Navigating the Labyrinth of the Deals World: Politics of Economic Growth in Bangladesh

Presented at
2nd SANEM Annual Economists' Conference on
"Managing Growth for Social Inclusion"
Dhaka, Bangladesh
February 18, 2017

Mirza Hassan and Selim Raihan

Bangladesh's Achievements

- Since independence, Bangladesh has:
- increased its per capita income four-fold,
- cut poverty by more than half,
- achieved many of the Millennium Development Goals.
- Recently, compared to most of South Asia Bangladesh's economic growth rates have been higher
- Are these positive developments an indicator that Bangladesh continue to grow despite many policy and institutional constraints and global uncertainties?

Bangladesh 'Development Paradox'

- Bangladesh has been perceived as a 'paradox' or 'development surprise'

- World Bank explains Bangladesh case as a paradox of its steady and reasonably high growth took place in the context of 'bad' or 'weak' governance.

- Assumption behind this is that standard 'good governance' institutions are pre-conditions for a high and sustained growth rate.

- These institutions enable market:

-reduce transaction costs,

- guarantee credible commitment of the state through the establishment of formal and universal property rights,

- and allow efficient enforcement of contracts.

Is Bangladesh a Development Paradox?

- How did Bangladesh attain steady growth despite bad governance?

- We explore:

-the political economy conditions that allowed for steady growth

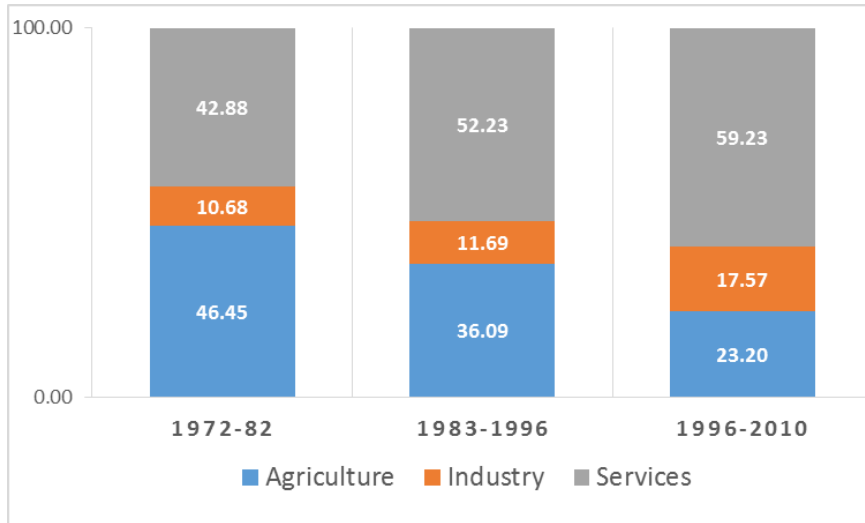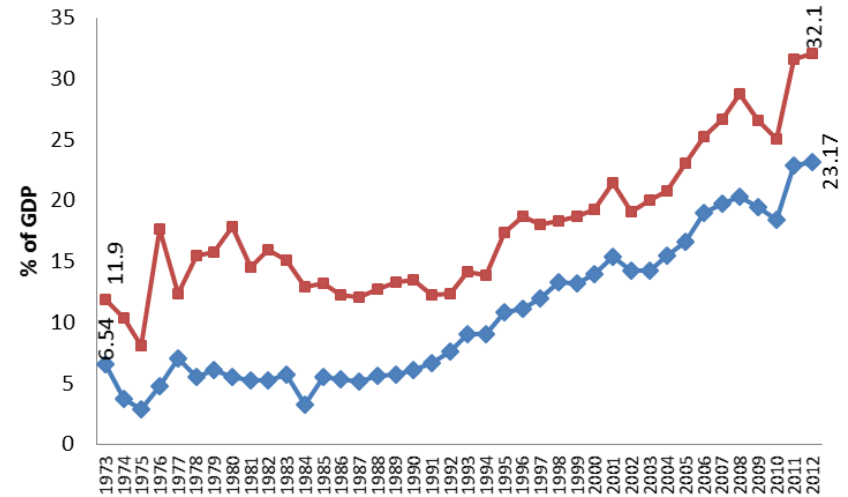-and unpack of the conceptual black-box of the growth 'paradox'

Episodes of Growth
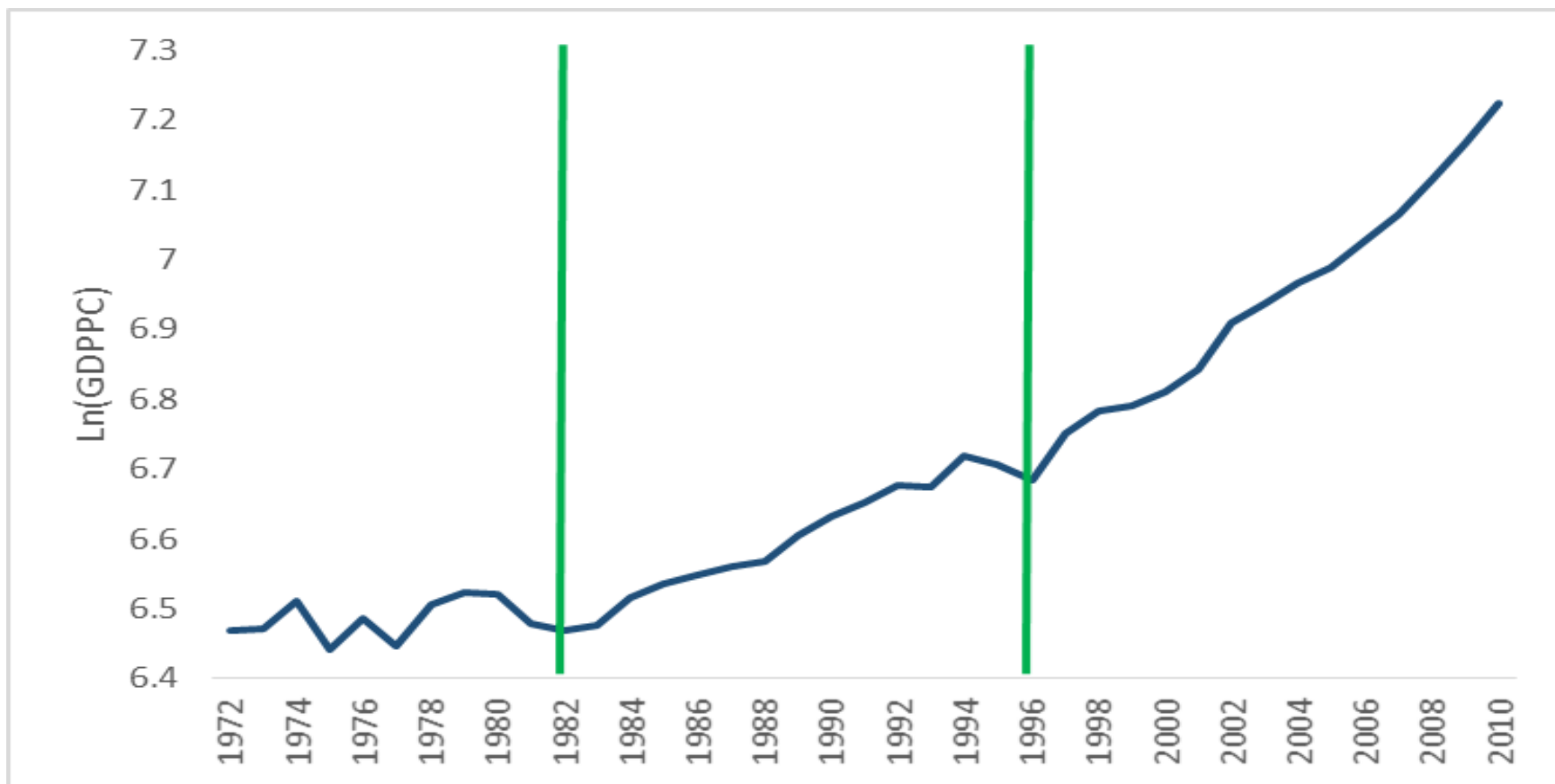
Source: Kar et al (2013)
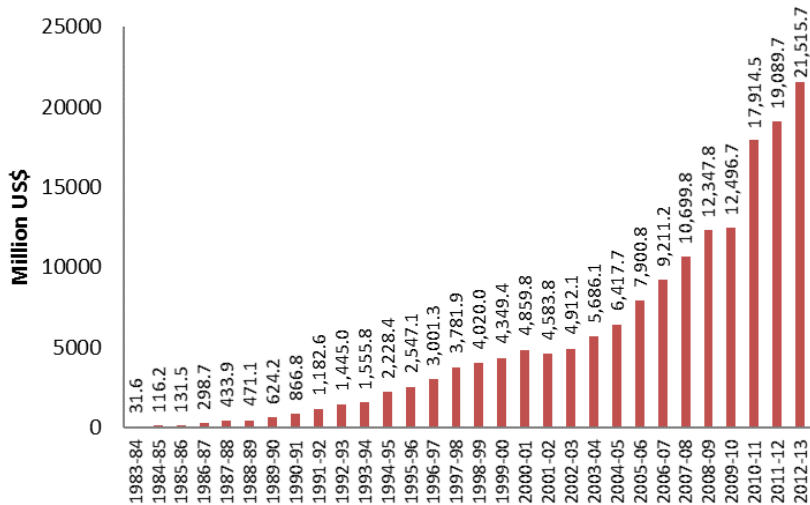
Pattern of Structural Change in the Economy

Composition of GDP (% share in GDP)
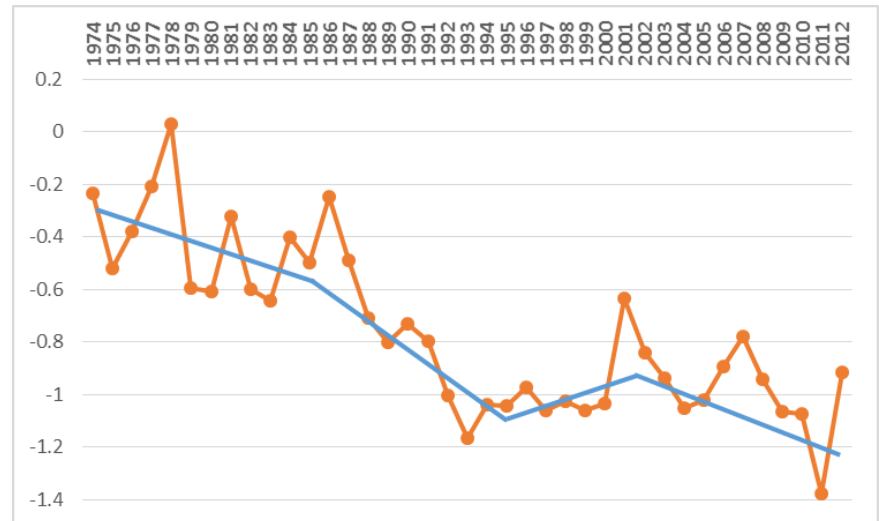

Import-GDP and export-GDP ratios

Growth of Bangladesh RMG exports
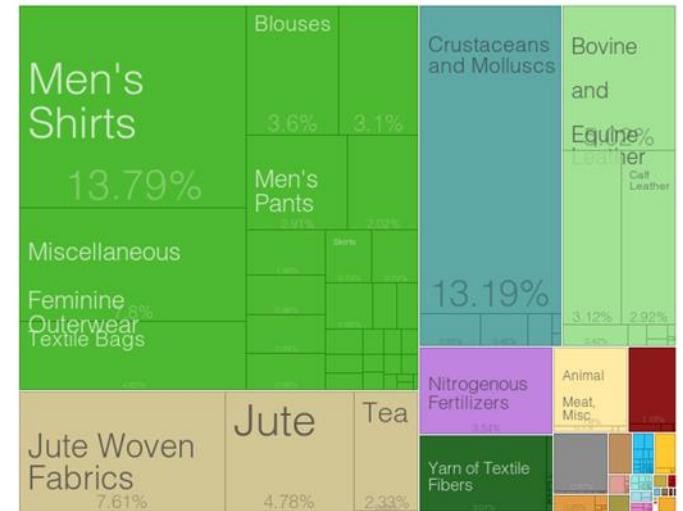

Economic Complexity Index

Product Space

**Product space during
1972-1982 growth episode**

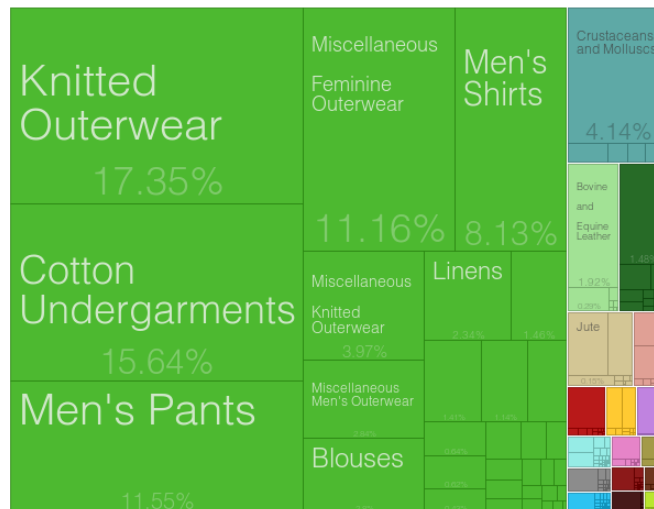**Product space during
1983-1996 growth episode**

**Product space during
1997-2010 growth episode**

Rent Space Post 1996 growth episode

|	High Rent	Competitive
Export oriented or Imports-competing	**RENTIERS**	**MAGICIANS** RMG is the dominant exports Leather and leather goods Frozen fish and Shrimp Pharmaceuticals Jute and jute goods export
Domestic Market	**POWER BROKERS** Electricity generation and distribution Gas, water and sanitary services Construction Trade services Transport, storage& communication Real estate, Housing, renting& business service Banks Mining and quarrying Petroleum and petroleum products	**WORKHORSES** Crops and Horticulture Livestock, Forest and related services, Fishing Chemical and rubber Metal and mineral products Machineries Electrical machinery and apparatus Transport equipment's Other manufacturing industries Wood and furniture Paper and printing Other services

Share of actors in GDP in growth episodes
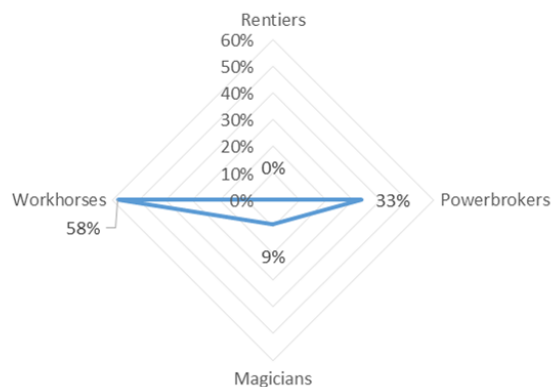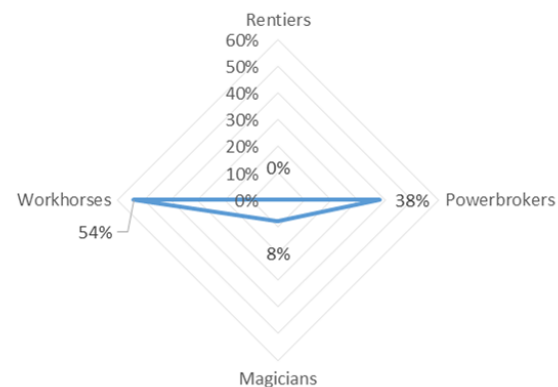
Some Key Concepts
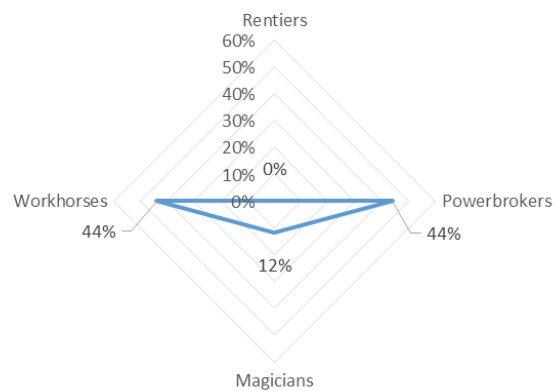
- Political Settlement
- Open and Limited Access Order
- Partyarchy
- Rule and Deals Environment
- Open, Close, Ordered and Disordered Deals
- Market Enhancing and Growth Enhancing Governance
- Dominant party settlement
- Competitive clientelism

Principal characteristics of Growth enhancing governance

- Existing trend in growth rate has been possible in Bangladesh despite weaknesses of many of the market-enhancing institutions because of **a reasonably robust form** of 'growth-enhancing governance.

- **Growth enhancing governance** is characterized by:

- **de facto rent sharing** (across political divides);

-**political elites' ability to separate economic and political rents** (based on contingent needs);

-a **largely ordered deals environment** irrespective of being open, close or semi-close in various sectors of the economy;

- All of the above has created the **enabling conditions**:

-*de facto* credible commitment of the state,

-transactional certainty etc, which are critically important to the private market actors for economic growth to take place.

Elite settlement in Economics and Politics Going Separate ways

- During the growth episodes, Bangladesh's social order has witnessed **gradual erosion of basic** LAO (1972-1990) in both political and economic domains.

- This erosion manifested as ***pendulum shifts***—regressing and progressing in the maturation process of LAO

- Note that such **pendulum shift mainly characterized the dynamics in politics rather than economics**.

- One of the defining characteristics of the **maturation process in the economic domain,** is the survival of the ordered deal environment.

- **Ordered deal means reaching a perpetual state of self-enforced equilibrium**--underpinned by an elite political settlement despite pendulum shifts in politics.

- We believe such resilience of the ordered deals environment (irrespective of being open or close) substantially contributed to the positive trend in growth (albeit weak acceleration).

The continuing survival of elite equilibrium and its consequence

- Ordered deals environment in the economic domain, also survived during different phases of LAO

- The survival indicates a **robust form of intra-elite** cooperation

- **This co-operation**:

- signalled a **de facto credible commitment** to market actors

- led to **lengthening marker actor's time horizon** for realizing returns to investment,

- **preserving the process of growth enhancing economic governance** throughout time

Uniqueness of Bangladesh case

- Robust and resilient forms of ordered deals evolved in Bangladesh, *not* in a context of a matured LAO,
- In **matured LAO in which intra-elite relations take place in an impersonal manner,**
- In Bangladesh which **is a semi-matured LAO, elite interactions continue to be conducted in a personalistic and discretionary mode** (i.e., elites have yet to develop rule of law even for themselves).
- Ordered deal was maintained under military dictatorships, dominant party settlements (exhibiting mostly centralized rent management), as well as under competitive clientelism in Bangladesh.

Why did ordered deal survive?

- **Political elites' commitment to ordered deals is based on**:
- - political elites' pro-market ideology
- - Preference for market-led growth
- - Emphasis on economic development (developmental legitimacy) for political survival
- Hence the incentives to nurture and promote private sector by supplying a reasonable **degree of predictability and stability in the economic domain.**
- Overtime, **business community has become politically stronger** as manifested in policy/regulatory capture, increasing dominance over party, parliament and electoral political process, thus sustaining the ordered deal environment

Role of Business in Sustaining Ordered Deal in the Present and its Impacts

- **Business actors have also maintained ordered deals by:**
- **By buying state services** required for business which has shortened transaction time.
- BUT such buying of services increased transaction costs .
- **In a 'perverse' way,** the increasingly partisan (thus making it largely immune to accountability and reform) and pre-dominantly non-meritocratic and kleptocratic bureaucracy meant that business was able to buy services.
- **And that helped maintain** a growth-enhancing governance environment.
- Business actors with opposing partisan identities as well as non-partisan business were able to **build *opportunistic alliances/syndicates* to secure ordered deals,** despite zero-sum game in the political domain.

Concluding Observation

- So far, the ordered deal has been maintained and contributed to reasonably robust economic growth

- **Concern remains:**

-whether such quality of state institutions and the processes of governance, which enabled decent growth rates so far, will allow structural transformation for securing and maintaining higher growth rates?

- Is this a valid concern?