization and market reforms.

Thus, clues to the later successes lie in key developments that took place during this volatile but fascinating formative period. However, the bulk of scholarly attention has in fact gone towards exploring developments since 1991, and especially in the new millennium and beyond, because that is when outcomes related to growth and various social and health indicators began to be noticed. The ready temptation to lay all this at the altar of World Bank–IMF (International Monetary Fund) reforms by some observers is at best naïve and perhaps even opportunistic.[9] A true, much more nuanced understanding of the story of Bangladesh can only emerge if we adopt a far more fundamental, disaggregated stance, where we look for key turning points in our development history, even attempting a brick-by-brick reconstruction in the manner, perhaps, of an economic historian, while at the same time exploring reforms, policy changes, technology and institutional innovations, and altering political–economic tensions – in other words, factors that unleashed positive processes and changed outcomes as well as beneficiaries.

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A Bird's-Eye View of the Bangladesh Economy

1971–2020

The traditional image of Bangladesh as a woefully poor, overpopulated nation plagued by food shortages, natural disasters, massive malnutrition, illiteracy and under-employment has finally receded into the background. The country has now begun to attract attention from the world for its economic performance and potential business opportunities rather than for its poverty and misery. The growth rate for 2018–19 was a record 8.15 per cent. This came down to an estimated 5.24 per cent in 2019–20 as against earlier projections by the government of 8.19 per cent – purportedly due to economic shutdown in the wake of COVID-19. If the official figures are proven correct, the growth rate achieved in 2018–19 is the highest on record for the country and one of the highest in the world.

In terms of per capita income, Bangladesh became a lower-middle-income country in 2015 and is on track to graduate out of the least developed country (LDC) status by 2024, after all three indicators for crossing the initial threshold were met in 2018 – the only LDC in Asia–Pacific to have done so (Murshid 2019).[1] Per capita income in 2019 was USD 1856, and the country has set ambitious targets to become an upper-middle-income country and a developed country by 2031 and 2041.[2] That the country can dream to become a high-income country by 2041 itself speaks volumes about its confidence and 'can-do' mindset – a far cry from the hand-to-mouth existence of the early years when foreign aid was the only way to make ends meet.

Growth

In general, the growth rate has steadily climbed, displaying quite a lot of variability in the 1970s, with a great deal of year-to-year fluctuation. The instability is clear from Figure 1.1, where we see that it persisted into 1981–82 before entering into a long, unbroken period of stable growth. Growth in the 1980s was low, hovering around the 3.5–4.0 per cent mark but gradually crawling up to reach just over 5 per cent on average during 1995–2000. By 2005, another 0.5 percentage point was added, with the trend continuing to top 6 and then 7 per cent in 2005 and 2015. Bangladesh's growth performance appears remarkably stable,

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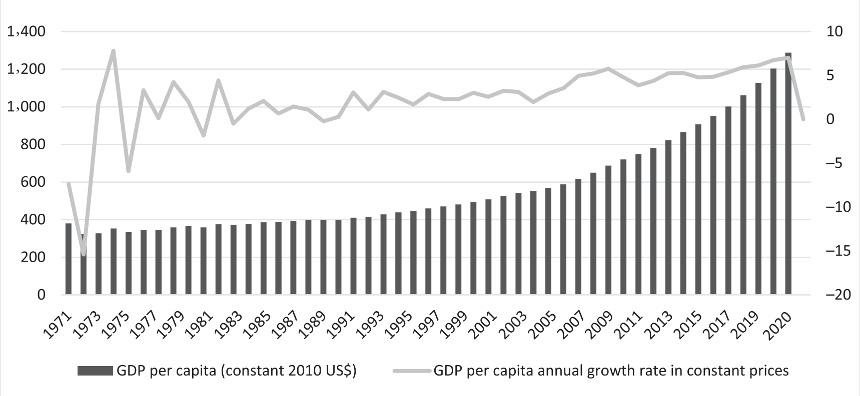

Figure 1.1 Per capita GDP in constant 2010 USD prices, and annual growth rates of Bangladesh (1972–2020)

Sources: 'GDP per Capita Growth', World Bank Databank, https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG?locations=BD (accessed 11 November 2021); Bangladesh Bank provisional estimate for 2020.

especially after 2003 – a feature that is also borne out in comparison with that of neighbouring countries.[3]

Consumption, Savings and Investment

In the early days almost all of the gross domestic product (GDP) went into consumption, leaving just a tiny amount for savings and investment. For much of the 1980s, the consumption–GDP ratio remained above 95 per cent. From 1990, it began a steady decline to reach 81 per cent in 2000. Thereafter, the decline continued but at a more moderate rate, reaching 77 per cent in 2016 and around 75 per cent in 2020. In other words, domestic savings grew from around 2 per cent in 1980 to 15 per cent in 1990, 20 per cent in 2000 and over 25 per cent in 2020, while national savings rose from 8 per cent in 1980 to 35.6 per cent in 2020.[4]

The data series from 1991 onwards is quite well behaved, declining gradually and smoothly with few disturbances. However, complete records for the period preceding 1990 are missing, with several breaks in the data series. In terms of public and private consumption, the trend is distinctly for public consumption to rise and private consumption to fall as a proportion of GDP, indicating corresponding changes in savings and investment (Figure 1.2).

Total investment in the economy is at 31–32 per cent of GDP (over 2017–20) – an achievement that could only be dreamt of in earlier decades.[5]

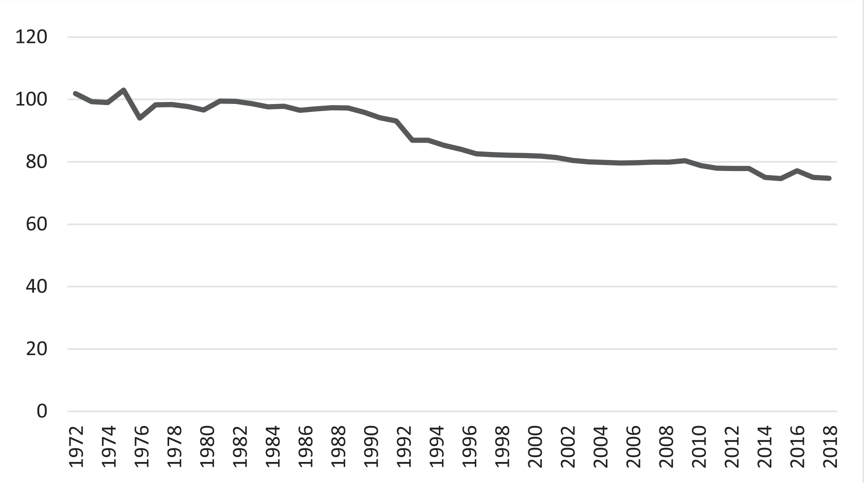

Figure 1.2 Consumption (per cent of GDP)

Sources: Bangladesh Bureau of Statistics: (*a*) Twenty Years of National Accounting of Bangladesh, 1972–73 to 1991–92; (*b*) *Bangladesh Economic Review* (Government of Bangladesh 2005, 2011, 2020).

In the early 1980s, it was 10–12 per cent, reaching the 20 per cent mark only in the mid-1990s and 25–26 per cent by 2005–06. Much of the investment was of course by the private sector, whose share grew steadily. In fact, until about 1990, public investment was either greater or at about the same level as private investment. It was only after 1990 that private investment shot up and the gap between private and public investment (as a percentage of GDP) steadily widened as the private sector grew and matured.

Financing Growth

There was a time when the development literature talked about the two-gap theory in the context of development financing, namely the savings gap and the foreign exchange gap. If savings rates are too low, resource mobilization falters and investments suffer. On the other hand, even when domestic savings are adequate, it is important to have sufficient access to foreign exchange resources in order to be able to undertake the necessary imports, including food and energy imports, as well as imports of machinery, capital and intermediate goods. Theoretically, if there is a foreign exchange shortage, it could act as an independent brake on growth.

Although savings and investment have picked up, there still remains considerable scope to improve domestic resource mobilization given an extremely narrow tax base and one of the lowest tax–GDP ratios in the world (Figure 1.4).