

Volume 18
Number 1 & 2
Year 2016
ISSN 1529-0905



Journal of
**BANGLADESH
STUDIES**



JOURNAL OF BANGLADESH STUDIES (ISSN 1529-0905)

Editor in Chief

Syed Saad Andaleeb, Ph.D.
Vice Chancellor & Distinguished Professor Emeritus
BRAC University
66 Mohakhali, Dhaka, Bangladesh

Editorial Board Members

Ahrar Ahmad, Ph.D.
Dept. of Political Science
Black Hills State University
Spearfish, SD 57783

Sadiq Ahmed, Ph.D.
Policy Research Institute
Express House, No. 16, Road 16-A, Block H
Banani, Dhaka 1213

Ashraf Ali, D.Sc.
Bangladesh Development Initiative (BDI)
15160 SE 54th Place, Bellevue, WA 98006

Farida Khan, Ph.D.
Dept. of Economics
University of Wisconsin-Parkside
900 Wood Road, Kenosha, WI 53141

Munir Quddus, Ph.D.
College of Business
Prairie View A&M University
P O Box 638, Prairie View, TX 77446

Associate Editors (Interim)

Kazi Iqbal
Bangladesh Inst. of Dev. Studies (BIDS)

Halimur Khan
Bangladesh Development Initiative (BDI)

Rasheda Khanam
University of Southern Queensland

Sukomal Modak
Bangladesh Development Initiative (BDI)

Navine Murshid
Bangladesh Development Initiative (BDI)

Typography and Graphics

Sukomal Modak, Ph.D.
2323 Santa Rita Rd., #60
Pleasanton, CA 94566
Email: Sukomal_Modak@yahoo.com

Md. Shahidul Islam
BRAC University
66 Mohakhali, Dhaka 1212
Bangladesh

Cover Design

Nazia Andaleeb Preema
Visual Artist, Preema's Atelier
Dhaka, Bangladesh

JOURNAL OF BANGLADESH STUDIES (ISSN 1529-0905)

Journal of Bangladesh Studies (JBS) Editorial Advisory Board

Manzoor Ahmed

Senior Adviser, Institute of Educational
Development, BRAC University, Bangladesh

Sajeda Amin

Senior Associate
Population Council, New York

Debapriya Bhattacharya

Distinguished Fellow
Center for Policy Dialogue, Bangladesh

Saleemul Haque

Senior Fellow, International Institute for
Environment & Development, United Kingdom

Rounaq Jahan

Distinguished Fellow
Centre for policy Dialogue, Bangladesh

Haider A. Khan

Professor of Economics
University of Denver, Colorado, USA

Zillur R. Khan

Professor Emeritus
University of Wisconsin, Oshkosh, USA

Habibul H. Khondker

Professor, Humanities and Social Sciences
Zayed University, Abu Dhabi

Sufian A. Khondker

Director & Department Manager, Water Resources
Engineering Dewberry Engineers Inc, New York

David Lewis

Professor, Department of Social Policy
London School of Economics, United Kingdom

S. Akhter Mahmood

Lead Investment Policy Officer
The World Bank

Wahiduddin Mahmud

Professor of Economics
University of Dhaka, Bangladesh

Tazeen Murshid

University of Brussels &
University of Cambridge

Hossain Zillur Rahman

Executive Chairman, Power and Participation
Research Centre (PPRC), Bangladesh

Saifur Rahman

Joseph R. Loring Professor & Director
Virginia Tech Advanced Research Institute, USA

Salim Rashid

Professor Emeritus (Economics)
University of Illinois at Urbana-Champaign, USA

Ali Riaz

Professor and Chair, Department of Politics and
Government, Illinois State University, USA

Yana Rogers

Professor & Director of Women and Gender Studies
Rutgers University, USA

Zaidi Sattar

Chairperson
Policy Research Institute, Bangladesh

Sanchita Saxena

Associate Director, Center for South Asian Studies
University of California, Berkeley, USA

Forhad Shilpi

Senior Economist
The World Bank

Rehman Sobhan

Chairperson
Center for Policy Dialogue, Bangladesh

JOURNAL OF BANGLADESH STUDIES (ISSN 1529-0905)

Partners of Journal of Bangladesh Studies (JBS)

American Institute of Bangladesh Studies
www.aibs.net

Policy Research Institute
www.pri-bd.org

BRAC University, Bangladesh
www.bracu.ac.bd

Prairie View A&M University, Texas, USA
www.pvamu.edu

CONTENTS

From the Editor	
Syed Saad Andaleeb	vi
The Future of Bangladesh: ICT Strategy and Technological Super-Convergence	
Haider A. Khan	1
Managing Political Violence	
Tazeen M Murshid	13
Dealing with the Local Level Power Structure: Findings from a Qualitative Study of Three Villages in Greater Faridpur District	
David Lewis and Abul Hossain	24
The Looming Non-Traditional Challenges to Security in South Asia: Restoring Ecological Integrity and Security	
Tariq A Karim	34
Are Remittances Utilised for Investment in Bangladesh?: A Cointegration and VECM Analysis	
Sifat I. Ishty and M. Wasique Rahman Khan.	42
Tax Culture: The Bangladesh Perspective	
Sams Uddin Ahmed	56
Borders without Boundaries: Reimagining Asia (Occasional Paper)	
Rehman Sobhan	64

FROM THE EDITOR

I write this editorial with a deep sense of sadness for the loss of two precious high school students, run over by a public bus, allegedly racing another to be the first to pick up other waiting children and passengers from a bus stop near Hotel Radisson in Dhaka, Bangladesh. In condemnation, the high school children rose by the multitude and raised their voice in a clarion call to make the roads safer. They put to shame the policy makers and traffic law enforcers by playing the role of traffic police and catching culprits by the hundreds who could show no valid driving license or fitness papers of the vehicles they were driving. Shamelessly, these brazen culprits have ignored the law for years, safe in the thought that if caught, their owner-masters will bail them out.

While this particular event roiled the political and social landscape of Bangladesh, stories of many other lives, similarly lost over the years in an untimely fashion, have not even hit the news, to be lost forever, ignominiously, without justice, and with no compensation for those who depended on them.

What has been the bane of the users of public transportation for years, actually decades, is safety, that has been sidelined in the race for profits and market share by transportation owners employing drivers who have been reckless, irreverent, without licenses, below the allowable driving age, lacking in education, and perhaps even on drugs to keep themselves awake while driving for interminable hours as strategized by their ever-hungry owners driven by greed and profits. The vehicles plying the streets also have had questionable fitness.

The owner-masters, working with lawmakers, recently proposed cancellation of the contract system which promoted rash driving: beyond the daily contract amount payable to the owners, the driver-helper team could keep however much money they could generate. The resultant rash driving, long and tiring hours, more round trips, and unhealthy competition with rivals, unfettered by law enforcers, took its regular toll.

In all of this, the outcry of a generation of school children who will be the country's future leaders was also stifled with promises and, allegedly, uncivil means. But have the young voices been really stifled? If so, what will these children have learned? How will they run the country when it is their turn? This is rich territory for research institutions that may undertake a cohort study to

assess the impact of the damage done and the repercussions that may have to be borne by the nation for years to come.

What needs to be done? In an article written in August 2010 (Drastic Times Call for Drastic Measures) in the Daily Star, I had outlined several imperatives to be considered by the City's transportation authority for immediate implementation. One that seems to have gained recent attention was to "Encourage government officials to use mass transportation... When they use mass transportation, they will find ways to fix the system. Perhaps higher-ups in the government, including the minister, may be asked to use mass transportation at regular intervals." While a utopian thought, if it gains traction, this can be one of several measures that can change for the better the transportation experience of the citizenry.

In this issue of JBS, the diversity of perspective is notable. But, seen holistically, policy measures addressed by the articles are timely, important and meaningful – for both local and regional impact.

Haider Khan sees "ICT sector strategy as an integral part of an optimal strategy for Bangladesh to become first a middle-income country by 2030 and then a high-income country by 2041" by increasing R&D expenditures so that by 2041 it reaches 2 per cent or more of GDP. Rapid development in the following areas -- Cloud Orchestration; Distributed Storage; Alternatives to Java; Big Data Processing; Deep Learning in AI (Artificial Intelligence); and The Internet of Things (IoT) -- combined with improving access to the internet and the various areas such as e-governance, e-health, e-education etc., -- will require appropriate development of human resources and institutional capacity. In the next 5 years, Khan projects that IoT will become widespread and will "evolve rapidly to cut data ingestion costs and reduce network latency." Capacity development will also be crucial if the focus shifts to Big Data and all other areas of AI. By 2050 the prediction is there will most likely be a "superconvergence" of ICT, Biotechnology and Nanotechnology with enormous increase in total factor productivity. Khan calls for "An experts group comprised of a majority of scientists in this field in Bangladesh together with a few expatriates of international standing in their respective epistemic communities to study the prospects of "superconvergence" of technologies in

Bangladesh for 2050 and recommend specific policies for all three sectors.”

Tazeen Mahnaz Murshid states that “The right to freedom from violence is a human right. All violence is political in that violence is both the cause and result of unequal power relations; i.e., the stronger violates the weaker.” How aptly stated! Recent events that I mention at the beginning show how quickly the voices of little children demanding road safety were managed, allegedly with undue violence, the long-term ramifications of which are unclear. Murshid suggests that “Political violence needs to be managed with the objective of eradicating it... [and] that the state must create an enabling environment through compromise and cooperation while rejecting a monolithic partisan approach to governance in order to restore trust, political certainty and confidence in inclusive participation.” This would facilitate the protection and preservation of human rights.

David Lewis and Abul Hossain report their findings from a re-study to provide a bottom-up view of “how ordinary people try to deal with local power structures.” Given that power asymmetries in the rural space can contribute to exclusion, inequality and restrictions on equitable growth, the authors found that “the traditional village ‘net’ power structure has continued to fade, providing people with a wider set of livelihood choices and institutional options.” However, local civic engagement has also ostensibly diminished, with opportunities for rights-based action to secure justice and inclusion on the wane. Similarly, as claimed, the Union Parishad’s role and status as the basic institution of local government has lost its edge in improving poor people’s participation in local decision-making, with many adverse ramifications.

Tariq Karim expresses concern about non-traditional security challenges such as the looming food and water crises, and the devastating environmental impacts from climate change. With a rising global population and dwindling resources, Karim feels that contestations among peoples and nations for selfish appropriation of natural resources can cause both degradation of the environment and human relations. In particular, he focuses on fresh water -- whether underground, on the surface, in rivers or in mountain glaciers -- which is very unevenly distributed globally. “The steadily expanding gap between available fresh water on the one hand, and the exploding populations particularly in the global South on the other, is at the heart of ecological and civic disequilibrium, if not properly managed, possibly triggering a “domino effect” that could pose an existential

threat to human survival.” Karim proposes the need for an appropriate inter-country governance structure to manage these precious commons, equitably and optimally, to prevent further intensification of human conflict and the jeopardizing of human security.

Sifat I. Ishty and M. Wasiquir Rahman Khan utilize a cointegration and vector error-correction model approach to investigate the connection between remittances and investment in Bangladesh. They find a long run positive association between the two, as expected. However, they also find evidence of a short-run negative relation between remittances and investment, suggesting that remittances are used for non-investment purposes in the economy, a case reported for the first time in Bangladesh. The authors recommend taking steps “to encourage even further remittance inflows into the economy and in order to mitigate the short-run impact promote steps which may divert remittance into productive investments.”

Sams Uddin Ahmed, a senior official in tax administration, characterizes Bangladesh as poor in tax compliance. Among many reasons for such anomaly he highlights tax culture, elaborated in the paper, as a major contributor. By improving tax culture, Ahmed feels it can greatly contribute towards improvement of voluntary compliance. The paper delves into other causes of poor tax culture in Bangladesh and suggests measures to be adopted by the National Board of Revenue to improve the situation.

In a new initiative, we also present a keynote address in this issue as an occasional paper by Rehman Sobhan in which he reimagines Asia with borders but without boundaries that is provocative reading. JBS will consider such reflections as and when they provide enriching perspectives.

To conclude, I must express my unhappiness at having fallen behind in our publication schedule. Making JBS rigorous, useful and relevant has been my prime consideration as the editor. This requires that we present quality articles. In this matter, it has been a struggle and, in recent years, the quality of the submissions have not been as expected. Our reviewers, who give generously of their time, have also been very supportive by playing a nurturing role. While the number and quality of submissions are not where we had expected, the matter is getting more attention of the editorial board. So, do stay with us!

Syed Saad Andaleeb
Editor

The Future of Bangladesh: ICT Strategy and Technological Super-Convergence

Haider A. Khan

John Evans Distinguished University Professor
University of Denver
Denver, Co. 80208, USA

Abstract

The main purpose of this paper is to find the ICT sector strategy as an integral part of an optimal strategy for Bangladesh to become first a middle income country by 2030 and then a high income country by 2041. Formally, I argue for a Social Capabilities Enhancing National Innovation System (SCENIS) for Bangladesh to be built in the next few decades. The transition---indeed transformation--- can be realized through a process of rapid inclusive growth leading to elimination of poverty while increasing the productive capacity and building an innovating learning economy. Since ICT globally is a dynamic sector, Bangladesh will need to focus---without being exhaustive--- at least on the following areas of global ICT development: Cloud Orchestration; Distributed Storage; Alternatives to Java; Big Data Processing; Deep Learning in AI (Artificial Intelligence); the Internet of Things.

1 Introduction

Since its liberation, Bangladesh has gone through many ups and downs but particularly since the late 1990s the country has shown great promise by pushing ahead with its development agenda vigorously. Poverty has declined rapidly and economic growth is showing an upward trend reaching between 6 and 7 percent per annum in the second decade of this century. It is realistic to expect a growth rate of 8 percent. However, technological progress and innovation, especially in the ICT sector will be crucial in achieving rapid inclusive growth.

The country aspires to reach upper middle-income country status by 2030, and expects to become a developed economy in the 2040s decade. The transition---indeed transformation--- can be realized through a process of rapid inclusive growth leading to elimination of poverty while increasing the productive capacity and building an innovating learning economy. The cornerstone of an inclusive development strategy is a robust strategy of job creation through employment-intensive export-oriented manufacturing growth.

The ICT sector has both manufacturing and services sector characteristics and both will be discussed in this paper. With regards to the service sector aspects, it is relevant to recall Dr. Sadiq Ahmed's broader treatment of services in Bangladesh:

A striking aspect of the development of the services sector in Bangladesh is that it not only

has responded well to the growing demand emerging from the growth of manufacturing and agriculture activities, it has also positioned itself well in the global market for low-skilled workers, especially to the oil-rich middle-eastern markets. As a result, there has been a rapid inflow of worker remittances that has fueled a huge demand for construction activities and for a range of services in both urban and rural areas. This inflow of remittances has played a major role in transforming the rural economy and contributing to poverty reduction (Ahmed 2015).

While the creation of a better skill sets endowed workers is necessary for ICT, the demand side factors mentioned above also apply to the service oriented parts of the ICT sector.

Ahmed (2017) adds further:

The services sector itself is transforming. As Bangladesh transited from a low-income developing country at the time of independence in 1972 to a lower middle-income country in 2015, the services sector has been steadily transforming from a primarily low-productivity, low-income unorganized services sector dominated by trade, transport and low-end personal services towards more organized and higher-income commercial services.

What Ahmed refers to above for a broader set including ICT, applies with particular force to the latter.

In keeping with the goals of reaching the medium income country by 2031 and high income country by 2041 to 2050 with inclusive growth, the broad objective of this study will be to explore and determine how an optimal strategy for technological adaptation, adoption, innovation and diffusion with special emphasis on the ICT sector for meeting these goals can be formulated.

Ultimately the goal of S& T—including ICT—policies and institution building must be to improve the living standards of people. For this purpose, extending Sen's capabilities approach to human well-being to S&T systems, I have coined the term *SCENIS* or Sustainable Capabilities Enhancing National Innovation System. Building a SCENIS is what I advocate for Bangladesh. Although the technical issues cannot be discussed here further for lack of space, I have developed two versions of a computable SCENIS model that could be implemented in Bangladesh with further appropriate data gathering and building in particular, a sequence over time of SAM-Techs or disaggregated Technology-based Social Accounting Matrices as consistent economy wide databases.

The rest of the paper is organized as follows. Section 2 analyzes the issues in the ICT sectors both intersectorally and at the firm level and introduces the key concept of an augmented equitable national innovation system for Bangladesh. Section 3 offers an analytical strategic policy space for ICT development in Bangladesh. The concluding section looks further forward to some frontier ICT sectors and how Bangladesh can catch up and reach its development targets by 2050.

2 The Required Objectives of the ICT Sector for the Future

Roughly there are three broad categories of the new ICTs: (1) computing, (2) communicating, (3) Internet-enabled communication and computing. Strictly speaking, not all of ICT sectors are digital, or at least not yet. Even within the digital part, the pre- and post- internet distinction is historically important and relevant for the developing economies. This applies for example for cell phones that became smart phones with the integration of telephony and microcomputer-based internet transactions. Bangladesh has made great strides in utilizing smart phones and as recent developments show, there is still much untapped potential in the service sector use of smartphones.

We can dissect the digital economy's infrastructure into its pre-Internet and Internet eras. Before the Internet, a host of information technologies came into existence, which provided computing power on a

platform-specific system, usually centralized (e.g. a central mainframe with terminals) or distributed within a local area. The advent of the Internet (and its precursors, the U.S. government-funded research networks like the defense research network - ARPANET) was a critical event because it set up the basic infrastructure, standards (e.g. protocols for communication) and technologies, that enabled large scale, distributed and platform-independent information exchange and manipulation. This "single" system allowed the introduction of literally unlimited sources of information, or access points to it, in a *scaleable* fashion, i.e., without increasing numbers of constraints or decreasing economic "returns to scale". The first computing functions consisted of basic email and file transfer capabilities like *ftp* and *gopher*, but these were soon coupled with basic "Web" technologies, like the development of the first browsers and the standards and technologies of the "World Wide Web". The "World Wide Web" further improved the remote accessing and manipulation of information, and ensured that all information could be "web-based", and therefore potentially viewable/downloadable by anyone connected to the Web. All these set the stage for electronic commerce to take place, since the connection of such large numbers of people to all the sources of information provided a potentially enormous market never possible in the history of markets.

I present below the relevant available ICT Data for Bangladesh. As mentioned earlier, it should be noted that the data for the ICT manufacturing sector is currently only available for a few years (the latest being 2012). Using the Bangladesh Survey of Manufacturing Industries, I have compiled data on establishments, gross output, total persons engaged and salaries and wages of each component. Since the report did not provide any profit calculation, I have instead included data of Gross Value Added (Gross Output-Input Cost) and Value Added at Factor Cost (Gross Value Added- Indirect Cost).

In tables below and the corresponding graphs, we note that much of the earlier growth occurred between the mid 1990s and 2000. The growth under the second BNP regime was particularly slow. For sectors 3836 and 3000 (Computing & Accounting Machineries), 3841 (electronics) and 3839 (other general-purpose machinery), there was negative growth in number of establishments. Fortunately, gross output continued to show increases, as shown in Table 2. Table 3 shows slow growth in gross input cost implying perhaps stagnant wages and some mismeasurement of capital cost. Table 4 on Value Added at Factor Cost registers growth in several ICT sectors but shows little progress in computing machinery. I will discuss this on the basis of extensive interviews with some industry leaders.

ICT Classification Under BSIC Rev-2 and 3

Table 1: Number of Establishments

BSIC Rev-2 (as used in MIS) and Rev 3.1 for 2005-06	Year/Description	1992-93	1995-96	1997-98	1999- 2000	2005- 2006
3836 & 3000	Computing & Accounting Machineries		3	3	3	2
3839	Other General-Purpose Machinery	49	61	93	64	
3841	Electronics Including Machinery Appliances	14	28	14	7	
3842 & 3220	Radio and Television	23	32	38	31	36
3843	Electrical Appliances	13		18	12	
3844 & 3130	Insulated Wires & Cables	12	12	12	11	44
3845 & 3210	Electric Bulbs and Tubes	8	8	16	18	22
3847 & 3120	Electronic Components	4			1	30
3849	Electrical Apparatus	134	143	122	121	

Source: Report of Bangladesh Census/Survey of Manufacturing Industries

Table 2: Gross Output

BSIC Rev-2 (as used in MIS) and Rev 3.1 for 2005-06	Year/Description	1992-93	1995-96	1997-98	1999- 2000	2005- 2006
3836 & 3000	Computing & Accounting Machineries		7800	7800	7816	49755
3839	Other General-Purpose Machinery	247389	164899	187397	1170832	
3841	Electronics Including Machinery Appliances	94910	81560	5537	498181	
3842 & 3220	Radio and Television	914578	1282061	2023611	2217112	2501656
3843	Electrical Appliances	174201		624736	398396	
3844 & 3130	Insulated Wires & Cables	724697	1669315	11062226	9090272	2089148
3845 & 3210	Electric Bulbs and Tubes	842202	1170748	2942578	4567064	1363209
3847 & 3120	Electronic Components	59351			27859	115276
3849	Electrical Apparatus	699624	6732789	4208753	3817188	

Source: Report of Bangladesh Census/Survey of Manufacturing Industries

Table 2 shows moderate growth that will need to be accelerated consistent with the plan vision for 2041. Although production in most categories shows healthy growth trajectories, two basic areas --- Insulated Wires & Cables and Electric Bulbs and Tubes---show a decline. Since electrical goods sector as a whole did not shrink and electronic components part kept growing,

most probably, the gap was made up for by imports. Without a sufficiently detailed imports map year by year, it was not possible to check this conjecture directly. It could in part be also accounted for by price inflation in these sectors. A comparison with VA at factor costs in table 12 suggests that this may have happened.

Table 3: Gross Value Added (Gross Input Cost) (in '000 Tk.)

BSIC Rev-2 (as used in MIS) and Rev 3.1 for 2005-06	Year/Description	1992-93	1995-96	1997-98	1999- 2000	2005- 2006
3836 & 3000	Computing & Accounting Machineries		4403	4403	4418	10488
3839	Other General-Purpose Machinery	89488	41742	84160	417734	
3841	Electronics Including Machinery Appliances	25963	35058	5033	208295	
3842 & 3220	Radio and Television	368725	447897	807918	1229290	1129338
3843	Electrical Appliances	54914		240107	154901	
3844 & 3130	Insulated Wires & Cables	308903	1112185	10070519	8149383	592751
3845 & 3210	Electric Bulbs and Tubes	366936	560194	1155655	2345189	1119374
3847 & 3120	Electronic Components	26483			7674	82830
3849	Electrical Apparatus	441453	2273814	2052942	1863695	

Source: Report of Bangladesh Census/Survey of Manufacturing Industries

Table 4: Value Added at factor cost (in '000 Tk.)

BSIC Rev-2 (as used in MIS) and Rev 3.1 for 2005-06	Year/Description	1992-93	1995-96	1997-98	1999- 2000	2005- 2006
3836 & 3000	Computing & Accounting Machineries		2981	2981	2996	4887
3839	Other General-Purpose Machinery	65035	31000	76124	292088	
3841	Electronics Including Machinery Appliances	10843	28344	3328	106700	
3842 & 3220	Radio and Television	165306	245769	373777	905778	1106904
3843	Electrical Appliances	34152		128863	82838	
3844 & 3130	Insulated Wires & Cables	196292	743376	9836455	7930171	550082
3845 & 3210	Electric Bulbs and Tubes	207235	328266	363106	660490	931726
3847 & 3120	Electronic Components	18852			6187	80275
3849	Electrical Apparatus	398335	1615071	1636018	1453892	

Source: Report of Bangladesh Census/Survey of Manufacturing Industries

Table 5: Total Number Persons Engaged

BSIC Rev-2 (as used in MIS) and Rev 3.1 for 2005-06	Year/Description	1992-93	1995-96	1997-98	1999-2000	2005-2006
3836 & 3000	Computing & Accounting Machineries		36	36	36	58
3839	Other General-Purpose Machinery	1510	1253	2562	6099	
3841	Electronics Including Machinery Appliances	395	490	182	895	
3842 & 3220	Radio and Television	1938	1971	2669	1549	10480
3843	Electrical Appliances	929		3499	2136	
3844 & 3130	Insulated Wires & Cables	1749	2396	2316	2185	2537
3845 & 3210	Electric Bulbs and Tubes	730	764	1588	2036	1285
3847 & 3120	Electronic Components	172			795	420
3849	Electrical Apparatus	5870	27129	20654	18829	

Source: Report of Bangladesh Census/Survey of Manufacturing Industries

Table 5 is an important indicator of the contribution of the ICT sectors to people's well-being via employment generation. Again, the record of BSIC 3836 and 3000 is weak, and Electric Bulbs and Tubes and Electronic Components show declining employment from 2000 to 2006. More recent data for these sectors are not available; but the healthier overall growth figures for more recent years suggest a possible recovery and expansion.

The conclusion that can be drawn provisionally is that on the whole ICT sectors generate relatively decent number of jobs at relatively decent pay and benefits; but there is much room for increasing the scale and scope, generating more output and employment. My field work observations also indicate large variances both within and between firms. The potential for both quantitative and qualitative improvements by 2041 is enormous in this area.

BASIS SOFT EXPO 2017 document states that there are now more than 4500 enterprises with 56 per cent of the total revenue coming from software related firms and 44 per cent from ITES related firms. According to BASIS research, exports from 382 BASIS companies in 2015 was US \$594.73 million. There is also an *upper bound estimate* of US \$ 761.5 million. But this is based a generous assumption that 25 per cent of the IT and ITES sector firms are exporters.

One area of success is the extension of ITES through smart mobile telephony. In my view, more important than the success of just selling mobile phones are the creative ways firms like bKash are starting to provide important services to the people.

Bangladesh is progressing towards the broad goal of building an innovation system. Even where the country is dependent of import items, the goal is to build and train and skilled labor forces for meeting Bangladesh's needs in software development, management and administration. My case study of one leading company shows it to be committed to capturing its niche in the world market in providing state of art technology and services at a fraction of global average cost. The company's goal---stated concretely--- is to manufacture the computer hardware and provide IT enable services. It is planning to build on its existing expertise in Software/Hardware, and IOT Design and Development. It already provides enterprise level software and hardware, along with IT services across the global market. The concrete objectives are to eventually capture the niche in the world market in providing state of art technology in IOT, VDI, Virtual Reality, Drone and other related items in a cost-effective manner---manufactured and assembled in Bangladesh at the Hi-Tech Park in KaliaKhor.

Bangladesh requires desktop level computing power

on each person's desktop, which can be a laptop and/or a desktop and/or Virtual Desktop Infrastructure (VDI) product uses a Private cloud technology in such a way that each person will be using a small device called A1 with a Keyboard, and a Mouse to experience a full desktop computing environment without having to have a traditional laptop or a desktop. A1 is a platform independent software that will run on Windows7, Windows10, Androids and Linux desktop environment, where a person can use Microsoft Office product, Adobe Illustrator/Photoshop for Graphic Design and any applications, able to surf the Internet. This technology has already reduced the cost of owning desktop exponentially and is closing the gap of Digital Divide for Bangladesh market.

A1 can coexist with existing environment or can function independently. With the rise of cloud computing in the world and the IT changes that are taking place in Bangladesh for digitization, within offices and institutes, by having A1 produced in Bangladesh, the local firms can provide an inexpensive desktop to address the IT challenges.

I now turn to a brief discussion of my extensions of the idea of National Innovation System(NIS) in order to pose the problems of and prospects for an appropriate NIS for Bangladesh or BNIS between 2041 and 2050.

The National Innovation System or NIS--- also abbreviated as NSI or National System of Innovation---- can be broadly defined as the intersectoral flow of technology and information in the economy including households and individuals, productive enterprises and various institutions including both public and private educational and R& D institutions. All these can form a network which under appropriate circumstances can generate a self-sustaining innovative process on the national level.(Freeman 1987,1995; Nelson 1992, 1993a, b, 1994, 1995; Lundvall 1992; Edquist 1997; Kim 2000; Kim and Nelson 2000; Lee 2006,2008; Lee and Lim 2001; Lee and Kim 2009; Khan 1998, 2002, 2004 a, b, 2011, 2012,2013, 2017; Khan and Matin 2011) . According to this approach, which I generally follow with some modifications described later, technological development requires a system of well-functioning institutional networks and such development when it occurs results from this complex system of relationships among different groups of actors who respond to appropriate policies in the socio-economic system. Most advanced countries are already societies with highly evolved NIS and SISS. Some NIEs in the Asia-Pacific region like China, India, Korea and Taiwan are developing such NIS and SISS with various degrees of success. Many poor countries are far behind. This is an example of what I mean by the unevenness of the global economy and globalization as a process.

My previous work on NIS and RIS (Khan 2002 and 2004 a,b in particular) of the requirements of technical progress shows that we need both a deeper understanding of the disequilibrium processes at work leading towards multiple equilibria, and the economic implications of the complexities of the production and distribution aspects of new technologies. It is with a view towards capturing these complexities leading towards multiple equilibria that an alternative conceptualization of technology systems transition in terms of an *Augmented* NIS (ANIS) has been formulated by some economists (Khan 1993; James and Khan 1997; Khan 1998, 2001 a,b; 2002, 2004 a,b; Gabriele and Khan 2010). In addition to capturing both equilibrium and disequilibrium features of technological transitions, this broad approach can illuminate *distributional* issues as well. Since poverty alleviation remains on the agenda of the national governments of Bangladesh, it can be argued that from this perspective at least the new approach has obvious relevance for Bangladesh. From here on, I wish to highlight the fact that my framework can be viewed as simply a variety of Augmented NIS (ANIS) and its various subsystems and therefore, I will be using the more general term from now on which also has the virtue of maintaining intellectual continuity with NIS and at the same time augment the range of the concept. One important extension captured in my formulation is the explicit consideration of *both factorial and household income distributions* which interact in a causally reciprocal way with the technology systems including the ICT subsystem.

While Bangladesh is far from the technological frontier in 2017, an optimal strategy for catching up through Original Design and finally original equipment manufacturing in various areas including ICT software and hardware can be formulated and thus a BANIS or Bangladesh Augmented National Innovation System can be launched to yield some fruits by 2030s.

3 Strategic Policy Space: Optimal ICT Sectoral Policies for Investment and Institutional Development

There are some crucial problems in the ICT sector in particular if Bangladesh is to meet its ambitious targets for the Perspective Plan by 2041.

The past experience suggests a number of factors that constrain the growth of ICT exports. First, although a significant number of educated and qualified entrepreneurs have started ICT ventures during the last couple of decades, most are trapped in the 'small size-low growth' situation because of funding constraints.

Second, there are severe gaps in both quantity and quality of human resources for the software industry. This is due to institutional deficiency of the tertiary ICT-related educational institutions (lack of industry orientation of teaching resources, slowness of curriculum modernization etc.) as well as inadequate quality input from the higher secondary education system to the tertiary level. Third, high cost of bandwidth deters growth of domestic market for ICT. Fourth, the absence of IT park/software Technology Park, high internet cost, no redundant submarine cable, and power shortages are some of the common infrastructural problems for most of the IT enterprises. ... Finally, the growth of export of ICT industry is below the expected level due to inadequacy in entrepreneurial dynamism, limited overseas marketing budget and absence of government level initiatives in promoting country brand. Policies and facilities are not friendly for value added service providers in the mobile phone industry.

One of the most important operational questions for planning adequately for S and T in Bangladesh---ICT in particular---is regarding the impact of technical progress including ICT on output, employment, incomes of households and their wellbeing. Although a Social Accounting Matrix based formal CGE model is necessary for answering this question technically and carrying out a number of relevant counterfactual policy experiments¹, it can be inferred from the existing models and data that on the whole there are great gains in these areas to be made from investments in R and D and production in innovative technologies.

4 Strategic Policy priorities---future developments in internet architecture, big data and AI

In the broadest terms, there are two complementary sets of strategic S&T package of policies for the ICT sector, both of which can be advocated in various degrees of mixtures:

1. Supporting (via preferential fiscal, financial and other policies, subsidies, investment and capital goods support) existing S&T private firms and promote startups etc. This would be a directly market-oriented, private sector centered strategy based on a sector-specific industrial policy aimed primarily at medium-term goals such as growth and technological upgrading of manufacturing output and exports and GDP growth. Yet, it would only indirectly be conducive to the establishment of an (augmented) National Innovation System.

2. Supporting primarily public S&T centers, institutions and infrastructure. This would be a public sector-centered strategy with a more long-term horizon, that might imply a lower GDP growth in the short and medium term. Yet, it would be the most clearly focused on the goal of creating an (augmented) National Innovation System.

Quantitatively, from the strategic planning perspective, policy makers must find targets for each year starting in 2018 to increase R&D expenditures so that by 2041 it reaches 2 per cent or more of GDP. Tables 19 and 20 below give the available R&D /GDP ratio for recent years, and the R&D-intensive export sectors. Bangladesh needs to increase the R&D /GDP ratio to at least 1% by 2025 and then gradually to 2% by the 2040s. Exports from R&D-intensive sectors should also be increased by 10% a year and by a higher percentage than that from the 2030s onwards perhaps by 2 per cent a year reaching the 25 to 30 per cent range eventually. This will be crucial for increasing productivity in the ICT sector and total factor productivity (TFP) overall.

Specific studies using the input-output structure and social accounting matrices can be undertaken for this purpose in order to come up with specific targeted R&D program within the ICT sector and other high technology sectors.

The investment through PPP in the ICT sector should specifically do the following:

- Plan to install the second submarine cable connection for expanding high speed internet facilities as soon as feasible.
- Plan to finish Phase II of implementation of broadband internet connectivity under the South Asia Sub-Regional Cooperation (SASEC) initiative.
- Within the Research and Development budget earmark 25% for ICT from 2020 to 2030, and as the absorptive capacity of the ICT sector increases, then in keeping with the goal of increasing TFP further between 30 and 40 per cent from 2031 to 2041.
- Study the examples of Korea and Taiwan carefully and build ICT parks through PPP initiative for developing capacity, attracting expatriate scientists and technicians and train the future ICT-capable workforce.

5 Incentive Policies for ICT Facilitation

Bangladesh can improve its scores on doing business by deregulating procedural aspects. It can improve the drive to motivate greater private provision of ICT services by

appropriate substantive deregulation of ICT sector activities promoting ease of entry and expansion of capacity. The government should ensure that the line Ministries related to ICT engage in constructive dialogue with ICT manufacturers and service providers. *Inter alia*, these can be facilitated through public meetings with business chambers and conducting special purpose surveys as necessary to obtain specific feedback on regulatory burden or other constraints faced by the producers and suppliers.

In addition, domestically the Government should invite private sector and non-profit sector for increasing broadband connectivity in rural area. The local entrepreneurs should be incentivized to cooperate in extending internet service to every local community. Tax incentives may be necessary for this.

In order to encourage the different actors in the R&D scene, the government needs to earmark an increasing volume of funds to elite universities, mainly through the Ministry of Education (MOE). Elite universities should be expected to lead in national R&D programs and projects, facilitate technology diffusion and pullovers, promote spin-off companies, incubation centres, and open laboratories for R&D sharing, to bridge-in foreign technology and partners.

A short run action program can be launched within the next 3 years to promote specifically university-industry links for R&D. A policy action group with scientists, engineers, economists and entrepreneurs can be set up for this purpose. The goal of this group should be to set up state technology transfer centres in four to six leading universities, with adequate funding and the most competent leadership that can be recruited nationally and internationally. It is vital strategically, to promote the commercialization of viable technological achievements. Bangladesh should also undertake tax write offs and incentivized subsidies policies for university-based start-up companies. As in China, these start-ups should be seen as crucial channels through which universities can contribute to national and local economies. For a country like Bangladesh emphasis on distributed computing such as the cloud computing mentioned will be strategically rewarding.

Policy makers also need to keep in mind some other key sources of production improvement and innovation growth such as each firm's absorptive capacity, the production network, openness, and managers' education. Market-oriented, competition-enhancing innovation system reforms can indeed improve the effectiveness of the incentive structure and foster the right set of S&T linkage activities, in the ICT sector specifically.

The influence of the two main stakeholders (government and end-users) can lead to a creative synergy when the incentives are transparent and

impartially imposed by the government. Hence specific areas of good governance are relevant to S&T and R&D intensive firms. Business laws and corporate governance should be transparent and enforced. While facilitating business and reducing bottlenecks, the state should not be captured by special interests. A responsive and responsible bureaucracy is part of this picture. Therefore, administrative reforms in the government and within the larger private sector firms need to be at the top of good governance priority list.

As new product output is an important indicator of R&D intensive firm performance, high technology firms in Bangladesh should be incentivized to operate at the frontier of new product development ---at first slowly but in an accelerated pace from the 2030s. There are sometimes static inefficiencies in R&D and these should be minimized as soon as possible without losing much time; but the main focus should be on dynamic advantages in terms of innovative capacity and technological progress, with major spillovers benefiting the national economy as a whole.

A dualistic pattern in Bangladesh's technological development, with the export-oriented segments of the economy being relatively isolated from those producing mainly for the domestic market can also develop. While some of these are inevitable and beneficial with proper reinvestment and distribution of benefits, care must be taken not to become exclusively export dependence for the innovative sectors to be innovative. This is where ANIS in Bangladesh can come into its own in the 2040s. The weight of constraints such as an insufficiently developed institutional framework, relatively low overall educational attainments, the lack of a large pool of world-class talents, the embryonic stage of indigenous innovation capacity, and insufficiently developed linkages between R&D and industrial enterprises can and should be overcome to a large extent by the 2040s and 2050s.

It is clear from both the empirical evidence and the institutional analysis above that the governmental bodies set up to administer the R&D can pursue the goal of building a BANIS with emphasis on ICT more vigorously in the coming years. A well-funded PPP institutional mechanism will need competent technical and managerial talent for functioning properly. A better mechanism for monitoring and timely action and agenda formulation is needed. Instead of relying on multiple, overlapping and sometimes dysfunctional bureaucratic formations, it may be possible to set up a relatively autonomous functional body of experts by careful selection from within the government and from the civil society.

For the ICT sector, this could be an ICT Monitoring Board (ICTMB) of experts by drawing upon both local

and international pool of competent scientists and managers. The ICTMB should have the authority to get information from all the divisions and districts. It should also have the authority to design a flexible and pragmatic ICT inputs pricing policy where such a policy is needed. Through its professional cadres it could monitor more effectively the supply and demand conditions in a rapidly changing market by developing a Geographically Decentralized ICT Monitoring System (GDICTMB). The GDICTMB will also keep track of import levels and future import needs.

The GDICTMB should have the authority to take steps to promote both market competition and good corporate governance (Khan, 1999, 2004). It should also have the authority to set up laboratories and mechanisms for detecting the quality of ICT products manufactured and services delivered, and supply public prosecutors with the needed information so that the guilty parties who abuse government support can be brought to justice swiftly. Needless to say, there are many organizational and other details that will need to be worked out. But such institutional reforms if carried out competently, will enhance the prospect for stabilizing the ICT markets and lead to further innovation. If and when institutional reforms in ICT sector take hold, producing desirable results, then such boards could be set up for other R&D intensive markets. Further coordination problems will doubtless emerge and have to be tackled. Indeed, the capacity to coordinate effectively is the hallmark of good governance.

Finally, without being exhaustive, some operationally relevant areas of future research should also be mentioned.

First, is an integrated survey of ICT needs and ICT resources and the shortfalls in the latter. This in itself could be a PPP project.

Second, an ICT oriented SAM should be built for both creating a consistent economy wide technical data base and for future modeling for counterfactual policy experiments. Relevant CGE models by technically competent teams of researchers will be a necessary tool for rigorous policy analysis. Such a multistep project---creation of SAM, formulation of model and implementation, training Bangladeshi technical personnel and carrying out policy experiments can be done in 2 to 3 years with provisions for updating every 3 years or so. Though costly in terms of time and money, the payoff will be substantial with future self-sufficiency and learning mechanisms and facilities for Bangladeshi professionals in Bangladesh as part of the value added.

Third, the other alternative is to have modern time-series based models such as VECM that are informed by the advances in time-series analysis of non-stationarities and spurious regression problems among other pertinent

econometric issues. These models should allow us to identify clearly the causal links if any, between variables in the long run. Since we are looking up to and beyond 2041, this is an important consideration.

It should be emphasized that the two technical approaches are not mutually exclusive. Actually, my recommendation is to build and make operational both types of models if time and resources allow.

Fourth, some intellectual resources can be devoted to political and social economic analyses. An economic system has complex connections with political and social systems. A complex system of political and social economic analyses will uncover many hitherto unseen linkages revealing both future problems and possibilities for progress.

Fifth, with the help of the above data collection, data integration and rigorous modeling focused studies regarding ICT sector industrial policies including the role of credit and subsidies will need to be carried out.

As mentioned before, these five items do not exhaust the list of future policy-relevant research tasks, but these can provide the knowledge base on which a quantitative target oriented policy platform can be built. There are many challenges for Bangladesh in its bid to meet the six goals identified clearly by the MoP. With proper planning tools, PPP institutions, R&D policies and institutions like the proposed ICTMB the ICT sector can be developed by 2041 to meet these challenges with a high degree of probability of success. The concluding section that follows presents some preliminary investment requirements estimates projections until 2041 for the ICT sector.

6 Conclusions: Towards the Frontier-- Making A Future Scenis for ICT in Bangladesh

With proper incentives, as discussed before, much of the investment in ICT sector, esp. from 2030s onwards will come from the private sector. The projected reforms in regulatory and incentive policies along with improved prudential regulations will result in an expansion of private domestic and foreign investment. However, as discussed above, complementary public investments in infrastructure including that in the ICT sector will be crucial for an effective expansion of private investment leading to an increase in ICT productivity and TFP.

It is crucial to increase both public and private investments quickly so that an enduring foundation for an innovation sub-system in the ICT sector can be created by 2031. Keeping all these in mind, I use estimates for the ICT sector investments that are roughly

in line with the overall ICOR, TFP and other indicative macroeconomic projections of MoP.

Since ICT globally is a dynamic sector, what does Bangladesh need to do to follow the trajectories of likely future developments in ICT and realize the above targets consistent with the visions such as A2i and the perspective plan ? It is impossible to be definitive or exhaustive in the field of innovation in ICT; but to the best of our technical knowledge---without being exhaustive, the following areas will be important to catch up with in the next ten years: Cloud Orchestration; Distributed Storage; Alternatives to Java; Big Data Processing; Deep Learning in AI (Artificial Intelligence); the Internet of Things.

All these areas involve learning from frontier technological practices of today and tomorrow. We should be improving access to internet and the various areas such as e-governance, e-health, e-education etc. We need to develop the human resources and institutions of learning for this. In the next 5 years, internet of things (IoT) will become widespread. The growing adoption of intelligent agents like Amazon Alexa or Google Assistant in more and more devices will lead to new ways of interacting for both businesses and government. There will be edge IoT devices that can act locally based on data they generate, as well as utilize the cloud computing networks for security, scalability, configuration, deployment, and management. IoT will evolve rapidly to cut data ingestion costs and reduce network latency.

Likewise, adopting cloud orchestration and distributed storage will need to be top priorities for the next 10 years. Training our software developers in adopting big data programs should also be a top priority.

From 2031 onwards, the focus should be even more on Big Data. Bangladesh will need to develop technical capabilities in utilizing Deep Learning algorithms and all other areas of AI. By that time, the world will most likely move towards advanced nanotechnology, robotics and ICT-linked AI. We need to have top quality learning institutions to keep pace. Utilizing the skills of highly trained expatriates in specific technical fields should be high on our agenda by 2031.

By 2041, if the above strategy is followed, we should be near the frontiers in AI and ICT. However as Khan (2017b) and others have pointed out, by 2050 there will most likely be a "superconvergence" of ICT, Biotechnology and Nanotechnology with enormous increase in total factor productivity. Bangladesh must not be left behind in this process. The time is now to begin thinking about this prospect in connection with ICT. It is recommended that an experts group comprised of a majority of scientists in this field in Bangladesh together with a few expatriates of international standing in their respective

research communities should be set up to study the prospects of “superconvergence” of technologies in Bangladesh for 2050 and recommend specific policies for all three sectors.

A last important point is to be alert to the prospects of developing markets in Asia and beyond for ICT exports through strategic alliances with regional partners. This could be pursued in a synergistic manner by participating in a regional innovation system.

Endnote

1. This looms as a necessary future technical project. A necessary component is to create a SAM that uses clearly distinguished technological classifications for ICTs. Following and extending the term introduced by Khan and Thorbecke (1988, 1989), we can call this kind of a SAM an ICT-SAMTech. Such a multistep project---creation of SAM, Formulation of model and implementation, training Bangladeshi technical personnel and carrying out policy experiments can be done in 2 to 3 years with provisions for updating every 3 years or so. The payoff will be substantial with future self-sufficiency and learning mechanisms and facilities for Bangladeshi professionals in Bangladesh as part of the value added. The other alternative is to have modern time-series based models such as VECM that are informed by the advances in time-series analysis of nonstationarities and spurious regression problems among other pertinent econometric issues. It should be emphasized that the two technical approaches are not mutually exclusive.

References

- Aghion, P. and Howitt, P. (1992), “A Model of Growth Through Creative Destruction,” *Econometrica*, p.323-51.
- Ahmed, Sadiq ed. (2012). *Leading Issues in Bangladesh Development*. Dhaka: University Press Limited.
- Ahmed, Sadiq. 2015. *Growth with Equity: Contemporary Development Challenges of Bangladesh*. Bangladesh Institute of Bank Management: Dhaka
- . 2017. “Service Sector Development to Support High Growth in a Transforming Economy”, Background Paper prepared for GED, Ministry of Planning, Dhaka: Policy Research Group.
- Arthur, Brian (1988), “Competing Technologies: An Overview,” G. Dosi, C. Freeman, R.
- Bangladesh Education and Technology Sector Action Plan (First Draft). UNDP; 2017
- Bangladesh Ministry of Planning Seventh Five Year Plan FY2016-FY2020: Accelerating Growth, Empowering Citizens, Part-2. Dhaka: GED Planning Commission, Government of the People’s Republic of Bangladesh; 2015.
- Bangladesh Ministry of Planning, Draft Macroeconomic Framework for the Perspective Plan of Bangladesh (2021-2041): Growth Outlook up to 2046, June 2017
- Bangladesh Ministry of Science and Technology, National Science and Technology Policy-2011 http://most.portal.gov.bd/sites/default/files/files/most.portal.gov.bd/policies/2303afd3_6664_4a38_957e_6e35f1d7f0bf/National%20Science%20&%20Technology%20Policy%20-%20202011%20%20English.pdf (Last accessed on July 4, 2017)
- Bangladesh Prime Minister’s Office A2i Access to Information (2009), Concept Note on Digital Bangladesh file:///C:/Users/haider.khan/Downloads/A2i%20Concept_Digital_Bangladesh_2009.pdf (Last accessed on Nov. 12, 2017)
- BASIS, 2017, Document for BASIS SOFT EXPO February, 2017, Dhaka, Bangladesh
- Bostica B., Gambini P., and Licpubs/freeardi L., (1997), “*The Role of Electronics and Photonics in the Architectural Evolution of Switching Systems*,” ISS 1997, Toronto, Canada.
- Callon J. R. et al. (1997), “*A Framework for Multiprotocol Label Switching*,” *Network Working Group Internet Draft*.
- Callegati F. et al. (1999) “*Packet Optical Networks for High-Speed TCP-IP Backbones*”, *IEEE Communications Magazine*, Vol. 37, PP. 124-129
- Dosi, Giovanni.2009. *Industrial policy and development : the political economy of capabilities accumulation*, Oxford: Oxford University Press.
- DS Biz (undated) A Case Study of Datasoft
- Freeman, C. (1987), *Technology and Socio-economic Performance: Lessons from Japan*, Pinter, London.
- Freeman, C. (1995), “The National System of Innovation in Historical Perspective”, *Cambridge Journal of Socio-economics*, No. 19, pp. 5–24.
- Edquist, C. (1997), *Systems of Innovation: Technologies, Institutions, and Organizations*, Pinter, London.
- Farbert A, Mohs G., Spalter S., Glingener C., (2000) “*7Tb/s bi-directional interleaved transmission with 50 GHz channel spacing*”, *postdeadline project PDP-3, proceedings of European Conference on Optical Communications*.

- Gabriele, Alberto and H. Khan. 2010. Enhancing technological progress in a market-socialist context: China's national innovation system at the crossroads, Saarbrücken: Lap Lambert Academic Publishing
- Gambini P., (1996) "State of the art of photonic packet switched networks," *Int'l. Wksp. Photonic Networks and Tech., Leripubs/free, Italy, Sept. 1996*.
- Green P.E. Jr., (1996) "Optical networking update," *IEEE JSAC*, vol. 14, no. 5.
- Hiramatsu et al. (1997), "Hyper-media Photonic Information Networks: WDM-Based Solutions and Prototype Systems," *ISS 1997, Toronto, Canada, IEEE Communication Magazine*, vol. 37.
- , (1998) "Architecture and Performance of a Broadcast and Select Photonic Switch," *Opt. Fiber. Tech. J.*, July, pp 266-84.
- Khan, Haider A. (1998), *Technology, Development and Democracy*, Aldershot: Edward Elgar, 1
- (2001a), "Digital Development", Unpublished project, University of Denver, 20
- , "A Schumpeterian Model of Innovation", unpublished project, University of Denver, 2001b.
- (2002a), "Digital Development: challenges and prospects", CIRJE, university of Tokyo discussion project no. CF 152.
- (2002b) "Innovation and Growth in a Schumpeterian Model" (2002), *Oxford Development Studies*, 30. (3): 289-306.
- (2003), *Technology, Modernity and Development: Creating Social Capabilities in a POLIS*, Peter Brey et al. eds. Technology and Modernity: The Empirical Turn, Cambridge Mass.: The MIT Press.
- (2004a). *Innovation and Growth in East Asia: The Future of Miracles*. Houndsmills and New York: Macmillan/Palgrave.
- , (2004b). *Global Markets and Financial Crises*. Houndsmills and New York: Macmillan/Palgrave.
- Haider A. Khan, The Future of APEC and Regional Cooperation, Presentation for the Nov. APEC summit at the pre-summit conference at the University of Redlands, Ca. USA on Sep. 23, 2011
- 2017a. Digital Development for Bangladesh: Challenges and Prospects, Working Paper, JKIS, University of Denver, Denver, Co. USA.
- 2017b, "Convergence and Superconvergence: ICTs, Biotechnologies and Nanotechnologies", ppt. for seminar at Asian Institute of Technology Bangkok.
- Khan Haider A. et al (2008), "A New Approach to Modeling Early Warning Systems for Financial Crises", *Journal of International Money and Finance*, October: 1098 – 1121
- Khan, Haider A. and Matin, M. A. (2011). Optical Information Technology, Growth and Digital Divide: A Formal Model of Complexity and Unevenness of Innovation Systems in the Global Economy, Working Paper, University of Denver.
- Kim, L. and Dahlman, C. J. (1995), "Technology Policy for Industrialization: An Integrative Framework and Korea's Experience." *Research Policy* 21: 437-52.
- Kim, L. and Lee, H. (1987), "Patterns of Technological Change in a Rapidly Developing Country: A Synthesis." *Technovation* 6: pp. 261-76.
- Kim, Linsu (2000), 'Korea's national innovation system in transition', in *Technology, Learning and Innovation: Experiences of Newly Industrializing Economies*, edited by Linsu Kim and Richard R. Nelson, Cambridge, UK: Cambridge University Press, pp. 335–360.
- Kim, Linsu and Richard R. Nelson (eds) (2000), *Technology, Learning and Innovation: Experiences of Newly Industrializing Economies*, Cambridge, UK: Cambridge University Press.
- Knox (2001), "The Future of WDM" *OPN Optics and Photonics News*, vol.12, no.4.
- Lall, Sanjaya (1982), *Developing Countries as Exporters of Technology*, London: Macmillan.
- (1985), *Multinationals, Technology and Exports: Selected Projects*. New York: St. Martin's Press.
- (1992), "Technological Capabilities and Industrialization," *World Development*, 20(2): 165-86.
- Lawton, G., (2009) "WDM-PONs Hold Promise for the Long Haul," *Computer*, vol. 42, no. 3, pp. 13-16.
- Lee, Keun (2008) "Can Korea be a Role Model for Development? A "Capability-based View" on Korea", project prepared for WIDER conference on Country Role Models for Development Success, June 13-14, Helsinki
- Lundvall, B-Å. (ed.) (1992). *National Innovation Systems: Towards a Theory of Innovation and Interactive Learning*, Pinter, London.
- Metcalf, S. (1995), "The Socio-economic Foundations of Technology Policy: Equilibrium and Evolutionary Perspectives", in P. Stoneman (ed.), *Handbook of the Socio-economics of Innovation and Technological Change*, Blackwell Publishers, Oxford (UK) / Cambridge (US).

- Nelson, G. Silverberg and L. Soete (eds), *Technical Change and Socio-economic Theory*, London: Pinter Publishers.
- (1989a), *Increasing Returns and Path Dependence in the Economy*, Ann Arbor: University of Michigan Press.
- (1989b), "Competing Technologies, Increasing Returns, and Lock-In by Historical Small Events," *Socio-economic Journal*, 99: 116-31.
- Nelson, Richard R. (1992), "U.S. Technological Leadership: Where Did It Come from and Where Did It Go?" Scherer, Frederick M. and Mark Perlman (1992), *Entrepreneurship Technological Innovation and Socio-economic Growth: Studies in the Schumpeterian Tradition* Ann Arbor: The University of Michigan Press: 25-50.
- (1993a), "Technical Change as Cultural Evolution," Ross Thomson, ed., *Learning and Technological Change*. New York: St. Martin's Press.
- , ed. (1993b), *National Innovation Systems: A Comparative Analysis*. Oxford: Oxford University Press.
- (1994), "What has been the Matter with Neoclassical Growth Theory," Silverberg and Luc Soete, eds. (1994), *The Socio-economics of Growth and Technical Change: Technologies, Nations, Agents*, Aldershot, U.K.: Edward Elgar: 290-324.
- (1995), "Recent Evolutionary Theories About Socio-economic Change" *Journal of Socio-economic Literature*, pp. 48-90.
- Nelson, Richard R and S. Winter (1974), 'Neoclassical vs. Evolutionary Theories of Socio-economic Growth: Critique and Prospectus', *Socio-economic Journal*, 84: 886-905.
- (1977), "In Search of Useful Theory of Innovation." *Research Policy* 6: 36-76.
- (1982), *An Evolutionary Theory of Socio-economic Change*, Cambridge: MA, Harvard University Press.
- Patel, P. and K. Pavitt (1994), "The Nature and Socio-economic Importance of National Innovation Systems", STI Review, No. 14, OECD, Paris.
- Romer, Paul M. (1986), "Increasing Returns and Long-run Growth," *Journal of Political Economy*, October, 94:5, 1002-1037.
- (1987), 'Growth Based on Increasing Returns due to Specialization,' *American Socio-economic Review*, 77, 56-62.
- (1990a), "Endogenous Technological Change," *Journal of Political Economy*, October, 98, S71-102.

Managing Political Violence

Tazeen M Murshid

Professor, International Politics and History Development Research Cooperation, Brussels

Abstract

The right to freedom from violence is a human right. All violence is political in that violence is both the cause and result of unequal power relations; i.e., the stronger violates the weaker. Certain forms of political violence are linked directly to the political process such as the transfer of power, elections and political participation. Conflict arises when there is resistance to powerful groups who seem to unfairly manipulate the political system to capture and hold on to power. The inability of the state to mediate between competing interests as an impartial arbitrator can create a vacuum wherein anarchic tendencies grow; the values of freedom, tolerance and pluralism are compromised, permitting unfettered mindless gratuitous violence and opening inroads to the politics of radicalism among the excluded and marginalised. Political violence thus needs to be managed with the objective of eradicating it. This paper studies political violence in the context of the electoral process. It explores changing trends in the electoral cycle from 1991 to 2001 and the controversy over the caretaker government in 1996 and 2014. It is based largely on field work involving content analysis of newspapers and focus group discussions conducted in Dhaka. It suggests that the state must create an enabling environment through compromise and cooperation while rejecting a monolithic partisan approach to governance in order to restore trust, political certainty and confidence in inclusive participation. This would facilitate the protection and preservation of human rights.

Key words: political violence, elections, impartial arbitrator, political uncertainty, trust, inclusion and exclusion

1 Introduction

The paper endorses the view that citizens and subjects are entitled to freedom from violence as it constitutes a fundamental human right. However, the right to freedom from violence is threatened by unequal power relations. In fact, violence is both the cause and result of such inequality, i.e., the stronger violates the weaker. The paper also notes that all forms of violence are political, in that these cause inequality of outcomes, such as reduced access to opportunities, sources of wealth, education, and power. Certain forms of political violence are linked directly to the political process such as the transfer of power, elections and political participation. Conflict arises when there is resistance to powerful groups who seem to unfairly manipulate the political system to capture and hold on to power. Conflict is understood here in terms of class or ideological difference, elite conflict over scarce resources, ethnic or identity conflict, and a struggle defined by patron-client relations. The violence unleashed is harmful for the economy, polity and society. Subtle forms of routine violence mostly go unnoticed, whereas overt physical and political violence, leave more obvious marks as it undermines the economy, restricts the space for political interaction, particularly by women and polarises society. Local contexts may be further complicated by globalisa-

tion, restricted sovereignty and the developmental demands of a burgeoning population with limited access to resources. Moreover, the inability of the weak state to mediate between competing interests can create a vacuum wherein anarchic tendencies grow; the values of freedom, tolerance and pluralism are compromised, permitting unfettered mindless gratuitous violence and opening inroads to the politics of radicalism among the excluded and marginalised. Political violence thus needs to be managed with the objective of eradicating it.

This paper studies political violence in the context of the electoral process. It explores changing trends in the electoral cycle from 1991 to 2001 in Bangladesh and reflects on the controversy over the caretaker government issue in 1996 and 2014. It also examines the case of Lalbagh thana as a barometer of the worst-case political temperature of Bangladesh as it was the most crime-ridden constituency in Dhaka District. The paper is based largely on field work involving content analysis of newspapers and focus group discussions conducted in Dhaka in 2006-2008. Sight is also kept on the repercussions of the 2014 elections when the non-participation of the major opposition on the grounds that elections held without a caretaker system, but under the auspices of the sitting government cannot be fair. The result was a constitutional crisis, unprecedented violence

and the unforeseen emergence of a virtually one-party state. As the next elections loom ahead in 2018-2019 it will be important to learn lessons from the past and return to a functioning multi-party formula that permits co-existence. Suggestions for the management of electoral violence are drawn from a comparative UNDP study of political violence in seven Asian countries, to which the author contributed. The paper concludes that the state must create an enabling environment through compromise and cooperation while rejecting a monolithic partisan approach to governance in order to restore trust, political certainty and confidence in inclusive participation. This would facilitate the protection and preservation of human rights. The enforcement of rights, however, will require respect for the rule of law, independence of the executive from the judiciary and commitment to the idea of justice and fairness for all.

2 The Idea of Justice, Political Uncertainty and the Transfer of Power

The idea of justice embedded in the unhindered exercise of our rights expressed through political participation, such as in free and fair elections, is essential for a stable and peaceful society. It accepts competing interests as legitimate, thus minimising the scope for conflict. The liberal democratic state which is inclusive in character can act as an impartial arbitrator and ensure such an outcome. This section of the paper will explore the nature of electoral conflict in Bangladesh since the restoration of democracy in 1991 in the context of these understandings.

The key political challenge for Bangladesh is how to achieve a peaceful transfer of power from one political administration to another without bloodshed, street agitation and economic destruction. The democratic process usually presented as the best method of achieving acceptable outcomes has certain built-in pitfalls: one, the process of mobilisation and the creation of loyal support bases give rise to politics of identity and exclusion; two, democratic politics can be hijacked by populist propaganda that feeds on misinformation and throws up the lowest common denominator in society, which generates hate and xenophobia; three, it is a legitimising tool for parties that come to power through due process but then subvert its institutions to stay on in power, promote partisan interests and exclusionary politics. Bangladesh has experienced all three situations to varying degrees.

Volatile politics lends Bangladesh to political uncertainty. Political uncertainty is caused among other

reasons by the politics of confrontation and an unwillingness to concede any argument to the opponent. In this, the ruling party can singularly squeeze the democratic space for negotiation, which forces the opposition to retaliate on the streets, being unable to find a voice or have any impact in parliament. This presupposes an unequal relationship in terms of access to the disciplinary machinery of the state. However, excessive provocation invites retaliation on the streets and loss of trust in the incumbent to create a level playing field to deliver free and fair elections.

3 The Care Taker Government and the Military Interregnum, 2006-2008

It is in this backdrop that Bangladesh has experimented with mechanisms for the transfer of power through the institution of a caretaker government (CTG). In 1996, the opposition agitation in the form of a non-cooperation movement, successfully resulted in the constitutional provision for a CTG to arrange for the handover of power. In 2014, the same outcome was ruled out, although similar problems of trust and fears of manipulation of the state machinery and rigging of elections existed as in the past. What went wrong?

The institution of a neutral caretaker administration manned by professionals to manage the electoral process was an effective strategy for inclusive politics. However, the potential to tamper with the system was inbuilt: for example, the appointment of senior judges could be so manipulated as to ensure that the last retired chief justice who is supposed to head the CTG is loyal to a particular party.

On the 11th of January 2007, a state of emergency was declared in Bangladesh; all political activities were banned and media censorship imposed. A military backed care-taker government stepped in to steer the country out of political chaos and towards stability in order to create conditions for the restoration of the electoral process. It had wide popular support. The immediate reason was the 'battle to the death' by the two main political power blocks, the AL and BNP.¹ On 29 October, 2006, the incumbent BNP appointed the President of the country as the Chief Advisor to head the caretaker government that was to oversee the next general elections, in what was seen to be 'a civilian coup'.² A neutral institution was thus headed by a party man. Thus, the regularities of the previous government formation process had been disturbed and the bargaining environment altered, causing severe political uncertainty.

Additionally, in what appeared to be massive fraud, the government had produced a voter list of 93 million, instead of the 73 million registered in the previous elections. Some held that corruption had become institutionalized at all levels between 2001 and 2006, down to the rural level and including the civil bureaucracy.³ The scene was thus set for a loss of trust in the system to offer credible elections.

A winner-take-all political system that permits winners to take a disproportionately high number of seats is exacerbated further by the practise of appropriating all channels of wealth accumulation by the victor. Barrister Kamal Hossain, who had helped draft the first Constitution of democratic Bangladesh observed that the constitution had not worked because party politics was turned into something that was not meant to be: "You do not expect that 'winner takes all' means literally all, including taking the police as your private militia, the civil service as party lackeys and using any law as pure patronage for party loyalists, with no other criterion for appointments but party loyalty. A democratic system to work requires 'a minimum political morality'. Political authority cannot be used for patronage with absolute impunity."⁴

Violent street protests resulted against the politics of exclusion; the economic blockade of Dhaka city continued throughout 2006; and the government retaliated with massive arrests of the opposition. It seemed that a one-sided election was going to be pushed through on the 22nd of January 2007 as scheduled, when the army stepped in to restore order to the total relief of the population. The army set about immediately to curb corruption to create a level playing field. It restored public spaces to their intended use, demolished illegal constructions on pavements and roadsides, cleaned up the streets of unlicensed shops and activities, raising some concerns for the welfare of the poor.

The fear that the army would find reasons to stay on in power indefinitely was not fully justified. Whether, it was for want of international backing or the fear of losing its lucrative role as peace keepers, the army delivered a technocratic CTG within two years, headed by a former World Bank official. Relatively peaceful elections were held in December 2008 with a corrected voter list and an electronic voting system.

Though, initially seen as a saviour, concerns had grown as to the real intentions of the army.⁵ The arrest of the two leaders and their detention, the attempt to send them away in exile, as a way to free the country from the effect of their vitriolic politics, the experiment with the idea of floating a new political party headed by Professor Yunus, had unfortunate consequences in the long run. The CTG system was ruled unconstitutional in 2013. The party that had fought so hard for it in 1996,

now used its majority in Parliament to abolish it and limit the powers of the army from political interference.

4 Political uncertainty and electoral boycott: 2014 elections

It can be argued that uncertainty was thus introduced in the political process; that a workable formula was discarded instead of being reformed through the application of checks and balances. The elections of January 5, 2014 were held amidst a boycott by the major opposition, the BNP and a very low voter turn-out. The incumbent considered it to be a good and fair election; the opposition held that democracy had been destroyed.⁶ Some questioned the legitimacy of the elections, others argued that constitutionally there was no alternative. Since 1996, many continued to argue that elections under a CTG offered the opportunity to 'resolve the political problem in a constitutional way'.⁷

A mirror image of 2006 followed in 2014, but the tables were reversed. With no seat in Parliament, the BNP took to street agitation to topple the AL dominated government and pressure it to hold a new election under a revived CTG system. But that was not to be. The legacy of the incumbent BNP in 2006 had shaped the context of negotiations in 2013-14. The AL was in no mood to compromise while the BNP intensified its hostility targeting the destruction of public resources and calling for strikes.

The opposition lost sight of the concept that in a democracy, the opposition is also a part of the government and needs to exercise restraint in order to retain its legitimacy. The excessive use of intimidation on the streets, arson and killing of innocent civilians on a daily basis to enforce a blockade of the capital city, Dhaka, was not popular. Most of the public including day labourers, wage earners, rickshaw pullers, and vegetable vendors, could not heed the call for indefinite strikes and *hartals* because they needed to work daily to feed their families. They were most at risk in those terrible days when more than a hundred of them were killed, many were deliberately burnt to death in busses and vehicles for daring to go about their daily business. In a cynical fashion, the state took its time to discipline the agitators through arrests; by the time it took action to quell the disturbances with the support of the Rapid Action Battalion and the full force of the law, there was little support left for *hartals*, blockades, and street agitation. Embattled over time, the opposition demands for a CTG became muted.

In 2017, as discussions had started on the mechanism for arranging the next national elections to be held in 2019, a more pliant opposition entered negotiations with the President. The major political opposition, the BNP,

had no alternative to taking a soft tone of compromise: It needs to participate in the next elections to keep its registration valid and to survive politically; it has to refrain from being provoked into street agitation to save itself from further state reprisal; and it needs to heal from within through party reform to build unity among its ranks. However, the threat of violence will remain so long as partisan governance dominates, alternate voices are stifled, dissent is restricted and the idea of the equality of political actors is not respected. An independent election commission backed by powers of enforcement along with an independent executive and an independent judiciary could provide the main pillars of the impartial arbitrator. The annulment of the Sixteenth Amendment of the Constitution makes this a more difficult proposition, as it weakens the judiciary.⁸ The hurdle is essentially the lack of an independent judiciary, and an overly complacent executive.

5 Electoral Politics of Confrontation and Consensus

Electoral violence

A particular manifestation of political violence occurs in the context of elections. It can be driven by a range of factors related to real or perceived fraud, corruption, clientelism, and patronage; patriarchy; belief that politics serves only business interests; and ethnic, religious and socio-economic conflicts and grievances.⁹ Scholars and analysts have agreed on the following definition of what constitutes electoral violence:

‘Any acts or threats of coercion, intimidation, or physical harm perpetrated to affect an electoral process, or that arise in the context of electoral competition. When perpetrated to affect an electoral process, violence may be employed to influence the process of elections, – such as efforts to delay, disrupt or derail a poll, – or to influence the outcomes: the determination of winners in competitive races for political office, or securing the approval or disapproval of referendum questions’.¹⁰

The violence tends to take three main forms: one, acts of physical harm including assaults on candidates or communities, gender-based violence, mob violence and political assassinations, either to force out candidates from participation or to prevent the elections from occurring; two, destruction of objects, buildings, campaign materials, vehicles, offices or ballot boxes to deter the exercise of voting in a free and fair manner; three, threats of physical violence, intimidation and coercion to prevent support to specific candidates for example. Violent discourse can also polarise communities along conflict lines provoking violent outbursts.

Studies of recent election violence in seven Asian countries under the auspices of UNDP have established a clear link between election violence and perceived or alleged cheating. Often, fraud does not need to be proven, allegation and suspicion are enough to provoke violent reactions in democracies where there is little confidence in the authorities. In Thailand, allegations of unfair manipulation of the electoral process led to violent street protests in 2010. In Bangladesh, the political crisis of 2006-2007 was precipitated by high levels of violence and a lack of public confidence in the electoral system. For example, the collapse of the election process in 2007 revealed that 12 million people were on the voter register illegally.

‘Thus, the independence of the election process and electoral administration, and how they are perceived to be designed, managed and implemented, have a strong bearing on electoral violence: those elections considered to be adequately free, fair and transparent (remembering that no elections are perfect) are less likely to experience electoral violence than those where allegations of mismanagement or deliberate cheating are prevalent’.¹¹

The prospect of the 2014 elections in Bangladesh without a clear political agreement on its management provoked violent protest, street agitation, arson and murder by those who felt most likely to be cheated out of a fair share of power. Free and fair elections require government cooperation, good behaviour of political parties and a proper technical management of the elections. Electoral processes are about ‘the management of social conflict through public dialogue, vigorous debate and the authoritative selection of leaders through electoral rules’. When elections are perceived to be procedurally fair, people are more willing to accept the results and grant legitimacy to the newly formed government to implement their policies.¹²

Violence can occur before, during and after elections for various reasons: for example, to prevent voter registration through intimidation to foil an election; prevent voters from casting their ballots; to protest against unwelcome outcomes, fraud or to teach non-supporters a lesson. The 2010 UN special rapporteur on election violence found that only 10% fatalities occurred on election day, 46% occurred before and 43% after the elections.¹³ Thus vigilance is required in all phases of the electoral cycle.

The next section has attempted to work out at which point of the election cycle Bangladesh is most prone to experience violence and what forms these take, in order to ascertain the best strategies to be adopted to contain these.

6 Electoral Violence: Bangladesh Elections of 1991, 1996 and 2001

This section of the paper examines the nature of electoral violence in Bangladesh over three election cycles pertaining to the elections held in February 1991, June 1996 and 2001. Six newspapers were selected, which reflect a broad range of political and ideological opinion; these cover a period of three months before and three months after the election date and were subjected to content and discourse analysis. The newspapers are: *Daily Ittefaq*, *Janakantha*, *Prothom Alo*, *Sangbad*, *Inquilab* and the *Daily Star*. While compiling the news, particular attention was paid to avoid any sort of overlapping that might cause double counting of any incidents. Also, in considering the figure of casualties, the minimum number mentioned in a newspaper was taken. Therefore, the figures presented may be an underestimation of the actual casualties rather than an overestimation of the figures.

An attempt is made here to bring together an analysis of the incidences of violence published in the selected newspapers. The objective is to illustrate the nature and extent of election related violence and their consequences. Table 1 below shows a breakdown of the types of offences committed during the election cycle around the February 1991 elections:

There were 162 cases of violent incidents reported in the newspapers published between November and April

1991. The election month of February was the most violent period with 57 incidents including 8 cases of murder and 33 incidents of physical injury. Besides, there were other forms of political violence, such as attacks on the rival political party leaders, workers and supporters, setting fire to the offices and residences of rival political party leaders and supporters and incidences of clashes between rival political party supporters and workers. The run up to the elections in the month of January was also very volatile with considerable injury, but fewer murders and clashes.

Elections were held twice in 1996, once in February and next in June. The outcome of the February 1996 elections was rejected by the main opposition political party on the grounds of large scale rigging and low voter turn-out. The escalation of political violence is captured in our records for the month of March: a total of 35 incidents of murder and 38 incidents of injury occurred this month alone (See Table 2). The election month of June also witnessed numerous incidents of various forms of violence, including 24 murders; but the overall situation was considerably calmer than in March. It is interesting to note that after the political changeover, the student front of the victorious party captured the control of student halls of residence at the University of Dhaka, a pattern that repeats itself again and again during subsequent election cycles. This is because control of student politics is believed to ensure control over national politics.¹⁴

Table 1: 1991 Elections: No of Incidents and Forms of Political Violence

Month	Number							Total
	Murder	Injury	Attack	Clash	Rape	Setting Fire	Threat	
November	1	7	4	2	0	2	0	16
December	4	11	2	0	0	1	0	18
January	4	29	5	0	0	1	2	41
February	8	33	11	2	0	3	0	57
March	3	3	1	6	0	0	0	13
April	3	10	1	1	0	1	1	17
Total	23	93	24	11	0	8	3	162

Table 2: 1996 Elections: No of Incidents and Forms of Political Violence

Month	Total Number of Incidents							Total
	Murder	Injury	Attack	Clash	Set Fire	Threat	Hall Capturing	
March	35	38	17	12	1	1	0	104
April	9	27	11	9	0	0	0	56
May	5	8	0	2	0	0	0	15
June	24	27	4	0	0	0	0	55
July	6	12	2	1	0	0	1	22
August	2	24	2	0	0	0	3	31

Table 3: Pre- and Post-election Violence in Bangladesh (No): 1991-2001

	Election 1991	Election 1996	Election 2001
3 months before	16	104	100
2 months before	18	56	58
1 month before	41	15	211
Election month	57	55	214
1 month later	13	22	73
2 months later	17	31	77
Total	162	283	743

Table 3 presents a comparative picture of incidences of political violence over the three election cycles. The most important finding is that there was an escalation of violence in the election month in all three elections under review. It appears from the table that 2001 was the most violent year: both the month before and the month of elections were equally bad. The number of incidents of political violence had been on the rise since 1991.

On the whole, violence was less pronounced in 1991 compared to 1996 and 2001. See the Graph below,

which shows that violence begins to increase in the month before elections and tapers off after the elections. In 1996, the pattern is skewed because of two elections. Nevertheless, the levels of violence decrease after the elections. In 2001, the volatility lasts longer and at a higher level. Thus, even when it drops, the violence level is more intense than in the election months of previous election cycles. Widespread reports of attacks on minorities in post-election violence not detected by election observers came to be reported by national observers.¹⁵

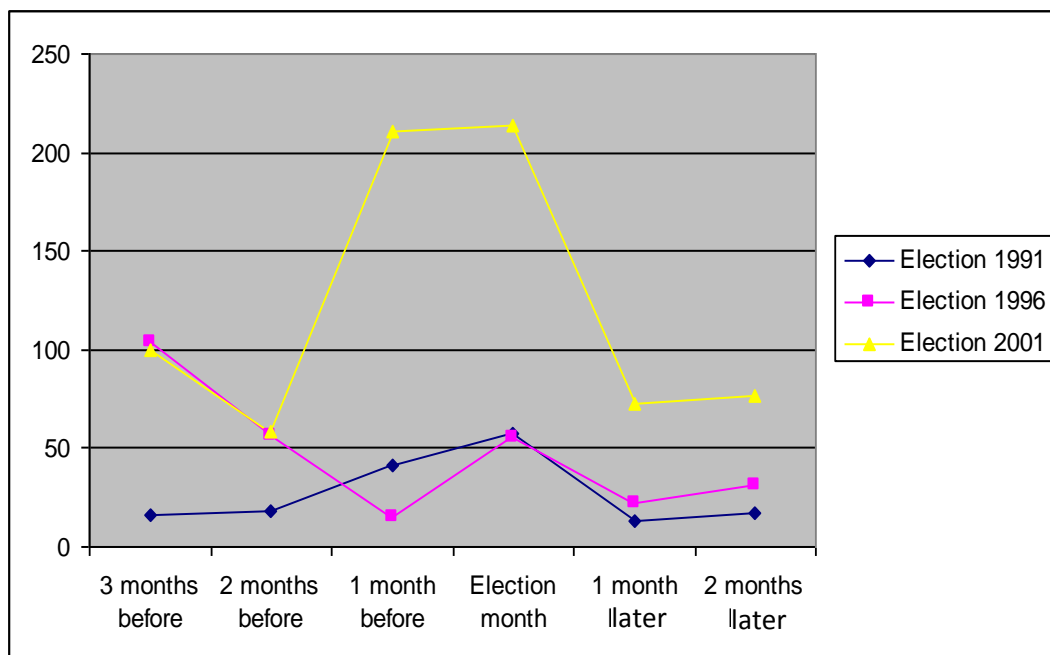
**Graph:** Trends in Political Violence in the Different Elections

Table 4: Forms of Violence: Parliamentary Elections of 2001

Month	Forms of Violence								
	Murder (In No.)	Injury (In No.)	Attack (In No.)	Clash (In No.)	Rape (In No.)	Set ting Fire (In No.)	Threat (In No.)	Acid Throwing (In No.)	Kidnapping (In No)
July	17	56	16	11	0	0	0	0	0
August	20	31	4	3	0	0	0	0	0
September	55	132	19	2	0	1	1	1	0
October	55	81	44	2	17	4	7	0	4
November	20	33	14	2	1	0	2	0	1
December	20	27	21	5	0	1	3	0	0
Total	187	360	118	25	18	6	13	1	5

Table 4 provides a breakdown of the types of violence before and after the 2001 elections. The data is collected from the news and reports published in four Dhaka dailies, namely, *Janakantha*, *Bangladesh Observer*, *Inquilab* and *Ittefaq*. The largest victims of violent attacks by the ruling party *mastaans* were the political minorities, i.e., those who were defeated in the elections (the Awami League, AL). Of the total number of published reports, more than 55% were about attacks on AL activists and supporters. These were of a purely political nature. Attacks on the political opposition also included religious minorities. Such reports counted for 30% of the total. About 40% of the total news reports were on attacks directed simultaneously against political, religious and ethnic minorities.

A significant 20% of the reports were about various types of illegal activities. These include illegal toll collection, forceful occupation of private or public property, and attacks on ordinary people.

Data was specially collected on violent acts perpetrated by ruling party activists on the losers in 2001. This was to see the impact of the election results on the losers and minorities. These acts of violence imply huge losses in terms of damage to life and property: and include deaths, injuries, rapes, economic loss, and so on. A total of 95 incidents of murder and 121 incidents of injury occurred in post-election violence in 2001. Notably, for the first time in the electoral history of Bangladesh, rape was used as a political weapon against adversaries.

7 Brief account of a Case Study of Lalbagh Constituency in Dhaka city

This section provides a brief account of findings from a case study of Lalbagh thana in Dhaka district. Being one

of the most crime ridden electoral constituencies in Dhaka district, it is not typical for the country, rather it does portray the worst-case scenario. The area became commercial since independence, with the rise in small businesses and setting up of small shops. Of note is the growth in industry, particularly, leather, garments, polythene products and packaging. About 30 % of the population have been settled here for over a hundred years, and 70 % have moved in from surrounding regions such as Chowkbazaar and Savar since the nineteen seventies. This has changed the social fabric of the area. The impact on social relations has been to create a gap between the settled inhabitants and the newcomers. The older group is active in politics, the latter are small shopkeepers, who are called upon frequently to supply men to attend political rallies.¹⁶

The Lalbagh constituency was reconstituted in 2004 to include Lalbagh, Hazaribagh and Kamrangir Char thanas. The reasons were administrative, political, and mark the rising importance of the area.¹⁷ However, growth, development and urbanisation have also led to the growth of more slums in the area. There has consequently been a concomitant rise in crime as well.

Table 5 below shows a gradual increase in the number of violent incidents in the years 1991 to 2001. It should be noted that the data here refer to periods of two months before and two months after the elections.

The violence occurred for two main reasons: one, due to inter-party rivalry, and two, those that resulted from attempts by the caretaker administration to disarm and neutralise possible troublemakers. There was violence both before and after elections. The party in power, which had the instruments of state coercion within its reach, was most able to use these against its adversaries. The growing culture of impunity implies that the strong considered themselves safe from possible reprisal or accountability.

Table 5: Lalbagh Constituency: Nature and Extent of Pre and Post-Election Violence as Reported in the Press, 1991-2001

Nature of Violence	1991	1996	2001	Total
Political violence	9	11	14	34
Attack on religious minorities	2	3	4	9
Attack on both political and religious minorities	3	1	2	6
Other types of violence by (former) ruling party cadres	6	9	11	26
Total	20	24	31	75

Source: Calculated by the Study Team from newspaper clippings (*Prothom Alo*, *The Bangladesh Observer*, *The Daily Sangbad*, *The Daily Ittefaq*, *The Daily Janakantha*, *The Daily Sangram*, *The Daily Inquilab*)

Focus group discussions (FGDs) were carried out with people from Lalbagh, Kamrangir Char, Hajaribag, Azimpur and Chawk Bazar areas, to gather deeper information on their experience of electoral politics. The 64 participants interviewed were largely from middle

and lower income categories: small shop keepers, school teachers, engineers, doctors, NGO staff, garment owners and workers, day labourers, factory workers, unemployed and house-wives (See Profile of FGD respondents below).

Profile of the FGD Respondents

Location	Occupation	No of Participants
Lalbagh Fort area	Small Shop Owner, Day labourers, school teachers, factory workers, house wife, unemployed	12
Kamrangirchar area	Small Shop Owner, Day labourers, school teachers, house wife, unemployed, garment workers, Govt. officials, NGO staff, doctor, Engineers	10
Hajaribag	Garments owners and workers, leather industry owners and workers, artisan, slum-dwellers	12
Azimpur	Govt. officials, doctor, Engineers, teachers, architects, house-wife, unemployed youth	10
Chawk bazar	Wholesale shop owners, small Shop Owners	10
Total	Respondents	54

Most of the respondents agreed that electoral violence had been a dominant feature of politics in the constituency and that it had been on the rise over the years, as is demonstrated in Table 5 above.

Incidence of Electoral Violence in Lalbagh Constituency: Electoral violence in 1991 was less significant than in 1996 and 2001. It reached its peak in 2001. In total 13 people were killed in election related violence in the constituency (before and after election) between 1991 and 2005. At least, 75 people were injured, some of them seriously, owing to the clashes between rival political parties during elections.

The forms of violence in the constituency varied including shoot-outs, show of fire arms, use of *lathi*,

hockey sticks and iron rods to hit or terrorise the supporters of rival political parties. During the 2001 election campaigns the use of *chapati* (special knives) was quite common in some areas. A total of 11 supporters of different political parties had been stabbed brutally in 2001 alone. Talking about the 2001 elections, the FGD participants mentioned that the candidates of the two major political parties terrorised the supporters of the rival political party. The candidates had their own pet groups of musclemen or *maastans*. Some of them were their permanent associates and some were recruited temporarily from outside to help campaign for them. Most of the outsiders possessed guns; this was an open secret.

The embattled opposition: Some of the FGD participants were fearful to provide information. It was hard to find supporters of the opposition political party, the AL, even in areas known to be dominated by them; for example, in the centres where they won during the last two elections (1996, 2001). The opposition political party supporters and activists were regularly harassed by police at the will of the MP representing the ruling BNP. These were deliberate acts to deplete the local support base of the AL. No doubt, such similar tactics define the relations between the ruling party and the opposition irrespective of the particular party in power. Thus, the opposition is constantly at the receiving end of oppressive measures.

Political tactics adopted to deplete the opposition's support base: Numerous opposition political party supporters and activists were arrested and convicted on false charges and put in jail. This was a common practice that has occurred during/after all the elections since 1991, but its intensity rose dramatically in 2001 and continues to this day. Incidents of harassment and arrest of political opponents increase particularly when government authority is challenged. Most FGD participants stated that acts of repression on the opposition increased significantly after the 2001 elections. There were violent attacks on their processions and political rallies. Sometimes their routes were blocked or barricaded so that they could not take the procession from the local area to the city centre where the rally was supposed to be held. FGD participants in Kamrangirchar explained that the ruling party *maastans*, with the support of the local police, stopped the procession at the bridge connecting the Kamrangirchar area to the city. Similar complaints are voiced by the opposition about its treatment in the 2017s and 2018s: i.e., they are denied the right to assemble, march and protest.

Other findings relate to the use of money in the financing of elections that include buying votes, bribing officials and raising money to meet the excessive demands for campaign finance, which is way beyond officially prescribed limits. This is achieved by clandestine toll collection from the homes of petty shop keepers and businesses, through the use of a network of patrons and clients that link *mastaans* to politicians, policemen and election booth officials.

To sum up: The FGDs and interviews provide intricate details about how the dynamics of local politics in which the ruling party dominates the administration, the police and the finances, which in turn allows it unlimited access to power and resources. Some details of such power and its misuse came to light. The Lalbagh MP, Pintu was arrested in February 2007 on charges of attempted murder and assault in intra-party feud. Haji Monir, General Secretary of Kamrangir Char Thana

BNP forced AL leaders to leave the area and even raped the daughter of an opponent. He is accused of land grabbing and murder. They both built up huge armed *mastaan* forces and used them in administrative functions.¹⁸ It is not known whether this person was ever tried or sentenced for his excesses.

The party out of power has less influence, money and clout: thus, it is subject to greater violence and intimidation. The party support base is nevertheless loyal, in that supporters do not cross over easily to the other side. However, the weak opposition is silenced into submission, so much so that it is unable or unwilling to disclose its political loyalties in public, for fear of reprisals.

The financing of elections is an expensive business and is a major cause of malpractice, corruption, and crime. This is exacerbated by the lack of service mentality in the law enforcement agencies, which can also be bought and sold for paltry sums of money. Poor working conditions and pay account only in part for this phenomenon. Fear and intimidation, along with a desire to be with the winning side also offers some explanation, while politicisation of the administration accounts for the rest.

8 The Actors Who Can Influence Electoral Outcomes

A number of *bodies can influence the outcome of elections* and the democratic process, for good or evil: they include political actors, management bodies, government organisations, security agencies, civic and media groups, religious groups and student activists. For example, a politicised media may exacerbate tensions and polarise society. The electoral administration needs to be above suspicion and mistrust, operate within a legal framework, and be impartial, independent, professional and transparent. It must have capacity, authority and integrity. Lack of confidence in any of these aspects could provoke violence. The Election Commission in Pakistan has little public trust on account of its lack of impartiality as it is faced with tremendous executive manipulation. It thus presides over a low voter turn-out and fails to protect the right of women to vote in NWFP.¹⁹

Political parties are expected to channel, aggregate and express political demands. Their role is particularly significant in managing conflict, in divided societies along lines of culture, language, religion, region etc. If they are not mature or committed to democratic ideals, if their behaviour is not properly regulated by electoral laws and systems, they may act to serve the narrow interests of 'competing elite groups, enforce social cleavage, side line women and pursue a divisive agenda'

to gain power. Following the civil war in Nepal in 2006, all parties engaged in violence to influence election outcomes in 2008. The result was to limit the participation of female candidates.

A party system to be effective requires four conditions: regular party competition, the rootedness of political parties in society, their popular acceptability to govern, and the strength of party organisation. If the party system is weak, elections are volatile, parties have weak roots in society, campaigns are dominated by individual personalities or dynasties, and party organisation is weak, as is the case of the Philippines.

Party supporters are often mainly responsible for aggression and physical violence. Although the 2008 elections in Bangladesh were heavily monitored to prevent violence, it did occur. In these instances, the perpetrators were, overwhelmingly, the supporters of the major political parties. In fact, they were responsible for 90 % of the offences recorded, with 77 % involving physical harm and the destruction of property.²⁰

The state and its security apparatus are responsible to maintain safety and security of voters, candidates, polling booths, vote results, campaigning materials, electoral facilities, observers and the media, as well as electoral cycle events such as political rallies. However, there are instances when the security forces are seen to be partisan or corrupt: then there is a strong possibility that they will themselves perpetrate violence. Thus 75 people were killed by state security forces in 2010. In the Philippines on the other hand, the police functions under the direct control of the Election Commission to help oversee a peaceful election.²¹

Outside the state security machinery there are illicit armed groups which pose serious threats to peaceful elections. They include militant organisations which exploit election campaigns to pursue their own agenda; former military or police personnel involved in crime syndicates, or who are clients of politically influential persons as security guards or private militia. Such militia may also include criminal gangs and leaders who terrorise local communities to secure a political base for their patrons and are rewarded for their pains. Thus, for example, the Tamil Tigers of Eelam enforced an election boycott in 2005 in Sri Lanka. In the Philippines, some 100 private armies were responsible for 80 % of election related violence including abduction, murder and damage to property.²²

Religious extremism poses a major threat of violence, and not just electoral violence. In the NWFP of Pakistan women are forcibly prevented from voting and contesting in elections on the grounds that religious edicts claim it to be un-Islamic, whereas historically, Muslim women have headed businesses, led battles and held high offices of state. Traditional local practices of

keeping women at home and out of public view are mistakenly claimed to be religious duties. In Bangladesh, extremist groups use the rhetoric of Islam in danger to promote their own political agenda. The JMB or Jama'at-ul Mujahideen Bangladesh detonated 500 bombs simultaneously in August 2005, targeting the judiciary and civil administration in 63 districts²³; their aim was to destroy the symbols of democracy and establish their own version of God's law. More recently, in 2016, affluent youths recruited into extremist ideology, carried out a mindless massacre largely of foreigners in an upscale neighbourhood in Dhaka,²⁴ raising serious questions about inroads of transnational jihad of the Islamic State variety, that seeks to change the democratic social order.

Youth and student movements both reflect and have the ability to shape 'larger struggles for social and political change'. According to UNESCAP, approximately, two-thirds of the world's youths of the 15-25 age group live in Asia. Their exclusion from the benefits of social and political development, or experience of corruption and violence in society may turn them into violent persons in future. Student movements ignited public dissatisfaction with Indonesia's management of the 1997 Asian financial crisis and led to the end of Soeharto's rule. The youth fronts affiliated with political parties in Bangladesh are supported by thugs and *mastaans* or strongmen, who receive political patronage to ensure the electoral victory of their patrons. They try to retain political authority in their constituencies through fear and intimidation in a climate of impunity guaranteed by their patrons.²⁵

9 Preventing Electoral Violence

The prevention of election violence requires a strategy that takes account of election cycles, focusses on institutional design, political system and election laws. It is essential for political parties to participate in and accept the results of elections. This requires not only a perceived independent, transparent and effective electoral administration, but also a political culture that respects democratic principles.

The design of the electoral system can influence the role played by groups, interests and ideologies in democracies. Some systems permit the rise of divisive interests that allow for a winner take all approach. Other systems require wider policy and ideological appeals that are inclusive provide incentives to competing groups to pursue common goals. Electoral systems designed to bring together diverse political groups 'to negotiate positions that move beyond their narrower interests' have a better chance to resolve conflict.²⁶ Thailand had 18 constitutions since 1932, which has

proved to be destabilising: these are seen as instruments by which the government controls of the people, rather the opposite.

Electoral laws with a code of conduct and enforceable sanctions are necessary to limit the resort to violence. Election management bodies need to be empowered through legislation so that they may act with authority and scrutinise the credibility of candidates to stand for elections and weed out criminal elements. Hate speech may be disallowed. An objective and impartial dispute resolution mechanism is required to build public confidence and legitimacy in the electoral process. The enlistment of observation and monitoring missions provide transparency and a way to keep a record of proceedings; it may thus deter against vote rigging and manipulation of the electoral process. International observers are generally considered to be impartial, whereas national teams have greater local knowledge to detect the state of play.

Other strategies to mitigate electoral violence would be to build a strong democratic culture. This can be through school curricula and educational programmes; a balanced media that does not reflect narrow partisan interests or air inflammatory material; and an engaged civil society that promotes civic and voter education, election monitoring and provides a forum for conflict mediation.

However, the fundamental principle that must underlie all action is a belief in justice and fairness for all, an intrinsic belief in liberty and equality, and in the inherent right to co-exist and share in the national resources and opportunities.²⁷

Endnotes

1. Comment by Hossain Zillur Rahman Chief Executive of the Power Participation Research Centre, quoted in Kirsty Hughes, 'Bangladesh: Moving Toward or Away from Democracy?', *EPW*, April 14, 2007, p. 1329
2. Ibid., Kirsty Hughes, *EPW*.
3. Comment of Syed Badrul Ahsan, current affairs editor, *The Daily Star*, Dhaka, *ibid.*
4. Comment of the former Foreign Minister, Dr Kamal Hossain, quoted by Kirsty Hughes, *op. cit.*
5. Davin T. Hagerty, 'Bangladesh: Democracy Interrupted, Political and Environmental Challenges Ahead,' *Asian Survey*, 48 (1) 2008:177-79
6. Statement by Finance Minister Muhith at the Policy Research Institute on 19 January 2017 observed that it was the best election ever held. On the third anniversary of this election, the BNP attempt to hold a rally to mourn the death of democracy was not permitted by the government. See the *Daily Star* and Prothom Alo of January 5 and 6, 2017
7. Statement by the sixty-seven members of the intelligentsia from various walks of life. See *The Daily Star*, Dhaka, 26 February 1996
8. The scrapping of the 16th Amendment of the Constitution in August 2017 permits the Parliament to remove Supreme Court judges. Previously a Supreme Judicial Council, which included the chief justice, would oversee the impeachment process. Now, the Parliament alone can do so, which essentially means the ruling party can do so as parliamentarians are bound to follow the dictates of the party. See *Dhaka Tribune*, 13 August, 2017
9. UNDP, *Understanding Electoral Violence*, 2011, p. 5
10. UNDP, 'Elections and Conflict Prevention: A Guide to analysis, Planning and Programming', 2009; Fischer, J., 'Electoral Conflict and Violence: A Strategy for Study and Prevention', Washington D.C., International Foundation for Electoral Systems, 2002; Sisk, T., 'Elections in Fragile States: Between Voice and Violence', Paper presented to the International Studies Association Annual Meeting in San Francisco, 24-28 March 2008.
11. UNDP, 2011, *Understanding Electoral Violence in Asia*, p.6
12. Elkit J. and Svensson P., 'What Makes Elections Free and Fair', *Journal of Democracy*, vol. 8, no. 3, 1997
13. Alston P., 'Report of the Special Rapporteur on Extrajudicial, Summary or Arbitrary Executions: Election-related Violence and Killings', 2010
14. Tazeen M. Murshid, 'Sacred and Secular: Crisis of Governance in Bangladesh' in D. Rothermund and S. Mitra (eds.) *Legitimacy and Conflict in South Asia: Internal and External Challenges to Governance*, Delhi: Manohar, 1997, pp. 152-172.
15. See Brotee, *National Elections 2001 Observation Report*, Dhaka, 2001; also see Brotee, *People's Observation of the Electoral Process: 2001 Election Report*, Dhaka 2001
16. FGD at K.M.Bashir Government Primary School, 27 Gour Sunder Rai Lane, Lalbagh, Dhaka, 13 September 2006.
17. In a similar way, Dhanmondi was divide into two thanas. Source: *Ibid.*
18. *Sangbad*, *ibid.*, *Prothom Alo*, 13 February 2007
19. UNDP, 2011, p. 8
20. Odhikar & International Foundation for Electoral Systems (IFES), 'Final Report on Election Violence in Bangladesh', *Election Violence, Education and Resolution*, Dhaka, 2009
21. UNDP, 2011, p. 9
22. Patino P, & Velasco D, 'Election Violence in the Philippines' Friedrich Ebert Stiftung, Philippine Office, 2004
23. International Crisis Group, 'The Threat from Jamaat-ul-Mujahideen Bangladesh', *International Crisis Group Report No 187*, 2010
24. CNN and BBC World News, 1 July 2016, The New York Times, 2 July 2016
25. See Tazeen M. Murshid, 1997, *op. cit.*
26. Reilly B., 'Political Engineering and Party Politics in Conflict Prone Societies' *Democratisation*, vol.13, no. 5, 2006: pp811-827
27. J. Rawls, *The Idea of Justice*, Harvard University Press, 1971, 1999

Dealing with the Local Level Power Structure: Findings from a Qualitative Study of Three Villages in Greater Faridpur District

David Lewis* Abul Hossain†

*London School of Economics & Political Science, UK

†Green University of Bangladesh

Abstract

As *World Development Report 2017* reminded us, understanding how the local power structure works, and how it is perceived, continue to be important themes for mainstream development policy and practice. Power asymmetries contribute to exclusion, inequality and restrict equitable growth. This paper reports on findings from a recent re-study that aimed to build a bottom-up view of how ordinary people try to deal with local power structures, comparing data from 2004 and 2016. Using semi-structured interviews, disaggregated focus groups and local participant observation, data was collected in Greater Faridpur District in order to gain more insight into the workings of the formal and informal institutions that govern peoples' everyday lives. Continuing a trend observed in the earlier data, the traditional village 'net' power structure has continued to fade, providing people with a wider set of livelihood choices and institutional options.

However, while we had encountered examples of win-win pro-poor coalitions in the earlier study between local people, civil society groups and elected officials, such cases were far fewer in 2016. Although reforms have been put in place ostensibly to increase levels of local civic engagement, it is not easy to find evidence that these are working. Civil society space has diminished, along with opportunities for rights-based action to secure justice and inclusion. A decline in the Union Parishad's role and status as the basic institution of local government is a further worrying change that has negative implications for improving poor people's participation in local decision-making, achieving productive local government and civil society partnerships, and securing improved levels of local resource mobilization.

Introduction

Improving development policy and practice requires us to pay attention to the ways that power operates at the local level. *World Development Report 2017: Governance and the Law* (WDR) makes the case that effective governance can only be achieved by taking power asymmetries more fully into account. In order to make institutions work for power people, there is an overall need to move beyond technical 'capacity building' and 'best practice' approaches to engage more fully with inclusive forms of political decision making, including contestation, coordination, participation, and coalition building (World Bank 2017). This paper discusses how these issues play out locally in one locality in Bangladesh, where efforts to build the capacity and effectiveness of local government are set against the everyday realities of how power and politics operate to shape local people's lives.

Drawing on a set of new qualitative data collected during 2016-17, this article reports on findings from a

study that aimed to build a bottom-up view of how ordinary people try to deal with the local power structure.¹ Using semi-structured interviews, disaggregated focus groups and participant observation, data was gathered in Greater Faridpur in order to gain insights into the workings of both the formal and informal institutions that govern peoples' everyday lives. The aim of the research was to address two central questions: 'what does the local power structure look like?' and 'is it changing in ways that can enable people living in poverty to make stronger claims on rights and entitlements?' The study aimed to document the barriers and challenges that people face as they seek to maintain and further their livelihoods. In this way the study aims to complement more conventional macro-level analyses of power being undertaken at country level.

In order to study the local power structure five main sets of institutions were identified and these are set out in Table 1. The first is the Union, the most visible element of decentralised local government, with its locally elected council or *parishad* and nested beneath

the Upazila (UPZ) sub-district and Zila district structures (see Siddiqi and Ahmed, 2016). The second element we identify as the political structures that lead from Parliament down into community level politics in the form of local political party structures and activists. Third is the formal judiciary from High Court down to the Village Court system, and finally there are the various civil society organisations and activities that we characterise as both 'formal' and 'informal' categories. We use formal civil society to encapsulate the NGOs and other established associational forms, and informal civil society to include *ad hoc* collective action groups such as those formed locally and temporarily to protect rights, as well as traditional social structures such as *samaj* and *shalish*.

Fieldwork was carried out in three contrasting locations: one peri-urban, one well-connected, and one remote village community.² The new study followed up on earlier research carried out by the authors out in the same communities during 2004 (Lewis and Hossain 2008). It is comparatively rare for revisit studies of this kind to be undertaken in order to compare past and present (but see Jansen and Rahman 2011 for an exception), so it is hoped that it offers a useful glimpse is afforded into changing realities. Central to the analysis is the enduring role of patron-client relations as key elements of the power structure, creating institutional arrangements that bring both benefits and risks for poorer people (Gay, 1998; Banks, 2015). Other key concepts used in the analysis of the data included governance, informality, empowerment, and patriarchy.

Findings from the Earlier Study

The aim of the original study was to understand issues of power and governance in anthropological terms 'from the ground up'. It focused on both the 'traditional' village power structure (the system of elders, structure of landholding, and its mechanisms for resolving disputes) as well as on villagers' relationships with the Union Parishad (UP), the lowest main tier of local government. It also documented the presence of non-state actors such as non-governmental organizations (NGOs) and local associations, and analysed their changing roles and significance. A key assumption made in the study was that the power structure was dynamic rather than static, and that even its so-called 'traditional' aspects were evolving and changing (Mannan 2015).

The mid-2000s was a period when there was growing investment in local infrastructure and this was slowly improving connectivity and market access. A diverse range of NGOs were delivering services and working on rights-based approaches to development (such as improving land rights for the poor) in attempts to foster

more inclusive development at the local level. The UP was placed at the centre of ongoing decentralization efforts aimed at strengthening their capacities and inclusiveness (Ahmed et al 2010). Both the UP and the *shalish* were receiving support from government and international agencies that aimed to make them more democratic and participatory, and to improve gender inclusivity.

At the same time, mirroring the national situation of dysfunctional gridlock between the two main political coalitions led by the Awami League (AL) and the Bangladesh Nationalist Party (BNP), there was a high level of political polarization between supporters of government and opposition parties. This was played out within increasing factionalism and the increasing politicization of local level decision-making and resource allocation, sometimes leading to conflict.

A central aspect of the original study was that the insights it provided into the institution of patronage. Forms of patron-client linkages – such as the unequal forms of reciprocal relationship between wealthy landowners and poor tenants that have long dominated rural communities – are an important element of the local power structure. Our earlier study had reported that the patronage relationships that govern local power relationships were becoming less rigid. This finding was in contrast with studies such as *The Net: Power Structure in Ten Villages* (BRAC, 1982) which had emphasised the rigid nature of the traditional village level power structure and the propensity of village elites to capture any resources provided by government to support the local poor, and limit the latter's attempts to organise in pursuit of their interests.³

There was now a wider selection of potential patrons available for poorer people to choose from - including local elected officials, party politicians, NGOs and local business leaders, and a range of intermediaries through which such people could be approached. This diversification, we argued, was contributing to a local level power structure that was slowly becoming less unitary. Instead it was becoming what Mannan (2015) has termed a 'multifocal power structure' that allowed more economic, political and social 'room for manoeuvre' for disadvantaged groups in their negotiations with local elites. The 'net' metaphor had referred to relationships that had mainly served to constrain people (while also offering a measure of protection), but the new situation could be understood as something that was more akin to a 'web'. This implied a set of relationships that were now also based on the important of building *connections*, increasingly important for linking people with productive resources and opportunities (see Gardner 2012). People could still get caught up in the web, but they could also move across its many strands and create potentially useful new connections.

We also found there to be emerging synergies between local government and civil society actors. In some cases, these were leading to strengthening of the rights of the poor (such as in relation to improved land rights) and enabling more participation in local decision-making (such as influencing which local infrastructure projects were given priority by UP works committees). We found evidence for forms of positive, negotiated change taking place locally that we thought might be sustainable, in spite of the overall context of a turbulent and unstable national and local political system that had become highly adversarial and polarised between two confrontational political party blocs. For example, civil society organisations could sometimes work with an elected UP leader to help strengthen local land rights for people if this increased his popularity. Traditional village elites might accept more gender-inclusive *shalish* arrangements if this increased their reputation and prestige, and brought in more outside resources. The main source of power was no longer solely land ownership, but also increasingly important were the connections people were able to make to resources outside the village that they could then distribute: such as development resources, political linkages, and employment and migration opportunities (see Gardner 2012). Finally, the study also found a high degree of local diversity: that these issues were playing out very differently across the three village settings studied, leading to the finding that context and locality – such as the state of the economy, types of civil society that were active, and the individual strategies of local political leaders – mattered considerably.

Summing up the findings and recommendations from the first study (Lewis and Hossain 2008, p.13) we commented:

Many people who live in poverty in rural Bangladesh still have little faith that local institutions will provide the means to secure rights or justice, but our study found some evidence that those with power can sometimes respond positively to negotiation and pressure from civil society around creating potential win-win outcomes which can benefit both poor and non-poor people. For example, we found that a union chairman may cooperate with an NGO that is seeking to strengthen land rights for the poor if it helps to build a stronger political support base for him. Similarly, when previously excluded people, such as landless women, campaign to take up positions within governance institutions such as the union or the *shalish*, either on the basis of bottom-up or top-down pressures, small areas of opportunity and policy ‘space’ are sometimes opened up. The challenge for the future is to combine understanding of this complex

‘micropolitics’ of local change with support for the strengthening of broader economic and political pro-poor change at the district and national levels.

Four practical insights were drawn from the original study, in terms of the need: (i) for designing and implementing interventions that recognise and build upon local institutional difference and diversity; (ii) finding opportunities for the identification of win-win coalitions with elites to help secure sustainable pro-poor change; (iii) supporting NGOs and civil society alongside broader institutional support to local and central government; and (iv) recognising more fully the importance of economic development as a foundation for sustainable governance reform and community level empowerment.

Findings from the New Study

Returning to these communities more than a decade later revealed many changes.

The country’s longstanding ‘illiberal democracy’ has now moved in a new direction, away from the old bipartisan political system in which two competing political blocs of AL and BNP had alternated in power. Following the 2007 military-backed Caretaker Government, an AL-led alliance won a majority at the 29 December 2008 general election. After disagreement around the reform of the arrangements for the January 2014 elections, the BNP refused to take part and the AL was re-elected unopposed for an unprecedented second term in government. This means that with the political opposition is in disarray, the AL is now dominant and, and the nature of what Hassan (2013) has called Bangladesh’s ‘partyarchy’ has changed. There are concerns that restrictions on the activities of mainstream parties could create a vacuum in which a new extremist threatens to the stability of political institutions and the country’s record of relatively inclusive growth (Khan 2017).

The AL government has enhanced the authority of Members of Parliament (MPs) by giving them an advisory role on the local UPZ sub-district authorities. According to Siddiqui and Ahmed (2016, p.574) this has made worse a situation in which ‘MPs dictate instead of advising the affairs of local government’. It has also further politicised the local administrative system by allowing party affiliation to play a greater role in local UP activities. In 2016, elections were held with political party affiliations on the ballot paper for the first time (instead of just a candidate’s name as before). This may also have been a factor that contributed to increased

election violence during these elections (Siddiqui and Ahmed 2016).

The economy has continued to perform very well in terms of growth in the period since the earlier study. According to UNDP (2016), Bangladesh has seen a 'major economic transformation' in recent years, growing an average 6.3% between 2011-15, and 7.1% in the 2016 financial year. Poverty has declined from 31.5% of the population in 2011 to 24.7% in 2015 below the national poverty line. There have been impressive gains in productivity and infrastructure improvement. Bangladesh's social development indicators improved as measured against the Millennium Development Goals (MDGs). A new National Social Security Strategy (NSSS) has been put in place with the potential to better address social protection in terms of multiple dimensional needs and risks.⁴ The government's Seventh Five Year Plan (2016-20) aims to further increase growth, build more citizen inclusion, and strengthen resilience.

Major challenges remain with high levels of extreme poverty (12.9% of the total population in 2015-16), along with growing inequality and increasing vulnerability. Growth has been achieved at the expense of high levels of environmental damage. Women remain disadvantaged in terms of earnings (52% lower than men's) and labour market participation (34% as opposed to 82% for men). Women's low economic status is reflected in high levels of gender-based violence (experienced by 65% of women in the last 12 months according to a recent government study). The country also has the fourth highest rate of child marriage in the world, a statistic that the government attempted to bring down by reducing the legal age of marriage from 18 to 16 years of age.⁵ The informal sector remains the main source of urban employment. Democracy and governance are still deeply problematic, with low levels of civic participation, high levels of corruption (147th out of 167 according to Transparency International), and relatively little progress being made with civil service reform and building more transparent institutions. Tax revenue collection is below 10% of gross domestic product (GDP) making the level, quality and sustainability of public services generally low.

Revisiting the five institutions that make up the power structure, we find some key changes. First at the level of the three tier administrative system of Zila, UPZ, and Union the 2009 Local Government (Union Parishad) Act has created some important changes. This reform created a new local Ward '*sabha*' (council) meeting system, introduced a Citizen Charter, and brought measures to increase women's representation. There has also been a shift in political institutions. After failing to contest the last general election a severely weakened political opposition now leaves the ruling

Awami League (AL) party as the dominant and largely unchallenged political actor in a way that is quite different from before. Local UP elections – which took place at the time of the fieldwork in early 2016 - have also become more politicised, and there was widespread violence reported in many areas of the country. Compared to 2004, MPs have gained more power to intervene locally in direct ways, giving them greater influence over how local development activities are carried out and to whom welfare and relief entitlements are distributed.

At the level of civil society, we find that economic support from NGOs in our communities has expanded, but that the wider NGO sector itself is less diverse. Rights-based NGO development work with the poorest has largely faded away. There is also a higher degree of political control of local civil society associations. Informal civil society in Greater Faridpur has continued to decline in its traditional forms, such as the local village level institutions. However, we do find cases of local level protest and community level action, sometimes taking 'unruly' forms. Finally, there are changes to the judiciary, including more flexible forms of the *shalish* (traditional dispute settlement meetings) and a continuing decline of the formal Village Court system.

What are the main findings from the new study in each of the three study locations? The peri-urban village today has experienced sustained economic growth that has improved local livelihoods. The area is more urbanised and will soon be absorbed into the local City Corporation. People report that local businesses are doing well, and that economic support from NGOs is useful and appreciated. The law and order situation is reported to be good, and there is a positive level of communal harmony between different religious and ethnic groups locally. There is strong community support for efforts to discourage underage marriages by government and NGOs. Forms of 'traditional' authority such as the *matbars* (village elders) continue to lose power. Compared with before, the elected UP has become less central to local development processes. With a UP Chair who at the time of the fieldwork was affiliated to the political opposition, local ruling party activists with the support of the local MP have set up informal by-pass arrangements that ensure that they maintain as much control as possible over local affairs.

The ruling party has also increased its influence over local civil society groups such as School Committees and Business Associations, contributing to a higher level of local politicisation than we had found before. The types of win-win pro-poor coalitions between local leaders and civil society at UP level that we encountered in the earlier study are much less common today.

However, there are still cases of small-scale informal community-level civil society action, such as the organisation of a defence group to challenge the threat of loss of water rights by local interest groups.

The well-connected village has also substantially improved its infrastructure and its local economy. The expansion of national and international migration opportunities, supported by government and NGOs, has had positive effects on local livelihoods. However, we found growing politicisation of local level institutions here as well, with the ruling party deploying informal strategies to work around the locally elected opposition-affiliated UP Chair. With the backing of the local MP, the UPZ Chair – who was formerly the UP Chair during our earlier study, and is AL-affiliated – extends party power by managing a patronage network in terms of access to jobs and local positions on committees and civil society groups, to some extent side-lining the UP. He nevertheless retains his solid local reputation for settling disputes fairly, with *shalish* arrangements that are reported as mainly working well. His relative is the local UP Chair, which is another factor that helps in managing the relationship, suggesting that clan-based politics continues to provide a measure of stability to local institutions, even where there are party political differences. In this location formal rights-based civil society action by development NGOs has also become less common since the earlier research period. In its place there are more NGO loans and new forms of small business support, and our focus groups indicated that these are well liked by both poor and non-poor people. There are no reports of people struggling to repay their NGO loans as we had come across last time.

In the remote village, the picture is different. Despite its relative proximity to the local town, this is a village that remains comparatively isolated, cut off by a large river. Here there has been comparatively little infrastructural development that can improve local connectivity or enhance access to economic opportunities. Livelihoods opportunities are far fewer than we encountered in the other two study areas, and most people's economic position remains less favourable. Severe environmental pressures are also experienced by these communities in the form of large-scale river erosion, perhaps exacerbated by climate factors. This instability has caused many households to leave their homestead and farmland and resettle. Economic pressure has led to increased out-migration more from a position of weakness than from one of relative strength, as observed in the other two locations. Dhaka's expanding local informal sector garment industry (as opposed to the ready-made garment export sector) has become a growing source of new small-scale economic opportunities for many households in this community, though it is not as lucrative as opportunities observed in the other two areas, and appears to be strongly dependent on expanding the use

of child labour as young teenage boys are the main travellers to the garment sector.

Once again, we found that there had been the relative marginalization of the local opposition party UP Chair. The MP had a high level of control over the distribution of externally provided resources from government, which he achieved through the use of a loyal party 'informal coordinator', who was also a UP member. With him as an intermediary, it became possible for party activists to bypass the normal UP level distribution system for local entitlements such as Test Relief and Food for Work (FFW), and this helped to consolidate a set of more politicised patronage networks. Last time we had found one or two relief-oriented NGOs operating here that were providing basic welfare goods and services. Today there are more NGOs than before operating in the area, and these organisations are now providing business training services and small-scale loans designed to improve economic opportunities. But there was little evidence of rights-based work or local advocacy by NGOs. The area is less socially progressive than the others, with for example more persistence of child marriage, which some claimed was linked with increased mobile phone and social media use. This was seen as intensifying concerns about family honour and reputation, particularly among the poorest households.

Discussion: Implications of the Changing Local Power Structure

Overall our findings suggest that local change has been unbalanced: there is significant economic development that is occurring but without much counterpart political development. Market connectivity is much higher than before, which means that people have better access to economic opportunities, but opportunities for enhanced participation in local decision making have not increased to the same degree. Poorer people still understand the power structure primarily as a highly personalised set of informal relationships with more powerful people, including but not restricted to, elected or administrative officials. The main actors in the power structure remain the same as before, but the power of MPs has increased, along with the growth of politicisation within the local power structure.

Continuing a trend that was identified last time, there is a more *multifocal* power structure that increasingly governs people's access to political and economic opportunities, as compared to the previous *unifocal* one in which people were dependent on the power of local landowning elites. This means that power structure is becoming more flexible than before, and people's access to connections, information and resources has broad-

ened. Despite a high level of agency, resourcefulness and creativity shown by many households, dealing with the power structure requires constant effort to build connections and negotiate partisan political interests in order to access opportunities, resources and entitlements. Furthermore, the diversity of NGO work has declined, leading to more economic support but less rights-based work that could support more inclusivity.

The process of formal decentralisation has been disappointing. A very concerning finding is the increasing marginalisation of the UP, which is intended to be a key tier of decentralised local government. This has in part been driven by the increasing dominance of the power of MPs who are seeking to build political support directly in local communities in order to manage their vote banks. The UP is increasingly being bypassed as a potentially inclusive and accountable centre of local decision-making and resource distribution, as MPs play more direct roles in local affairs. This is particularly the case where local UP chairs are affiliated to opposition groups. This has negative implications for the various local government 'capacity building' efforts that continue to take place aimed at strengthening participation and civic engagement (GoB 2014). While we found in 2004 that the UP's role was increasing in significance and that it was becoming a little more inclusive, this time local people told us that *'The UP's glory is now in the past'*. The aim of encouraging closer collaboration between UPs and NGOs in local development work that was embedded in the 2009 UP Act has not materialised. The modest gains towards increased women's representation in local bodies are a useful step forward, even if many report the continuing marginalization of women within actual decision-making processes.

The extension of the ruling party's power means that local power relations in each of our locations have been further incorporated into the wider 'political game'. The use of informal strategies is becoming a key tool for this incorporation. If there is an elected official in place who is inconveniently affiliated to the main opposition party, they are simply 'worked around' by the creation by the ruling party of informal coordinator and intermediation roles based on a patron-client relationship. In the same way, key local civil society organizations such as business associations are increasingly being co-opted by placing politically affiliated individuals in charge. One overall result is that local political competition has been reduced since the earlier study. This is a cause for concern because it leaves people with fewer opportunities to represent their interests, and because of fears that the opposition vacuum could become filled in the future by political or religious extremists. It also makes less likely the possibility that future new independent political leaders might emerge from local

civil society. Competition is instead expressed through increased local factionalism within ruling party, evident from the tensions between MP and UPZ/UP levels in the peri-urban site. This might be taken as hinting at future instability. However, we did not find evidence of extremist political activity in our study areas.

Furthermore, locally distributed resources are still being mobilised in ways that give ordinary people little influence or control over decisions. Furthermore, such resources are being drawn from the centre, rather than being raised locally through taxes (even though a strong economy means there is increasing potential for doing this). The political interests are directly served by the allocation of resources at local level. Recently changed rules that now allow for the formation of Project Implementation Committees without needing a UP member as Chair contribute further to this. Nevertheless, the increased range of social safety net services, including new forms of support for disabled people, are proving relatively effective measures to reduce exclusion even with their politicised distribution.

When it comes to informal civil society institutions, we found that a resilient (though shifting) set of patronage relations remains at the heart of UP and Ward level meetings and activities. We did find some cases of poor people taking small-scale collective action to address local problems, such as land rights, often assisted by more powerful supportive patrons (such as journalists or lawyers). But aside from these messy spaces of 'political society' (cf Chatterjee 2004) in which people with relatively little power attempt to contest and negotiate, we did not find evidence of the kind of progressive social movements that some observers have hoped might emerge in support of social and political rights more widely. More positively, we found less presence of local *mastan* criminal intermediaries than some studies from other parts of Bangladesh might lead us to expect (e.g. Khan and Stidsen 2014).

Civil society space, as we have seen, has been shrinking both in the sense that it has become mainly dominated by market approaches to development (loans, business support) and because fewer rights-based or radical organizations are in evidence. The decline of rights-based development NGOs is a result of many complex factors, including tensions with government, internal organizational problems, practical difficulties with local mobilization approaches, and changing donor support trends (Lewis 2017). Their relative absence raises short-term problems for poor people seeking to advance their rights, and longer-term problems for progress with decentralization and local accountability. In the earlier study we found that when NGOs and local authorities worked together through building productive coalitions or forming appropriate partnership

arrangements there were sometimes positive outcomes for poorer people. Today there is less countervailing pressure from civil society visible on issues such as land rights or the use of extra-judicial killings, because to do so would risk problems from local AL leaders. Nevertheless, the possibility remains that the government strategy of building a co-opted civil society into a unified national development approach is one that may yet bring stable and inclusive economic growth, even if this is achieved at a high political cost.

Conclusion

We began with a focus on two central research questions that asked: ‘what does the local power structure look like?’ and ‘is it changing in ways that can enable people living in poverty to make stronger claims on rights and entitlements?’

The answer to the first question is that the local power structure continues to have both formal and informal dimensions, with patronage relations at its centre. Today, we are less optimistic that the loosening of the power structure that we had observed in our earlier study is likely to continue. Despite the efforts to build the capacity of local government through a series of donor-funded initiatives, the increased local influence of MPs means that the ruling political party has consolidated power in local areas at the expense of local decentralising institutions such as the UP. Civil society space has also become reduced, particularly that formerly occupied by radical NGOs and civil society groups seeking to address local rights-based development in relation to land, local political participation and civic engagement.

The question as to whether recent changes are enabling people to make stronger claims to advance their livelihoods cannot be answered simply. There are fewer opportunities for the types of win-win coalitions that we had identified in the earlier study and predicted would become more frequent. Today ruling party political interests have increasingly captured local associations and other civil society groups. This means that while there is a wider range of patrons available (for example, in the form of local media supported activism and sympathetic local journalists), opportunities for poorer people to build horizontal forms of solidarity remain limited. Connected to this trend, local level political competition has also diminished because the ruling political party has consolidated its control of the local power structure and has weakened local political opposition. The forms of political competition that do take place are now primarily expressed through increasing factionalism at local level within the ruling party.

The combination of stronger local livelihoods and reduced democratic space is producing mixed outcomes for poor men and women. Undoubtedly, the ruling party is delivering increased prosperity and a degree of stability. Economic growth makes people more optimistic about the future, particularly younger people. There are small gains specifically for women in both the economic and the local government decision-making spheres, even though many constraints remain. There are encouraging signs that informal civil society action remains vigorous, along with other forms of ‘rude accountability’ (Hossain, 2010) in which people occasionally confront abuses by those with more power. But the overall picture of economic gain has not come without cost – in the form of ‘political pain’. The formal power structure may be becoming more fragile, brittle and less resilient than before. The ruling party’s increasing dominance within the networks that connect people with less power to those with more comes at a cost.

Elements of an older power structure remain, with the persistence of patron-client relations, elite clan politics and patriarchal norms, but these too are slowly changing. The range of patrons people can access has continued to widen, increasing opportunities for those with less power to pursue more favourable forms of connection. Within the power structure, the blurring of formal and informal roles and relationships has also continued, creating a complex ‘web’ of relationships that limits civic engagement but nevertheless offers up some opportunities for incremental inclusive change. Progress with achieving women’s political inclusion into local institutions is occurring, albeit at a slow rate. Ordinary people are seeking to advance their interests within a wider framework of political and social institutions that may be becoming less flexible and more brittle. Today we find less resilience in the system in two senses: (i) while still currently relatively inclusive, the existing system could fracture if there is sudden political change and disruption in the future; and (ii) for poorer households, falling foul of the ruling party’s patronage will have serious consequences, with fewer alternative non-affiliated patrons to whom they can turn. The social protection system is particularly vulnerable to political capture at the local level. There is a need to protect those people who are left behind within the overall picture of positive growth, such as those living in marginal locations, minority communities, and women who face continuing marginalization within formal governance structures.

Today economic growth is now front and centre in mainstream development policy, but we cannot afford for this to be at the expense of diversity, inclusion, and civil society action. The continuing value of economic growth to improving livelihoods is clear, but achieving

‘inclusive growth’ remains a challenging goal. Our analysis highlights the risk that economic gain displaces issues of inclusivity, participation and rights. Supporting local government and civil society in mutually reinforcing ways remains key to securing growth within inclusion. But it has become more difficult today, given the decline of rights-based civil society actors such as NGOs. The presence of types of informal civil society and the persistence of forms of ‘rude accountability’ (Hossain, 2010) nevertheless provide some cause for optimism in this regard. We still argue there is a need to avoid ‘one size fits all’ approaches and that it is vital to pay close attention to local difference. People in the remote location are made more vulnerable by environmental vulnerability and poor infrastructure. Our data also suggests the need to continue to treat with caution generalizations about what is happening in Bangladesh, such as those commonly made in relation to extremism, intolerance and religious tensions. Finally, the need to find ways to support pro-poor coalitions involving local elites remains, even though we found fewer cases of NGOs working constructively with local officials and informal power holders to address local problems.

As *WDR 2017* reminds us, understanding how the local power structure works, and how it is perceived, continue to be important themes for mainstream development policy and practice. Power asymmetries contribute to exclusion, inequality and restrict equitable growth. Our re-study found levels of coalition building between local government leader and civil society groups to be lower than those we had encountered in 2004. Although there are some reforms in place that have been designed to increase levels of civic engagement it is not easy to find evidence that these are working. The decline of the UP’s role and position as the crucial lowest institution of local government is a change that brings negative implications for poor people’s participation in decision making, for joint government and civil society pro-poor coalition building, and for increasing local resource mobilisation. The implications of this decline are political and should not be seen as purely technical. This finding supports the *WDR*’s argument that we need to think beyond technical ‘capacity building’ of local institutions to engage more fully with power issues in supporting more inclusive growth. There is a continuing need for policy makers and development agencies to prioritise civic engagement, coalition-building and forms of bargaining that can take better account of the needs of those people excluded from growth, and whose interests are captured by those seeking to maintain the *status quo*.

Endnotes

1. The research was kindly funded by the Embassy of Sweden, Dhaka. The full study can be accessed at http://eprints.lse.ac.uk/82224/1/17_0385%20Sida%20Report_v5_JustifiedCopy.pdf.
2. We gratefully acknowledge the invaluable assistance of an outstanding field team: Mr Abdur Rahman Liton, Mr Shakhawat Hossain Taslim, Ms Irfath Ara Iva, Ms Shamsun Naher, Mr Md. Belal Hossain, and Mr Md. Abu Alam. Liton, The main fieldwork was undertaken in December 2015-January 2016. It preceded the UP elections that were held in six phases between January and June 2016. The precise location of each of the study sites was concealed to maintain anonymity and security.
3. It also showed how ‘vertical’ patron-client relations between rich and poor (such as landlord/tenant, landowner/sharecropper, moneylender/loanee) were central to social structures, making the formation of such grassroots groups based on ‘horizontal’ links or ‘social capital’ difficult. Following findings from studies such as *The Net*, government and NGOs began searching for ways to bypass village elites and work directly with the poor through forming grassroots groups and better ‘targeting’.
4. There has been an expansion of social protection measures since the earlier study. There are now a total of 145 ‘social safety net’ schemes that are now being provided through a total of 23 different government ministries. Around 25-50% is estimated not to reach the intended recipients due to poor targeting and corruption. However, only 2.2% of GDP is currently allocated to social safety net expenditure, compared with 6-8% for other middle-income countries (‘Allocate more for social safety nets’, *Star Business Report*, *Daily Star*, 11 April, 2016).
5. Human Rights Watch, <https://www.hrw.org/news/2015/06/09/bangladesh-girls-damaged-child-marriage>, accessed November 18, 2016.

References

- Ahmed, N., Tofail Ahmed, M. Faizullah (2010) *Working of Upazila Parishad in Bangladesh: A study of Twelve Upazilas*. Dhaka: United Nations Development Programme (UNDP).
- Banks, Nicola (2016) ‘Livelihoods limitations: the political economy of urban poverty in Dhaka, Bangladesh’. *Development and Change*. 47(2): 266–292.
- BRAC (1982) *The Net: Power Structure in Ten Villages*. Dhaka: BRAC.
- Chatterjee, P. (2004) *The Politics of the Governed: Reflections on Popular Politics in Most of the World*. NY: Columbia University Press.
- Gardner, Katy (2012) *Discordant Development: Global Capitalism and the Struggle for Connection in Bangladesh*. London: Pluto Press.

- Gay, R. (1998). 'Rethinking clientelism: demands, discourses and practices in contemporary Brazil'. *European Review Of Latin American And Caribbean Studies*, (65), 7-24.
- GoB (2014) *Midterm Evaluation of Local Governance and Decentralization Programme for Union Parishad Governance Project (UPGP) and Upazila Governance Project*. Government of Bangladesh: Dhaka.
- Hassan, Mirza (2013) *Political settlement dynamics in a limited-access order: The case of Bangladesh*. Working Paper No. 23, Effective States and Inclusive Development Research Centre (ESID) School of Environment and Development, University of Manchester, UK.
- Hossain, Naomi (2010) 'Rude Accountability: Informal Pressures on Frontline Bureaucrats in Bangladesh', *Development and Change*, 41 (5): 907-28.
- Jahangir. B.K. (1982) *Rural Society, Power Structure and Class Practice*. Centre for Social Studies, University of Dhaka.
- Jansen, Eirik G. and Md. Nazibor Rahman (2011) 'Revisiting Bhaimara', January 12th, *Daily Star*, Dhaka.
- Khan, Mushtaq H. (2017) *Political Settlements and Inclusive Growth in Bangladesh*. School of African and Oriental Studies (SOAS) Working Paper, University of London, UK.
- Khan, A.R. and Sille Stidsen (2014) *Local Context and Conflict Assessment in Bangladesh*, Swiss Agency for Development and Cooperation, SDC, Embassy of Switzerland, Bangladesh, December.
- Lewis, D. and A. Hossain (2008) *Understanding the Local Power Structure in Bangladesh*. Sida Studies 22. Stockholm: Swedish International Development Cooperation Agency (Sida).
- Lewis, D. and A. Hossain (2017) *Revisiting the Local Power Structure in Bangladesh: Economic gain, political pain?* Stockholm: Swedish International Development Cooperation Agency (Sida).
- Lewis, David (2017) 'Organising and Representing the Poor in a Clientelistic Democracy: the Decline of Radical NGOs in Bangladesh', *The Journal of Development Studies*, 53 (10): 1545-1567.
- Mannan, Manzurul (2015) *BRAC, Global Policy Language, and Women in Bangladesh: Transformation and Manipulation*. New York: SUNY University Press.
- Siddiqi, Kamal and Ahmed, Jamshed (2016) *Local Government in Bangladesh*. Revised fifth edition. Dhaka: Academic Press and Publishers Library.
- UNDP (2016) *Country programme document for Bangladesh (2017-2020)*. Dhaka: United Nations Development Programme.
- World Bank (2017) *World Development Report 2017: Governance and the Law*. Washington DC: The World Bank.

Table 1: Formal and informal institutions in the local power structure

Administrative	Political	Judiciary	'Formal' Civil Society	'Informal' Civil Society
Secretariat (43 Ministries and 15 Divisions)	300 member Parliament elected directly by constituents, plus 50 women members selected by MPs. (Since January 2014 all MPs are AL or its allies Jatiya Party, Workers Party and some independents after main opposition BNP boycotted election)	High Court	National NGOs (e.g. BRAC) NGO apex bodies such as ADAB/FNB Federation of Chambers of Commerce (FBCCI)	Elites and their formal and informal relationships (e.g. positions of power in government, civil society, business plus patronage and kin networks) Social norms e.g. gender relations
	Bilateral and multilateral international donors focused on governance (with conditionalities)		Journalist associations (print and electronic)	
	Political parties			

Administrative	Political	Judiciary	'Formal' Civil Society	'Informal' Civil Society
Departments (254) and Directorates, boards (173) with civil service of c. 950,000 staff				
Divisions (6)				
Zila (district) <i>Parishads</i> (64) (unelected)	Political party organisation and networks.	District courts with magistrates and judges (including civil and criminal courts)	District level FNB chapters	
City Corporations (11)			Regional NGOs	
Upazila (sub-district) (491) with elected chair and two vice chairs (one female)	Local political party offices	Formal land dispute court	Field offices of national NGOs	Networks of kinship
Municipalities (225)	UPZ Committees of national political parties	Assistant Commissioner (AC land)	Local NGOs	Patron-client relations
Line ministry officials	Informal patron-client relations (such as coordinator of LGSP)	Police station		(Note: some definitions of 'civil society' exclude these relationships, others are flexible)
Upazila <i>Nirbahi</i> Officer (UNO)	appointed by MP to bypass some Unions.			
Development Coordination Committee (UDCC)				
Union Parishad (4,554)	Union Parishad with directly elected Chairman, 9 general seats, plus 3 specially reserved for women.	Village courts (rarely used or effective)	Business associations	Local political party organisers, activists, power brokers (increasingly by-passing official structures if occupied by opposition)
Union committees for school, market, law and order, etc.	Union level branches of national political parties.	Arbitration councils (AC)	Market committees	Ad hoc structures of governance such as the Unit Office in the slum site.
Ward Committees (9 wards per union)	Political party activists		Village development and welfare associations	<i>Gusti</i> (patrilineages)
Villages (86,038)	Community police at Ward level.		NGO-formed grassroots groups for savings/other activities	<i>Samaj</i> (social groupings)
	<i>Gram sarkar</i> village government (abolished 2007). Ward <i>sabha</i> meetings since 2011.			Mosque/temple committees
				<i>Shalish</i> (informal courts)
				Philanthropic activity
				Collective action groups (e.g. journalists)

The Looming Non-Traditional Challenges to Security in South Asia: Restoring Ecological Integrity and Security

Tariq A Karim

Visiting Fellow, BRAC University

Abstract

Since the end of World War II, the question of security was viewed dominantly through the prism of military threats posed by nations against each other. In recent times, however, non-traditional security challenges such as looming food and water crises, and devastating environmental impacts from climate change such as natural disasters and the threat of pandemic diseases, has loomed ever larger. As the global population inexorably increased, exponentially, it spawned different forms of contestations among peoples and nations for selfish appropriation of natural resources causing environmental degradation.

Fresh water, whether underground, on the surface, in rivers or in mountain glaciers, is at the heart of any ecosystem. It is also very unevenly distributed globally. The steadily expanding gap between available fresh water on the one hand, and the exploding populations particularly in the global South on the other, is at the heart of ecological disequilibrium that, if not properly managed, will likely aggravate the situation further, possible triggering a “domino effect” ecologically that could pose an existential threat to human survival. An appropriate governance structure to manage these precious commons, equitably and optimally, is most urgently needed now to prevent further human conflict from intensification of the contestation between competing groups and interests, increasing the chances of domestic and inter-state conflicts and jeopardizing human security.

1 Introduction

Ecological and non-traditional security may be defined as maintaining a dynamic equilibrium among human societies but equally, if not far more importantly, between humans and nature, humans and other species, and humans and pathogens. Any disruption to this dynamic equilibrium between any two or more component sets of actors integral to this equilibrium would translate into a disturbing, risk-fraught disequilibrium, endangering all. Man, as the dominant species with a steadily burgeoning population, has greater ability today than ever to affect how this equilibrium is maintained. Changes in the complex intertwined relationship between man, nature and other species can be destabilized by changes in nature or in human behaviour.

As resources needed by man for sustenance and development steadily dwindle, fierce competition has increased among peoples for control over these resources. In this struggle, non-state actors have increasingly emerged, posing by far a greater threat to societal security than conventional military threats. Maintaining ecological equilibrium in any given geospace has, therefore, emerged as increasingly integral to not only ensuring the overall wellbeing of the peoples who inhabit that space, but to ensuring their continuing security, traditional and non-traditional.

At the very core of the entire ecosystem is the location and availability of fresh water from which all life has evolved and on which lives and livelihood are fundamentally dependent. However, there is an acute imbalance in the ratio of fresh water available to humans and other species who need and compete for it. As long as human population was relatively small, this equilibrium was not discernibly disturbed. That situation has changed drastically in recent times. One school of thought envisages future wars being fought over steadily depleting water resources required by humans, other species and vegetation.

To prevent this situation from deteriorating further to the point that it could become an existential threat for man’s survival (and posing threats to other similarly inhabited environs), this paper advocates collaborative management of the shared ecological space and resources, particularly fresh water resources that are critically taxed and in a state of depletion today.

Towards that end, this paper proposes the setting up of a much-needed collaborative water governance structure that would serve to sustain human growth and development while at the same time restore a modicum of ecological integrity through re-establishing equilibrium.

2 Exploding population, scarce resources, environmental degradation and human conflict – a possible South Asian scenario?

Homer-Dixon (2001), the Canadian political scientist and environmental expert, in a seminal study on environmental degradation and scarcity, and their relation to societal violence, had posited that:

- As human population grows, global economic output may also grow exponentially, but renewable resources will decrease sharply
- There would be depletion of aquifers, rivers and other water resources, significant climate change and decline of food production and fisheries
- Environmental scarcities were already contributing to conflict situations
- Continuing scarcities and pressures will increase demands on states and their institutions, rendering adversely affected states fragile and causing them to circle the wagons
- States will likely fight more over renewable (water, forestry, agrarian) than non-renewable resources in the future
- Intra-state conflicts are likely to expand into inter-state conflicts

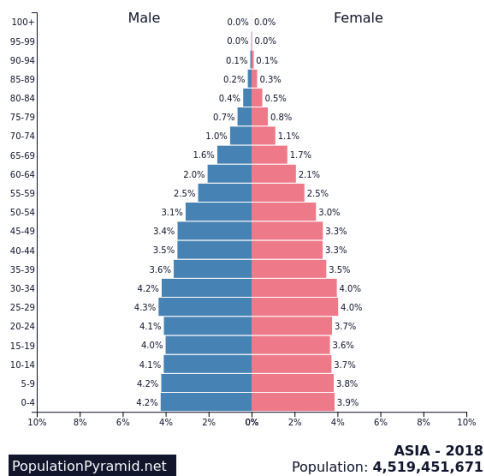
The above factors, if left unaddressed, in some combination, could adversely affect the eastern sub-region of the South Asian Association for Regional Cooperation (SAARC), comprising what the author had first described as the Bangladesh-Bhutan-India-Nepal (BBIN) sub-region (Karim, 2009 a), which could well become one where a disaster was waiting to happen. The environmental degradation that was already well underway in combination with sociological and political factors intersecting, like densely crammed but substantially large populations, rampant poverty and widespread under-development, buffeted by very frequent natural and environmental disasters, had already scarred this region by festering insurgencies and extremist militant movements. A resurgence of that could trigger larger regional instability and insecurity, with wider implications (Karim, 2009 b).

Existing research on the deleterious effects of climate change have already demonstrated clearly the surge in extreme wildcard events impacting the globe: major storms, unseasonal and unpredictable rainfall deviations from historical patterns on which farmers rely, and similar uncertain patterns of flood and drought. All of these can have profoundly adverse repercussions for societies, “from sudden economic disruptions to a longer-term decline in living standards” through diverse

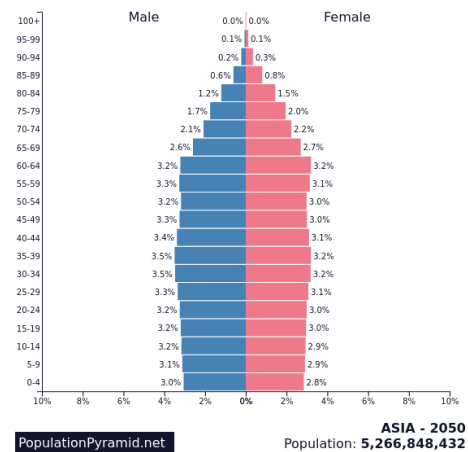
pathways (Mani, et al., 2018). A recent World Bank report (2018) asserts that “average temperatures have risen over the past six decades and will continue to rise” (Mani, et al., 2018). It predicts more warming inland and less warming in coastal areas over the 2050 horizon, with changes in precipitation patterns continuing to be more mixed and persisting in the near future, with resultant decreases in living standards in most countries of the South Asian region. Notably, the report (2018) lists several South Asian megacities – Chennai, Dhaka, Kolkata, Karachi and Mumbai – as climate hotspots, vulnerable to extreme events and sea level rise. In Bangladesh, “Chittagong Division is the most vulnerable to changes in average weather, followed by Barisal and Dhaka divisions” (Mani, et al., 2018). The report (2018) also deduces that “there is some kind of correlation between climate hotspots and water stressed areas”. (Mani, et al., 2018).

With a distressingly long history of ecological insecurity, Bangladesh has been notoriously labelled as “nature’s laboratory for natural disasters” (Inman, 2007a). Steady growth of population in South Asia has made this region one of the most densely populated, with very large numbers subsisting on marginal land. Storms, floods and drought have already repeatedly forced large numbers of people to abandon their homes. Crop failures, famines and outbreaks of infectious diseases have occurred frequently in the region and have almost become commonplace. Demographic trends are fairly reliable predictors of future security challenges since fertility and mortality patterns normally change very slowly over time. The size and shape of the SAARC region’s population in 2050 can be projected with a high degree of certainty. The area’s changing demographic profile may be taken as a given by policy makers as a significantly big factor that will drive non-traditional security challenges over the next couple of decades or more.

Total global population, now a little over 7.3 billion, is expected to reach 8.5 billion by 2030, top 9.7 billion by 2050 and shoot to over 11 billion by 2100 (UN ECOSOC 2015). Significantly, South Asia (that is the region comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) has (in 2015) a combined aggregate total of over 1.743 billion, registering a staggering 336% increase over a mere 476 million in 1950. It will almost double its present numbers by 2050. The burgeoning demographic “youth bulge” is a factor of critical importance. The World Development Report of the World Bank, (2007) had predicted that the number of young people aged 12-24 would continue to rise inexorably over the next twenty years. Numbered at 385 million in 2007, it was predicted to increase to around 435 million in 2030 (World Bank 2007).



The Population Pyramids: 2018 and 2050



PopulationPyramid.net

South Asia's average percentage of population between ages 15-59 in 2015 was 60.75; in 2050, this average is projected to be 60.88 (ECOSOC 2015). The same projected that the population under 15 for the region in 2015 averaged at 31.11%; in 2050 it is projected to average at 19.15%. On top of this, with an average of around 1.2 million joining the job market annually, South Asia is "home to the largest proportion of unemployed and inactive youth in the developing world" with around 31% of its total population in this category (Kabir 2013). Taking these trends together, exacerbated by the factors identified by Homer-Dixon in his thesis, a picture of political instability across the region may be reasonably expected.

As one observer has stated: "South Asia today possesses all the ingredients for a geopolitical nightmare. State failure in any one of the region's most vulnerable countries could prove potentially devastating for stability on the subcontinent as a whole" (Karim, a 2011). While traditional security concerns relating to the South Asian scenario (particularly in the Afghanistan-India-China-Pakistan context) continue to worry many in the world, there are emerging non-traditional security concerns that should be of common concern to everyone across the region. "The 21st Century is wrought with 'non-traditional' challenges such as looming food and water resources crises, the often devastating environmental impacts of climate change, and the threat of pandemic diseases that cut across geographic boundaries. All these challenges ... have an immediate human impact, with implications for both domestic and regional stability..." (Karim, b 2011). Dennis Pirages, Dean's Professor of Government in the Department of Political Science at the University of Nevada, Las Vegas, convincingly argues, "non-traditional security or ecological crises have been responsible for killing and injuring substantially larger numbers of people over time than

conventional military threats, and therefore represent a parallel and arguably more important source of insecurity" (Pirages 2011). He contends that ecological and non-traditional security depend on maintaining not only a dynamic equilibrium among human societies, but far more importantly between humans and nature, humans and other species and humans and pathogens. Demographic changes, particularly population growth can be the most destabilising factors when rapidly growing societies pose unsustainable demands on the existing capabilities of nature's resources. Global warming, he predicted, will have a major impact on all four intertwined relationships that define ecological security: coastal areas will be at greater risk of flooding, while warming will permit pests and pathogens to move beyond their traditional regions. Disruption of the fragile equilibrium could increase societal conflicts. Events have since vindicated Pirages' forebodings in West Asia and Africa; South Asians need to take heed to safeguard their own future.

The peoples and governments of the region, together, therefore need to engage in anticipatory thinking, shun procrastination and collaborate meaningfully, addressing the challenges looming ahead--now, not later. Projecting forward to 2050, the demographic situation in the region will very likely provide the impetus for significant increases in non-traditional security challenges in an area already coping with various kinds of ecological insecurity. The trend of population growth, unless reversed or brought to a halt, will surely add pressure on already tight food and water supplies. Fulfilling Cornucopian expectations, human scientific endeavours and ingenuity have indeed made tremendous advances in coping with some of the damaging effects of global warming on food production. Bangladesh, which must increase food production by at least 40% by mid-century, has already made praiseworthy advancements in

developing rice varieties that can survive high salt levels, lack of standing water (a *sine qua non* in traditional rice farming), or even when paddy fields are covered for longer than normal period by flood water, submerging the crops. However, scientists worry that the main threat could be posed, with devastating consequences, if temperatures soar to over 35 degrees Celsius and sustain over eight hours at a stretch of time because this would render the plants' spikelets sterile (Inman, 2007 b). As recent temperature trends of current and last few summers tend to indicate, summer peak temperature ranges are higher than historical normal, extending as well for longer stretches of time. Compounding this, monsoon patterns are also displaying wild variations. If temperatures rise above 35 degrees Celsius by 2100, as widely expected, monsoons "will rev up 2 weeks later than they do now, and rain will come in less frequent but more intense bursts" (Inman, 2007 c). The monsoon rainfall behaviour of the last few years bear testimony to the prescience of this forecast.

3 The critical importance of fresh water – a compromised commons

For a deltaic region like Bangladesh, which is the natural drainage for most of the Eastern Himalayan rivers, a double-whammy effect is already in progress: on the one hand, increasingly less volumes of water is pushing down to the sea on account of retreating glaciers, depleting snow melt and protean rainfall patterns; on the other, with sea level rise already a reality and increasing higher and stronger tidal surges pushing inland from the sea, the delicate equilibrium between fresh water pushing out into the Bay of Bengal and salt water pushing inwards, is increasingly threatened. In 2011, while projecting a future scenario likely to affect Bangladesh, I had stated: "A gradual but inexorable process of inward creeping annexation of sweet water territories by encroaching salt water is already changing the PH factor of the formerly rich agricultural land, rendering it useless for traditional agriculture, while the decline of keystone species appears to be in progress. This complex and intertwined phenomenon is already triggering mass scale internal migrations, as well as external migration. Similar tendencies are being observed in drainage of the western Himalayan rivers to a somewhat lesser extent, but the phenomenon in the eastern sector is a harbinger for what could also happen in the western sector" (Karim, 2013 a). Seven years later, the above appears to be all too real and present.

The increasingly progressive inward-creeping salinity of rivers is already proving disastrous with key species being eradicated, snatching away livelihood from increasingly larger numbers of the population. Large numbers of restive young people in youth bulges

described earlier will be looking for employment in what are likely to be increasingly limited job markets, thus increasing the potential for civil strife. Growing population pressures are already increasing migration to cities as well as to marginal land, putting pressure on these areas unbearably. These future migrants are likely to experience worsening environmental conditions since the areas to which many of them may migrate will likely experience stronger storms and flooding. Early manifestations of global warming could well turn these migrants and other occupants of these marginal areas into "environmental refugees" in search of emergency shelters.

The sheer increase in population and the cumulative effects of glacier melts in the Himalayas and depleted ground water aquifers is already significantly tightening availability of fresh water supplies. Himalayan glaciers have shrunk from 500,000 square kms coverage to 160,000 square kilometres. The fallout is that Bangladesh finds itself in an extremely vulnerable situation in respect of water security, despite being a land of rivers, with three river basins, over a hundred rivers including four major rivers, of which 54 rivers are shared with India, its immediate upper riparian. An incompletely executed bilateral treaty exists on only one of the shared rivers (The Ganges), while an agreed draft on another remains frozen in a state of suspended animation. Taking a river-by-river approach would leave Bangladesh very vulnerable to the vagaries of nature and the unpredictability of geopolitics. The narrative of sharing is evocative of the *partitioning* of waters which leads into the realm of contestation. In fact, most of the problems contributing to this situation of increasing water distress may be squarely attributed to The Partition Syndrome of 1947. At that point of time, when the old Colonial order was disintegrating, it was replaced by a new post-Colonial Westphalian "disorder". The new states formed were from a recently gained sense of separate identities that had lain latent and somnolent for millennia but had been prodded awake by the colonial policy of "divide and rule". They came into existence from a partitioning, into three segments.

While segmenting land and territories on *terra firma* is entirely feasible and achievable, what was forgotten in the highly emotionally charged moment then was that the principles of partitioning land cannot be applied to the hydrosphere, atmosphere and ecosphere. So, the rivers that essentially had flown seamlessly from the headwaters to the mouth since their formation were overnight conceived as "belonging" within the confines of the new national boundaries drawn on the map. In my view, this fallacious thinking was reflected in the formulation of the Constitution of the new Indian Union of 1947, in which sovereignty of the rivers were accorded to the respective states of the Union through which those rivers traversed. This is at the heart of the

myriad problems of water sharing that India has struggled with over almost all its rivers, whether within its domestic sphere or with the new transnational configuration of the rivers. The bitter squabbling between states over their respective share of rivers defied all mediation by several river commissions within India and even the *dictat* of the Central Government in Delhi, forcing the Supreme Court of India to arbitrate. The state of mind of the Partition Syndrome, so to say, also governed the Indus River Treaty between India and Pakistan, brokered by the World Bank in 1952 – it essentially “partitioned” a mighty and large river basin, holistically comprising six rivers, by allocating three each to the two antagonists fighting over the one bride. It is, in my view, the same syndrome that has done such serious damage to the Eastern Himalayan River Basins region with tragic consequences for all. This region that had been historically defined by its mighty rivers was water linked seamlessly and was known as the Bengal Presidency during the Colonial British era, the most prosperous administrative unit and the “Kohinoor” of the multi-jewelled imperial crown of Great Britain for two centuries of British rule. This contiguity became disjointed, land-locked and impoverished in less than half a century since Partition.

The conditions described above pose several challenges today for the entire region. Governments must now cater to overall ecological and environmental security that inherently embraces food security, water security, energy security, employment security, and health security. Additionally, governments also must prepare for unexpected disasters (wildcard events) from natural phenomena or threat of disease pandemics. Ensuring water security and integrity is perhaps the most important, water being vital for agriculture, industrial use, fisheries, human consumption, health and sanitation; but addressing this will also pose formidable challenges. Towards this end, all governments now really have no alternative but to collectively address and treat rivers as Commons. They must shift the narrative away from “sharing” (or dividing the spoils) to “managing” collectively, and putting in place an authoritative regional mechanism for meeting these challenges and effectively governing these commons. Our waters are, essentially, at the very heart of our common eco-system that we so heartlessly sought to carve into finite “nationally or sub-nationally owned” segments. In the heat and passion of our nationalist lust, we forgot the essential and inescapable truth: that the ecosphere and hydrosphere are a law unto themselves, governed by the immutable laws of nature, and care naught for the laws of man. It must be man that must adjust to nature’s writ, not nature to man’s. Therefore, to move towards putting in place a viable governance structure for collectively and jointly managing their common waters, South Asians must put in place a

governance structure to reasonably manage their ecology and environment.

4 Towards a new governance structure for ensuring ecological integrity and security – A Proposal

Eight years ago, in 2010, participating in a futures exercise contemplating what South Asia’s response would be to the non-traditional scenario likely to buffet the region in 2025 (extrapolating from then existing and known facts and situation on the ground), I had espoused the formation of a comprehensive, multi-bodied architecture of cooperative mechanisms that South Asians would have the common sense to have moved towards, chastened by an angered Mother Nature and an enraged environment (Karim, 2013 b). Today, I repeat that call here, with a greater sense of urgency than ever felt before, for collective consideration by all South Asians to come together to put in place at least two, to begin with, of those several bodies that I had envisaged earlier. Summarized below, with slight amendments and modifications, are the two bodies that I feel are of immediate and critical importance.

4.1 Establishing a South Asian Regional Ecological & Environmental Security Authority (SAREESA)

Recognizing that all these inter-related phenomena must be addressed holistically, let us establish an umbrella body with supra-national jurisdiction called the South Asian Regional Ecological & Environmental Security Authority (SAREESA), with states pooling, not ceding, sovereignty. If there is one lesson South Asians should have learnt from the inbuilt weaknesses of their earlier attempt at regional cooperation within the ambit of the South Asian Association of Regional (SAARC), it should be that such a body could only be what its nomenclature asserted: a mere “association” with perhaps a plethora of rosy pie-in-the-sky aspirations but no clearly defined common purpose or determination, no real governance structure, and no authoritative writ over even many of the things that they set in place. South Asian countries, considering the over-riding importance for ensuring ecological security, need now a governance structure that would possess the mandate and authority, pooled and devolved to it by the member states, to enforce adherence to its collective decisions. This body will take decisions by simple majority that are binding on everyone; no one state would be able to exercise veto power. Recognizing the extreme vulnerability of its

smallest and environmentally most endangered member, Maldives, let Male be chosen for locating the permanent secretariat of this new authority with supra-national jurisdiction.

The SAREESA should have six sectoral cells to deal with water security, food security, energy security, employment security, health security, and security from natural disasters, respectively (but in this paper, I shall emphasize the urgency of addressing one sector only). Each cell should be headed by an officer with the rank of Principal Secretary to the head of State or government (thus giving him a higher status and over-riding clout over the bureaucratic heads of permanent ministries in member-nations' bureaucratic hierarchy).

A minister-level governing body, the Governing Council, comprising full cabinet-rank ministers from each member country, will oversee the work, activities and programmes of the SAREESA. The Governing Council should meet once every three months, by rotation, in each member-country's capital. It should be chaired by the Head of Government of the country where the meeting is held. Decisions are to be arrived at by a simple-majority consensus. Decisions once taken are binding on every member state. The Governing Body will look at ecological security issues holistically while evaluating the work of each of its component cells, and its decisions will reflect this holistic perception of the ecological landscape to which the region belongs. Its decisions will be like laws passed by the national parliaments, but where the SAREESA decisions conflict with prior existing national laws, they over-ride the latter. Possessing this privileged position vis-a-vis national bodies, it will be authorized to initiate and ensure real-time information-exchange between all related national bodies in the sectoral areas of its jurisdiction.

The funding of SAREESA will be through mandatory contributions from each of its member states, the amount proportional to their population and weighted by their GDP. There must be complete transparency in SAREESA's governance process. At the same time, this institution must have an interactive and proactive public outreach program, that will include among other tools, creating mass awareness and mass education programs on various aspects related to its mandated work and jurisdiction that affect the public good and well-being overall.

4.2 Setting up The South Asian Water Security Authority (SAWSA) – the water security cell of SAREESA

SAWSA's water security mandate should exercise overall jurisdiction over all types of water bodies, viz.

ground water, surface water, rainwater and even sea water. It should be tasked with monitoring and managing all water resources in the region in a holistic manner, to regulate conservation of these resources as well as to prevent abuse or wastage. To execute its mandate, SAWSA will draw up meticulously formulated rules and regulations. National laws and regulations shall be required to be brought into conformity with SAWSA rules and regulations, but where they are not, SAWSA writ will prevail. The focus of SAWSA will be on:

4.2.1 Managing Ground Water Resources

Decades of unplanned and profligate use of groundwater aquifers has not only depleted many of these aquifers but also triggered unintended consequences, like arsenic leaching, and salinity infestation, spreading to ever widening areas. Since ground water recharging needs a long time, with the approval of SAREESA, SAWSA will impose very strict and stringent restrictions on sinking new tube wells of any type (whether deep or shallow). At the same time, continuing use of existing tube wells will be very strictly regulated and monitored. SAWSA will regularly map existing ground water reservoirs/aquifers using sophisticated technology globally available for the purpose. Where it finds that such reservoirs are in precarious condition, it will order removal of all tube wells drawing water from that reservoir and ban further extraction until such time as it determines the reservoir's health has been sufficiently restored and it is sufficiently viable for water extraction once again.

4.2.2 Managing Surface Water Resources

To manage surface water resources, SAWSA will need to establish three subsidiary bodies, namely:

- The Eastern Himalayan River Basins Management Body – to deal with the Ganges, Brahmaputra, Meghna and related basins;
- The Western Himalayan River Basins Management Body – to deal with the Indus and related basins; and
- The Central-Southern River Basins Management Body – to deal with the Narmada-Cauvery and related basins.

Considering that each sub-region has its own distinctive morphology, these bodies shall undertake river training and management on sub-regional basis. Each body will undertake to train the entire course of each river, including its tributaries and distributaries, through building embankments, dredging, creating small to medium sized pondage areas to serve not only as reservoirs but also for hydroelectricity generating projects. Where necessary, flood drainage canals will also be excavated to distribute/disperse sudden/seasonal

surges of flood waters evenly. The electricity produced may be fed into the local/national/sub-regional grid as may apply. Service roads should be constructed along one or both banks along the entire course of the river to the extent possible. Also, each bank should be lined with a belt of several rows of indigenous trees that serve to enhance carbon sequestration areas. Maintenance of these will be done throughout the year on a continuing basis, involving the local population along the course of the river, who will act as guardians of the rivers. This will create a constant bank of employment for the local people, integrate with the rural employment schemes that are gender blind, be more labour-intensive rather than capital-intensive, generating local wealth, as well as giving a sense of local ownership of the commons besides ensuring continuous maintenance. As guardians of these rivers, the local communities will comprise an early warning system alerting concerned authorities of impending risk or dangers to the river and its environ.

Simultaneously, local filtration plants need to be established that draw surface waters, treat it for human consumption and then feed it to defined areas along the entire river course. This may augment or completely replace dependence on ground water extraction and usage.

4.2.3 Rainwater Harvesting and Management, & Seawater desalination

Rainwater harvesting and management will be under direct mandate of SAWSA. All new buildings/property development projects, whether personal, commercial or public, in urban, peri-urban/suburban and rural areas will be required by SAWSA regulations to incorporate rainwater harvesting as an integral component. Older structures must also make suitable conversions for including this process, for which they may be eligible for some subsidies and tax breaks to undertake the modification. New projects that fail to comply within a stipulated time, however, should be made liable to heavy penalties as well as mandatory amendments to layout plans; otherwise they would risk complete demolition without compensation.

Rainwater harvesting may be done either by the entire rainwater harvested being allowed to directly recharge the groundwater, or being channelled into storage schemes for local, communal and individual households, wells and ponds, and agro irrigation channels and reservoirs to serve industries. Depending on the morphology of the terrain, SAWSA will decide which component, or what mix serves a given area's needs best.

SAWSA will also undertake small or medium sized sea water desalination plants, where considered feasible, after locating suitable technology that may be available

at reasonable prices and after having done a cost-benefit evaluation to justify such ventures. Considerable R&D work has been taking place to try and make this process of extracting potable water from saline water efficient and relatively inexpensive; one hopes a competitive market will also appear globally.

5 Conclusion

South Asians need to come together, for the sake of self-preservation at least if nothing else, to pacify Nature, arrest and start rolling back the grievous damage that they have thoughtlessly inflicted on the common ecosphere, and to collectively manage, conserve, and restore the health of their shared river basins for optimum use of their steadily diminishing water resources. We must do it now, not later. Procrastinating on collaboratively addressing an existential challenge can never be an option for this region ready to burst at its seams.

The appeal above is no idle, wishful thinking. It is deadly serious. While I want Bangladesh to prosper and surge forward, I am an equally proud legatee of the collective heritage of a larger South Asia in which my nation-state is nested. We shall not survive unless we tend to this nest, collectively. If the bell tolls, it will toll for all South Asians.

References

- Homer-Dixon, Thomas F (2001). *Environment, Scarcity and Violence*. Princeton University Press, Princeton, USA.
- Inman, M. (2009) citing Ainun Nishat, in *Hot, Flat, Crowded – And Preparing for the Worst*, Science magazine, Volume 365, October 2009.
- Inman, M. (2009) citing Bangladeshi scientists in *Hot, Flat and Crowded – And Preparing for the Worst*, Science Magazine, Volume 326, July 2009.
- Inman, M. (2009), citing climatologist Noah Diffenbaugh of Purdue University, West Lafayette, Indiana, in *Hot, Flat and Crowded*, Science Magazine, Volume 326, July 2009.
- Kabir, M. (2013), *Getting to Work: Tackling Youth Unemployment in South Asia*, End Poverty in South Asia, World Bank Blogs South Asia Region, The World Bank, Washington DC, USA.
- Karim, M. (2011), Foreword, *Ecological and Nontraditional Security Challenges in South Asia – Special*

- Report # 28*, National Bureau of Asian Research (NBR), Seattle WA, USA.
- Karim, T. (2009), *Rethinking Regional Cooperation in South Asia: Changing the Paradigm from the Regional Framework to Integrated Sub-regional Development*, South and Central Asia – Issues of Peace and Development, Editors Gaur, N., and Laxmi. V, Centre for Research in Rural and Industrial Development (CRRID), Chandigarh, India.
- Karim, T. (2013), *An Architecture of Cooperative Mechanisms Addressing Nontraditional Security Challenges: South Asia 2025*, The Future of South Asian Security – Prospects for a Nontraditional Regional Security Architecture; NBR Project Report, NBR, Seattle WA, USA.
- Mani, M., Bandopadhyay, S., Chonabayashi, S., Markandya, A. (2018) *South Asia's Hotspots – The Impact of Temperature and Precipitation Changes on Living Standards*, The World Bank, Washington DC USA.
- Pirages, D. (2011), *Ecological Security: A Framework for Analysing Nontraditional Security Issues*, Ecological and Nontraditional Security Challenges in South Asia – Special Report # 28, NBR, Seattle WA, USA.
- The World Bank Report number 70368 (2007), *Investing in the Youth Bulge in South Asia*, Summary of findings and recommendations from World Development Report 2007.
- World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*. (2015) Working Paper No. ESA/P/WP.24. UN Department of Economic and Social Affairs Report, UN, New York.

Are Remittances Utilised for Investment in Bangladesh?: A Cointegration and VECM Analysis

Sifat I. Ishty M. Wasiquir Rahman Khan

Department of Economics and Social Sciences, BRAC University

Abstract

This paper utilises a cointegration and vector error-correction model approach to investigate the connection between remittances and investment in Bangladesh. The long run positive association between remittances and investment which was found is in agreement with the literature. However, we also find evidence of a short-run negative relation between remittances and investment which might indicate that, in the short-run, remittances are used for non-investment purposes in the economy, a case reported for the first time in Bangladesh. Given the results we suggest that the authorities of Bangladesh take steps to encourage even further remittance inflows into the economy and in order to mitigate the short-run impact promote steps which may divert remittance into productive investments.

Key words: Bangladesh, Remittances, Investment, Cointegration.

JEL Classification: A10, E22, C32

1 Introduction

Over the past few decades, cross-border movements of individuals in the pursuit of better economic opportunities have become a near-universal phenomenon of the global economy, giving rise to a voluminous international circulation of income repatriation and remittances. As a result, concerned researchers, observers and policy makers have scrutinised the underlying effects and the causal economic consequences associated with such international transmissions of capital. As a key remittance receiving nation Bangladesh has also received attention in this regard (Chowdhury and Rabbi, 2014; Hossain and Hasanuzzaman, 2013). This paper examines a crucial macroeconomic aspect of remittance utilisation, namely its contribution to investment.

From the mid-1980s onwards the circulation of income repatriation and the movement of remittances were recognised as important aspects of globalisation and by 2017 remittance inflows were officially recorded to be as high as \$613 billion (World Bank). However, some studies have revealed that official records can underestimate the actual flow of remittances and report that unofficial remittance flows can be as high as 200% of the officially recorded amounts (Aggarwal et al., 2006).

For many developing countries remittances act as a macroeconomic stabiliser and a vital source of foreign exchange given that these flows are more steady than

portfolio equity and far exceed official development assistances (ODAs) provided to emerging countries (World Bank, 2014). Additionally, for a subset of least developed countries, remittance income has turned out to be a key source of finance for economic expansion. For instance, in 1986 the share of remittances was 2.02% of GDP whereas in 2008 it was 5.08% of GDP for a subset of least developed economies (Hossain and Hasanuzzaman, 2013).

The country of interest, Bangladesh, which is the main focus of this study is one of the world's major remittance receiving nations accounting for about 8% of GDP in 2015 (World Bank Development Indicators). Multiple influential studies have acknowledged the prominence of remittance income in Bangladesh for its role in enhancing household consumption, alleviation of poverty, stabilization of the macroeconomy and the economic expansion of the country (Ratha, 2013; Rao and Hassan, 2012). Alternatively, these same inflows of remittances were also seen to trigger Dutch Disease type effects in the economy of Bangladesh (Chowdhury and Rabbi, 2014). Thus, to be precise, the effect of remittances at the macro level and their contribution to the receiving economy as a whole is in fact reliant on the recipient households' tendency to consume and invest (Kireyev, 2006). As a result, the literature in this area comprises numerous views and has generated vigorous debate on how exactly remittance income is spent and contributes towards the development of recipient economies (Mallick, 2012; Adams and Cuecuecha, 2010).

As the aforementioned debate continues, at least three notable propositions or views from the literature can be mentioned. Firstly, and possibly the most prevalent view suggests that remittance recipient households treat remittance money just like a dollar earned as a wage or as an income from a farm (Adams et al. 2008). The second proposition is constructed on the notion of behavioural changes of the remittance receiving households (Chami et al. 2005). Specifically, it suggests that remittance receiving households are expected to use remittance income on consumption goods and forego investment goods. As a result, remittance income will likely have no positive impact on capital accumulation or investment and therefore on economic expansion. Finally, the third viewpoint is based on the concept of the permanent income hypothesis — wherein it is assumed that individuals base their consumption by determining their future income and not just by their current income — which reasons that households are more inclined to spend on investment goods, for example human and physical capital relative to consumption goods at the margin, as remittance incomes are more likely to be transient. For instance, it was observed empirically that remittance receiving households in El Salvador spend more on education and have higher school retention relative to the households receiving income from other sources (Edwards and Ureta, 2003).

Relatively little consideration has been given to the question of whether there is a possible link between remittances and the level of investment — at least from the viewpoint of Bangladesh. The one contribution we are aware of is by Hossain and Hasanuzzaman (2013) who utilised an ARDL approach and found a positive long-run relationship between remittances and investment in Bangladesh. Our paper, utilising a vector error correction approach confirms the long-run positive relationship found by Hossain and Hasanuzzaman and in addition finds evidence of a short-run negative relationship between the two. As part of their diagnostic tests, Hossain and Hasanuzzaman do examine the short-run effect of remittances on investment (Table 6, Hossain and Hasanuzzaman, 2013) but report statistically insignificant coefficients for the remittance variable. To our knowledge, a statistically significant short-run negative association between remittances and investment has previously not been reported in the literature on Bangladesh.

The nexus between remittances and the level of investment remains complex and hence requires careful investigation and robust analysis to ascertain whether

remittance income truly enhances the investment level of recipient economies. Specifically, from the stand-point of Bangladesh, there is no known research which has employed the techniques of Johansen Co-integration and the Vector Error Correction Model (VECM) in order to detect the long and the short-run associations of these variables. These econometric methodologies have received approval for their stronger ability to produce insightful results and for better forecasting power (Chowdhury and Rabbi, 2014). Therefore, a gap in the literature may be filled by this study which will employ the aforementioned techniques.

The paper is organised as follows. Section 2 will present the trends of remittance inflows along with their corresponding consequences in the economy of Bangladesh. Section 3 will provide a literature review of this issue followed by Section 4 which will provide the econometric methodologies and descriptions of the variables employed in this study. Section 5 will report and discuss the empirical results and Section 6 will provide the concluding remarks.

2 Trends and the Impact of Remittances – The Case of Bangladesh

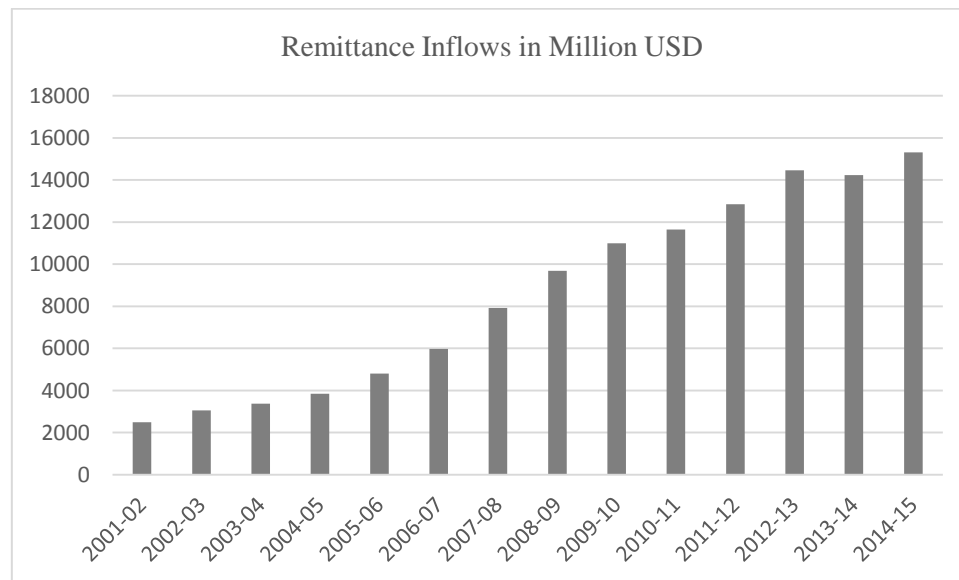
Tables one to four provide a contemporary snapshot of the prevailing remittance scenario of Bangladesh. From Table 1 it can be seen that while remittances as a percentage of GDP peaked in FY13 (9.64%) it dipped in the following two years. The most likely explanation would be political unrest in and restrictions on the import of Bangladeshi labour by a number of middle-eastern countries. The situation will likely improve with a return to stability and easing of such restrictions in the near future. As indicated in Table 4, Saudi Arabia, the United Arab Emirates and the United States account for the bulk of remittances received by Bangladesh. Tables two and three display time series of remittance inflows and the number of migrants leaving Bangladesh to work overseas respectively.

The importance of remittances in the economy of Bangladesh is evident from Chowdhury and Rabbi's finding that remittance inflows were as high as nine times foreign direct investment (FDI) and four times relative to total aid (Chowdhury and Rabbi, 2014). Bangladesh was ranked as the tenth largest recipient of remittances and 19th in terms of remittances as a share of GDP in 2009 (Ratha, et al., 2010).

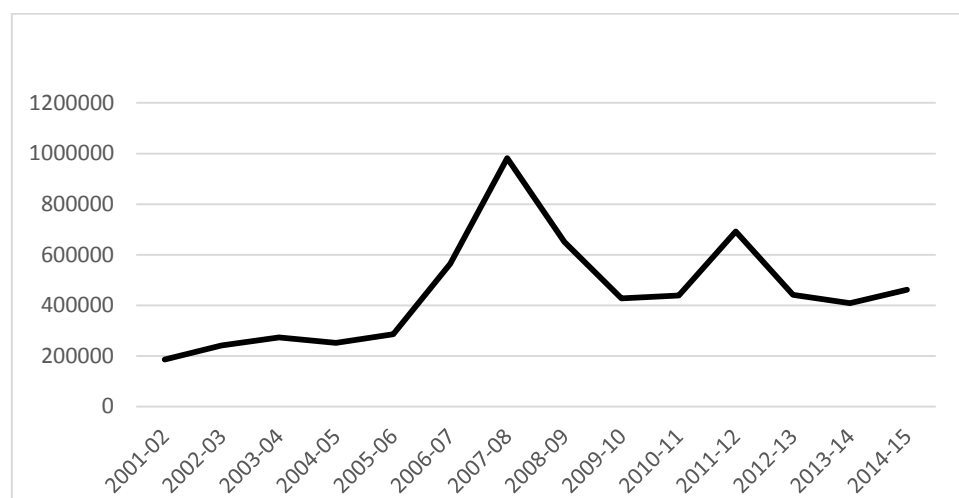
Table 1: Remittances as a Percentage of GDP, Exports and Imports

Fiscal Year (FY)	Remittances as a % of GDP	Remittances as a % of Export Earnings (FOB)	Remittances as a % of Import Payments (FOB)
FY 07	7.51	49.6	38.54
FY 08	8.64	55.93	40.62
FY 09	9.44	62.11	47.7
FY 10	9.52	67.8	46.29
FY 11	9.05	50.64	34.61
FY 12	9.63	53.58	38.59
FY 13	9.64	54.43	43.07
FY 14	8.21	47.8	42.38
FY 15	7.87	49.08	37.65

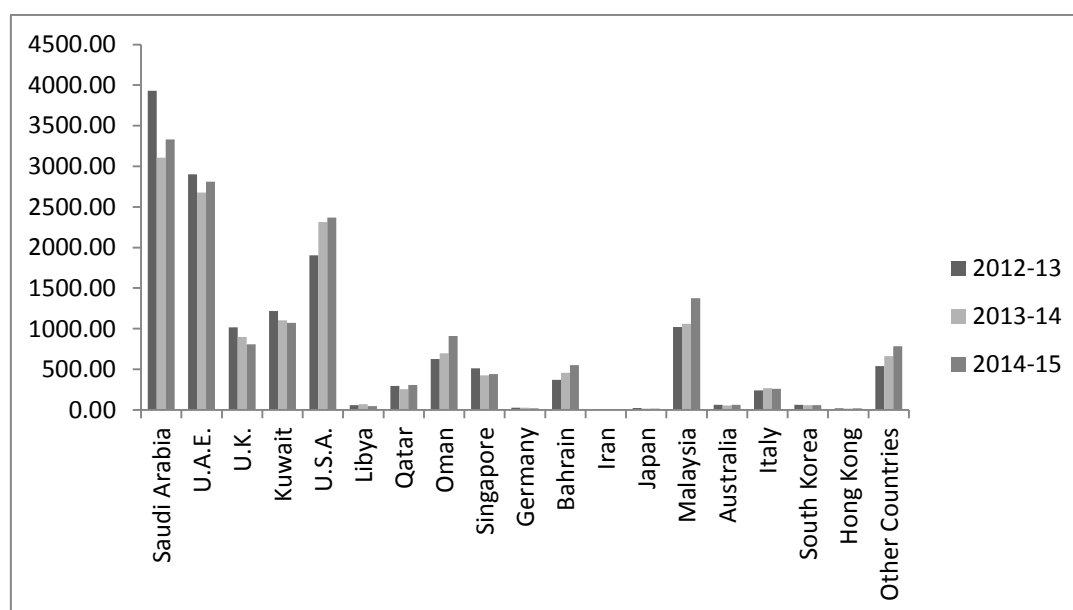
Source: Bangladesh Bank [BB] Quarterly Report- June 2016

Table 2: Remittance inflows to Bangladesh in Million USD

Source: BB

Table 3: Number of Bangladeshi migrants going overseas for employment

Source: BB

Table 4: Selected country-wise remittance inflows to Bangladesh for the period of 2012-13 to 2014-15 in million USD.

Source: BB

During the time of the ongoing global financial crisis in 2009, when other regions were experiencing stagnant growth of remittances, the growth of remittances in Bangladesh increased robustly at the rate of 24% (Azim and Kundu, 2015). Despite the crisis, which hit western financial markets and caused a worldwide economic down-turn, the Bangladesh economy still experienced a

stable flow of remittances. As a result, remittance income became prominent as a source of crucial external finance for the Bangladeshi economy and the Migration Policy Institute (MPI) revealed Bangladesh to be, along with Cape Verde, Pakistan and the Philippines as one of the least affected remittance recipient economies during the global financial crisis. Likewise, the credit worthi-

ness of Bangladesh also improved due to these inflows¹. The Standard and Poor's agency rated Bangladesh as B over the short-term and BB over the long-term, similarly Moody's rated Bangladesh as Ba3 in April 2010 (Chowdhury and Rabbi, 2014; Financial Express, 2010).

Remittance income has both micro and macroeconomic effects. The World Bank estimated the poverty head-count ratio of Bangladesh to have dropped by 6% between the period of 1960-2006 due to the influx of remittances into the economy (World Bank, 2006). Furthermore, remittance income was recognised as an influential source for maintaining the current account surplus and also for supplementing the GDP growth of Bangladesh over the period of 2006-2011 (Chowdhury and Rabbi, 2014). However, there are also adverse effects of remittances which have been reported in the literature. Chowdhury and Rabbi (2014) confirmed that the heavy influx of remittances appreciated the real exchange rate of Bangladesh and consequently weakened the international trade competitiveness of the economy relative to its major trading partners, a Dutch Disease type effect caused by the fact that a major proportion of remittance income was utilised in the consumption of non-tradable goods, which consequently appreciated the real exchange rate of Bangladesh by reducing the relative price of tradable to non-tradable goods.

Needless to say, the contribution and the causal effects of remittances would have been bigger in magnitude if the total remittance flows — both official and unofficial— were included. The aforementioned records of remittances are based on the official flows only and do not include unofficial flows. Reportedly, a substantial part of remittances enter the economy through various informal channels such as the *Hawala* or the *Hundi* system which is a prominent medium of remitting money in South Asia (Chowdhury and Rabbi, 2014). Although constrained to data consisting of official flows of remittances only, this study will still try to shed light on the nexus between remittances and the level of investment.

3 Literature Review

In this section we will note some of the influential studies which link remittances to the level of investment of the receiving economy. Glystsos (2002), by employing a simple dynamic simultaneous model, showed that remittances were positively correlated with investment in six out of the seven countries examined in the study. By analysing a household survey of Pakistan, Adams (2003) found that the marginal propensity to save for remittance receiving households was 0.71 relative to a marginal propensity to save of 0.08 in the case of

households with rental incomes. Essentially, the author highlights the significance of remittance income, which he views to be more transient in nature, towards the accumulation of savings which then contributes to investment related activities. Osili (2004) found that a significant proportion of remittance income is invested on housing in Nigeria with a 10% rise in the inflows of remittances leading to a 3% increase in the probability of investing in the housing sector. Adams (2005) also inspected the expenditure patterns of both rural and urban households of Guatemala and found that 58% of marginal income was spent on education by remittance receiving households relative to non-remittance receiving households. In a review of the empirical literature, Lucas (2005) concluded that remittances positively augmented the level of investment in some major developing countries. Likewise, in a study conducted by Mishra (2006), based on the experiences of thirteen Caribbean countries, it was statistically confirmed that a 1% increase in remittances generated a 0.6% increase in the domestic private investment of the Caribbean countries. Ziesemer (2012) hypothesised a possible savings channel relating remittances with economic growth, empirically showing remittances to enhance savings for economies with a GDP per capita below \$1200.

The literature also comprises of studies which have suggested that remittances are primarily utilised for private and unproductive consumption and not used for investment or towards augmenting productive capacity (Chami et al., 2005 and Mallick, 2012). Chami et al. (2005) revealed that remittances trigger a dependency syndrome and create a moral hazard problem in the receiving economy. They argued that the transfer of remittances induced the recipients to use them as a substitute for labour income, which consequently lowered their work effort and increased the volume of unproductive investment and conspicuous consumption. Thus the moral hazard problem created an adverse impact on the economy as the remittances, in contrast to private capital flows, tended to be only compensatory in nature.

Other studies have concluded that remittances instigate an undesired tendency for leisure and trigger demand for reservation wages among the recipient households, subsequently impacting the labour supply of the economy and diminishing the productivity of the labour force (Acosta et al., 2007). An empirical analysis by Kireyev (2006) to determine the macroeconomic impact of remittances in Tajikistan revealed an ambiguous overall economic impact, stating that the overall influence predominantly relied on the structural characteristics of the recipient economy, specifically its investment and consumption patterns. By adopting an error correction model and dynamic ordinary least

squares (DOLS) approach, Mallick (2012) revealed that remittances crowded out private investment in India and hypothesised that excessive private consumption and withdrawal of resources from investment resulted in such a situation. Das (2009) examined the effects of investment and economic growth due to the inflows of remittances and grants in Pakistan and Syria. He suggests a positive relationship between grants and investments but empirically fails to establish a relationship between remittances and investment.

Few studies have attempted to analyse the association of investment and remittances in Bangladesh. In particular, there are no known studies that have adopted and combined the estimation techniques of Johansen cointegration analysis and Vector Error Correction Modeling with the purpose of investigating the long and short-run association between investment and remittances in what is one of the world's largest recipients of remittances. Certainly this gap in the literature needs to be filled. Given that both the theoretical and empirical literature suggests that remittances may have either a positive or negative association with investment, the objective of this study is to vigorously examine the nature of the relationship in the context of Bangladesh by employing robust econometric analysis as discussed in the following sections.

4 Methodology

4.1 Empirical Specification and Variable Description

To analyse the association between investment and remittances in Bangladesh we estimate the following standard dynamic specification:

$$LINV_t = a + \beta_1 LREMIT_t + \sum_{j=1}^n \beta_j X_{jt} + \varepsilon_t \quad (1)$$

Where, $LINV$ and $LREMIT$ are the natural logarithms of investment and remittances respectively and X_{jt} is the vector of explanatory variables, ε_t is the error term and t corresponds to the time subscript which represents the period from 1980 to 2015.

The literature identifies a number of determinants of investment in developing countries. We base our choice of determinants on the papers of McKinnon (1973), Serven and Solimanto (1992), Bjuggren et al., (2008), Balde (2011) and Hossain and Hasanuzzaman (2013). Thus, in addition to remittances we include the real interest rate, domestic savings and GDP per-capita in our set of controls. The relevance of the chosen variables is discussed in section 4.2. We use gross-fixed capital formation as a proxy of the dependent variable investment.

Unit root tests on the variables used in this study indicated that they were all integrated of order one. First-differencing in order to eliminate the non-stationarity would have obscured the long-run effects in which we are interested along with the short-run relationship, a fact pointed out by Aron et al. (1997). Therefore, to be able to assess both the long and short-run effects, we adopt a cointegration approach in our analysis, namely the vector error correction model (VECM). However, the presence of multiple cointegrating vectors in our set of variables precluded us from including them all in a single VECM framework, therefore, following Chowdhury and Rabbi (2014) and Aron et al. (1997) we estimate two different parsimonious versions of equation (1). With investment as the dependent variable and retaining remittances and savings in both models we incorporate the real interest rate in the first model (Model 1) and the real GDP per capita in the second model (Model 2).

The dataset was compiled from the World Development Indicators 2017 of the World Bank Group and the analysis here comprises of the annual data for Bangladesh from the period of 1980 to 2015, so the investigation will be based on a sample size of 36 yearly observations. The dataset compiled for investment (variable name: $LINV$) is based on gross fixed capital formation expressed as a percentage of GDP, data for remittances (variable name: $LREMIT$) and gross domestic savings (variable name: $LSAVINGS$) are also represented as a percentage of GDP and all three are in natural logarithms. The data for real interest rate (variable name: $REALINT$) is based on the country's lending rate adjusted for inflation as measured by the GDP deflator. Finally, the data for real GDP per capita (variable name: $LGDPCAPITA$) is based on constant 2010 US Dollars and expressed in natural logarithms.

This study has adopted the techniques of Johansen and Juselius (1990) and the Vector Error Correction Model (VECM) for empirical analysis due to their stronger ability to estimate both the short-run and potential long run dynamic relation and superior forecasting power (Chowdhury and Rabbi, 2014). In order to conduct a robust analysis and to evade spurious results the testing procedures will include the general diagnostic tests and other prerequisite assessments like stationarity check of the variables.

4.2 A Priori Expectations and Inferences of the Explanatory Variables under Study

The expected sign of the correlation between remittances and the investment level is ambiguous. On the one hand, as documented by Adams (2007), remittance recipient households on average save and invest more in

comparison to non-remittance receiving households. Furthermore, apart from direct investment by recipients or migrants, remittance influxes are also recognised as enhancing consumption which may influence investment demand through multiplier effect (Glytsos, 2002). On the other hand, if remittances are predominantly driven by altruistic motives and act purely as compensatory transfers then it potentially might have an adverse impact. For instance, if such remittances are primarily spent on private consumption rather than on productive investment, there may be a negative or no significant relationship with domestic investment in the recipient economy (Mallick, 2012, Chami et al., 2005).

We expect gross domestic savings to be positively related to investment given that higher savings correspond to greater bank credit, a crucial basis of investment capital financing. Furthermore, a positive relationship between GDP per capita and investment is expected in light of the standard macroeconomic accounting identities.

The expected sign of the relation between the real interest rate and the level of investment is again ambiguous. According to neo-classical theory, the real interest rate is hypothesised to have an expected negative relationship with investment, an idea based on the notion that high interest rates, which correspond to increased debt servicing for borrowers, diminishes the incentive for entrepreneurial activities. However, McKinnon (1973) and Shaw (1973) hypothesise that higher interest rates actually induce greater savings, thereby expanding the availability of domestic credit and resulting in greater investment related activities.

5 Empirical Results and Discussion

5.1 Stationarity Tests

We carried out Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) stationarity tests on all of our variables of interest. For the ADF test, the lag-length was determined using the Schwarz Information Criterion while band selection for the PP test was based on Newey-West. Unit roots, detected at level terms, were found in the time-series of all the variables. The roots were eliminated after first-differencing implying that all the variables were integrated of order 1 i.e. $I(1)$. The full table of results (Table A1) can be found in the statistical appendix.

5.2 Johansen Co-Integration Test

With all the variables being $I(1)$ we employed the Johansen test in order to investigate if there exists a

stable and non-spurious co-integrating association between the variables in the long-run. The test formally uses both Trace and Maximum Eigenvalue statistics in order to establish and determine the number of co-integrating vectors. The results of these tests for both models are shown in the statistical appendix (Table A2) and indicate the presence of a co-integrating vector in each model. This result implies that there indeed exists a stable long-run association between the variables which is brought about by means of an error correction mechanism via some short-run dynamic adjustment process.

5.3 VECM Results

The presence of one co-integrating vector in both models, detected by the co-integration test, essentially indicates the existence of a long-term relationship between investment, remittances, domestic savings, the real interest rate and real per capita GDP of Bangladesh. The results of the normalised co-integrating coefficients, where all the variables are found to be statistically significant, are reported in Table 5 below. As part of standard econometric practice we inspected the data for structural breaks. The presence of such a break was found in the data series of Model 1 for the year 1986, which was confirmed by a multiple structural break test (using Eviews 8). While the structural break was an artefact of the dataset, the year 1986 also corresponds to the formal end of martial law in Bangladesh which was instigated in 1982. We therefore created a dummy variable, *break1986*, and incorporated it in the VECM analysis as an exogenous variable. Clearly, from the co-integrating equations it can be noticed that the results show a positive relationship between remittances and investment in the long-run, which is interpreted as a 1% increase in remittance inflows causing a 0.36% and 0.26% rise in investments in models 1 and 2 respectively. Our findings are in line with the existing literature (Adams, 2003; Hossain and Hasanuzzaman, 2013) which also indicates remittance inflows, coming in the form of capital flows, to positively influence the investment levels of the economy. The signs of the remaining variables, savings and real interest rate in Model 1, and savings and per capita GDP in Model 2, have the expected signs and hence plausible economic interpretations. Certainly savings, which is a major source of capital stock, plays a crucial role in generating investment, and our findings, where we see a positive relation between savings and investment provides evidence for this hypothesis. Our results also corroborate the neo-classical hypothesis of a negative relation between investment and the interest rate. As per a-priori expectations, per capita GDP is also positively associated with investment.

Table 5: VECM Results

Co-integrating Equation (Long-run)				
Model 1	LINV _{t-1}	LREMIT _{t-1}	LSAVINGS _{t-1}	REALINT _{t-1}
	1.000000	0.358165 (0.01263)*	0.757764 (0.03531)*	-0.006644 (0.00166)*
Model 2	LINV _{t-1}	LREMIT _{t-1}	LSAVINGS _{t-1}	LGDPCAPITA _{t-1}
	1.000000	0.257673 (0.06079)*	0.642791 (0.03955)*	0.737931 (0.23086)*

Note: (i) The dependent variable of investment is interpreted as a LHS (Left hand side) variable in the model, therefore the RHS (Right hand side) coefficients are multiplied by -1 (Jaupllari, 2013).

(ii) Figures in parenthesis represent the standard errors.

(iii) *, ** and *** represents statistical significance respectively at 1%, 5% and 10% significance level.

Error Correction Model (Short-run)		
	Model 1 $\Delta LINV$	Model 2 $\Delta LINV$
ECT _{t-1} (Speed of Adjustment)	-0.461793 (0.10025)*	-0.162406 (0.07246)*
$\Delta LINV_{t-1}$	-0.038498 (0.16055)	0.076560 (0.19403)
$\Delta LINV_{t-2}$	-0.326209 (0.15045)**	0.106131 (0.16665)
$\Delta LREMIT_{t-1}$	-0.143267 (0.04921)*	-0.012748 (0.03755)
$\Delta LREMIT_{t-2}$	-0.010554 (0.04004)	0.021470 (0.04206)
$\Delta LSAVINGS_{t-1}$	-0.247012 (0.09094)**	0.037061 (0.05990)
$\Delta LSAVINGS_{t-2}$	-0.034567 (0.02481)	0.006266 (0.02486)
$\Delta REALINT_{t-1}$	-0.000225 (0.00103)	-----
$\Delta REALINT_{t-2}$	-0.002321 (0.00091)**	-----
$\Delta LGDPCAPITA_{t-1}$	-----	0.792411 (0.42108)***
$\Delta LGDPCAPITA_{t-2}$	-----	-1.011622 (0.42489)**
C	0.067413 (0.02054)*	0.063466 (0.02033)*
BREAK 1986	0.068765 (0.02299)*	-----

Note: i) Figures in parenthesis represent standard errors.

ii) *, ** and *** represents statistical significance respectively at 1%, 5% and 10% significance level.

iii) Included observations: 33 after adjustments.

Essentially, the outcomes of the parsimonious error correction models, reported in Table 5 above, can be regarded as providing reliable estimations and a fair representation of the case under analysis. This is because the coefficients of the error correction terms, representing the speed of adjustment towards the long-run equilibrium, are seen to have expected negative signs and are also statistically significant at the 1% level. This confirms the stability of the system and suggests a long-run causality running from the explanatory variables to the dependent variable (investment). The error correction terms indicate that approximately 46% and 16% of the deviation of investment from its long-run equilibrium is corrected in the short-run as per models 1 and 2 respectively. Additionally, it is worthwhile to mention that the large absolute values of the coefficients of the error correction terms represent equilibrating agents removing a significant percentage of disequilibrium in each period, indicating a rapid speed of adjustment. Moreover, the coefficients of the first differenced regressors of the error correction models represent the influence of the explanatory variables on investment in the short-run, providing an effective assessment of the short-run properties of the co-integrated variables.

A short-run negative relationship between remittances and investment can be observed under both lags in Model 1, though the coefficient on the second-lag is not statistically significant.

When we turn our attention to Model 2 we still find a negative relationship between remittances and investment under the first lag but a positive relationship under the second with neither being statistically significant.

Focussing on the signs of the lagged remittance coefficients in the error-correction models, we note that three out of four are negative. This pointedly hints at an inverse relationship between remittances and investment in the short-run, a result hitherto unreported in the literature within the context of Bangladesh, though such a crowding out result was reported for India by Mallick (2012). We believe these results should motivate further in-depth analyses of how remittances are actually utilised in the short-run in Bangladesh. As mentioned earlier, it is possible that this is an outcome of remittances being mainly used for private or unproductive consumption in the short-run. Based on a household survey, De Bruyn (2006) found that the bulk of remittances in Bangladesh are used for consumption rather than in business or savings. Our results could be the first empirical evidence pointing to such a phenomenon in Bangladesh's macroeconomy. In any case, this warrants further research.

The coefficients of real interest rate show the expected negative sign in the short-run in Model 1,

however, contrary to the long-run estimates, the coefficient of savings in the same model shows a negative correlation with investment in the short-run which is in contrast to Model 2 which shows a positive relationship, albeit statistically insignificant.

Turning to the coefficients on per-capita GDP in Model 2, we note that per-capita GDP has a positive association with investment in the short-run under the first lag which then becomes negative under the second, a finding consistent with Hossain and Hasanuzzaman (2013). This possibly indicates that in the second period, income is diverted away from expenditure on capital formation.

5.4 Diagnostic Tests

We complement our analysis through employing some supplementary diagnostic tests on both models. Specifically we test the residuals for serial correlation, the presence of heteroscedasticity and whether or not they are normally distributed. In this regard we utilise the VEC LM (Lagrange Multiplier) and Breusch-Godfrey LM tests to detect the presence of serial correlation, Breusch-Pagan-Godfrey's test for heteroscedasticity and the Jarque-Bera test for normality. According to the tests the residuals from both models exhibit no serial correlation, are not heteroscedastic and are normally distributed, all of which are desirable outcomes. Once again the test results are shown in the statistical appendix (Table A3).

6 Concluding Remarks, Policy Recommendations and Suggestions for Future Research

The primary objective of this study was to identify the long-run and short-run relationship, if any, between remittances and investment in Bangladesh using a vector-error correction framework. To the best of our knowledge this is the first time such an approach has been applied within the context of Bangladesh. We find a stable long-run relation between the variables of interest, which is in agreement with the literature. Interestingly, the parsimonious error correction models revealed the presence of a negative association to exist in the short-run between remittances and domestic investment. This latter result is in agreement with the Indian case as reported by Mallick (2012) and may be explained by the non-utilisation of remittances in productive investments in the short-run, a pattern of expenditure observed by DeBruyn (2006). As mentioned earlier, various sources have pointed out that official remittance inflows underestimate true amounts because a significant proportion of remittances enter countries

through unofficial channels, this is the main limitation of the current analysis and any future investigation would have to account for this discrepancy.

The contrasting nature of the long-run and short-run results prompts us to suggest that the Bangladesh authorities take steps to divert remittances into productive investment in the short-run while continuing to maintain and enhance the overall inflow of remittances into the economy in the long run. In order to achieve the latter, the government may take steps to ensure migration of more skilled workers who would be able to earn and therefore remit greater amounts, facilitate and ease the migration of more female workers, explore labour markets outside of the traditional markets of the Middle-East and Southeast Asia such as the Americas and Eastern Europe and persuade expatriate workers to remit money through legal channels by promoting electronic transfers with reasonable surcharge. To encourage migrants to channel their remittance funds into more productive sectors of the economy we echo Wadood and Hossain (2017) who suggest the creation of new savings instruments for that purpose and incentives (like tax breaks) for direct investment in infrastructure and employment generating businesses.

However, truly effective and nuanced policy needs to be based on more comprehensive information which would require further research. As it is important to know the precise nature of the utilisation of remittances it is essential to conduct microeconomic studies of remittance usage behaviour at the household level to complement the macroeconometric studies done so far. A cohort analysis, using panel data gleaned from all available Household Income and Expenditure Surveys (HIES) of Bangladesh, to ascertain the patterns of remittance usage represents a feasible and immediate undertaking (at the time of writing, the newest 2016 Household Income and Expenditure Survey dataset for Bangladesh has not been officially released). In the longer term, a series of narrowly focussed micro-impact surveys, which would provide more precise usage information, could be carried out to inform policy making.

We would like to conclude by mentioning an increasingly important facet of the global dynamic of remittances which we feel the Bangladesh authorities ought to actively take into consideration in formulating comprehensive policies regarding remittance utilisation, namely the gender aspect of remittances. An increasing volume of literature (DeLaet, 1999; Pessar and Mahler, 2003; Piper, 2008; Rahman, 2013) has highlighted the importance of female migrants both as senders of remittances and as influencers of how they are used. The gender aspect of remittances needs to be further researched and the conclusions incorporated into policy design.

Endnote

1. Rating agencies account for flows of remittances and monitor its share as a percentage of GDP before forming rating decisions (Ratha et al. 2010)

References

- Acosta P, Fajnzylber P, Lopez H (2007) "The impact of remittances on poverty and human capital: evidence from Latin American household surveys", *Policy Research Working Paper Series 4247*, the World Bank, Washington DC
- Adams Jr., Richard H. & Cuecuecha, Alfredo (2010). "Remittances, Household Expenditure and Investment in Guatemala", *World Development*, Elsevier, vol. 38(11), pages 1626-1641
- Adams R. H. Jr. (2007) "International Remittances and the Household: Analysis and Review of Global Evidence." *World Bank Policy Research Working Paper 4116*.
- Adams RH (2003) "International migration, remittances, and the brain drain: a study of 24 labor-exporting countries", vol 3069. *World Bank Publications*, Washington, DC
- Adams, Richard H. Jr., Cuecuecha, Alferdo, Pahe, John (2008), "Remittances, Consumption and Investment in Ghana". *Policy Research Working Paper 4515*. The World Bank Development Economics Department & Africa Region February 2008.
- Adams, Richard H. Jr., (2005). "Remittances, household expenditure and investment in Guatemala", *Policy Research Working Paper Series 3532*, The World Bank.
- Aggarwal, R., Demirguc-Kunt, A. and M. Peria, (2006), "Do Workers' Remittances Promote Financial Development?" *World Bank Policy Research Working Paper No.3957*, Washington: World Bank.
- Aron, Janine; Ibrahim Elbadawi; Brian Kahn (1997), "Determinants of the Real Exchange Rate in South Africa", WPS/97-16, Centre for the Study of African Economies, Institute of Economics and Statistics, University of Oxford
- Azim, NHM A. and Kundu, Nobinkhor (2015), "Workers' Remittances of Bangladesh during the Global Financial Crisis and Beyond: A Static Panel Data Analysis" *The Jahangirnagar Journal of Business Studies*, Vol. 5, No.1
- Balde, Y (2011) "The impact of remittances and foreign aid on savings/investment in sub-saharan Africa". *Afr Dev Rev* 23(2):247-262

- Bangladesh Bank Statistics: Central Bank of Bangladesh. Economic Data. Website: <http://www.bangladesh-bank.org/econdata/index.php>.
- Bjuggren et al., (2008), "Remittances and Investment". Department of Economics and Statistics Jönköping University, Sweden and Centre for Labour Market Policy (CAFO) Department of Economics and Statistics Växjö University, Sweden. Available at: <http://www.diva-portal.org/smash/get/diva2:240855/FULLTEXT01.pdf>
- Chami, Ralph; Connel Fullenkamp and Samir Jahjah (2005). "Are Immigrant Remittance Flows a Source of Capital for Development?" *IMF Staff Papers* 52, No. 1:55-81
- Chowdhury, Mamta B and Rabbi, Fazle (2014), "Workers' Remittances and Dutch Disease in Bangladesh". *The Journal of International Trade & Economic Development: An International and Comparative Review*, 23:4, 455-475, DOI:10.1080/09638199.2012.738240
- Das, Anupam (2009). —The Effect of Transfers on Investment and Economic Growth: Do Remittances and Grants Behave Similarly? <https://economics.ca/2009/papers/0134.pdf>
- DeBruyn, Tom (2006), Dynamics of Remittance Utilization in Bangladesh, BASUG (2006),
- Forum on "Remittances and Expatriates: Development in Bangladesh"
- DeLaet, D. L. (1999). Introduction: The Invisibility of Women in Scholarship of International Migration. In G. A. Kelson, & D. L. De Laet (Eds.), *Gender and Migration*. London: Macmillan Press Ltd.
- Dickey, D. and W. Fuller, (1979). Distribution of the estimators for autoregressive time series with a Unit Root. *Journal of the American Statistical Association*, 74(366): 427-431.
- Edwards, Alejandra Cos and Manuelita Ureta. (2003) "International Migration, Remittances, And Schooling: Evidence From El Salvador," *Journal of Development Economics*, 2003, v72 (2, Dec), 429-461.
- Glytsos NP (2002) The role of migrant remittances in development: evidence from Mediterranean countries. *IntMigr* 40(1):5-26
- Hossain A.K.M Nurul and Hasanuzzaman Syed, (2013) "Remittances and investment nexus in Bangladesh: an ARDL bounds testing approach", *Int Rev Econ* (2013) 60:387-407
- IMF (2005) World economic outlook. International Monetary Fund, Washington, DC
- Jaupllari Soana, (2013). An Assessment of Demand for Imports through the VECM Model. Scientific Papers (www.scientificpapers.org) Journal of Knowledge Management, Economics and Information Technology.
- Johansen, S., and Juselius, K., 1990, "Maximum Likelihood Estimation and Inference on Cointegration – with Applications to the Demand for Money," *Oxford Bulletin of Economics and Statistics*, Vol. 52, No. 2, pp. 169–210.
- Kireyev, A. (2006). 'The Macroeconomics of Remittances: The Case of Tajikistan,' *IMF Working Paper*, WP/06/2.
- Lucas, REB (2005) "International migration and economic development: Lessons from low-income countries". Edward Elgar Publishing, London
- Mallick, Hrushikesh (2012). "Inflow of remittances and private investment in India", *Singapore Econ. Rev.*, 57, 1250004 (2012).
- McKinnon RI (1973) "Money and capital in economic development". Brookings Institution Press, Washington, DC
- Mishra, P (2006) "Emigration and Brain Drain: Evidence from the Caribbean", International Monetary Fund WP/06/25
- Osili UO (2004) "Migrants and housing investments: theory and evidence from Nigeria". *Econ Dev Cult Change* 52(4):821–849
- Pessar, Patricia R., Sarah J. Mahler,(2003), "Transnational Migration: Bringing Gender In", *IMR* vol. 37, no.3: 812 – 846
- Phillips, P.C. and P. Perron, (1988). "Testing for a unit root in time series regression". *Biometrika*, 75(2): 335-346
- Piper, Nicola, (2008), "Feminisation of Migration and the Social Dimensions of Development: the Asian Case", *Third World Quarterly*, vol. 29, issue 7: 1287 – 1303
- Rahman, Md. Mizaur,(2013), "Gendering Migrant Remittances: Evidence from Bangladesh and the United Arab Emirates", *International Migration*, vol. 51 (S1): 159 – 178
- Rao, B. and Gazi Hassan, (2012), "Are the Direct and Indirect Growth Effects of Remittances Significant?" *The World Economy*, 2012, vol. 35, issue 3, 351-372
- Ratha, D., (2013), "The Impact of Remittances on Economic Growth and Poverty Reduction". Migration Policy Institute Policy Brief. Available at: <http://www.migrationpolicy.org/research/impact-remittances-economic-growth-and-poverty-reduction>

- Ratha, D., Mohapata, S., and A. Silwal, (2010), "Outlook for Remittance Flows 2010-11" Migration and Development Brief 12, Development Prospects Group, World Bank.
- Serven L, Solimano A (1992) "Private investment and macroeconomic adjustment: a survey". World Bank Res Obs 7(1):95-114.
- Shaw E (1973) "Financial Deepening in Economic Development". Oxford University Press, New York
- The Financial Express (2010) "S&P Gives Bangladesh 'BB-' Long-Term Rating" available on the internet at: <http://www.thefinancialexpress.bd.com/more.php?newsid=9708587&date=2010-04-07>
- Wadood, S.N., Hossain, A. (2017). "Microeconomic impact of remittances on household welfare: Evidence from Bangladesh", *Business and Economic Horizons*, 13(1), 10-29, <http://dx.doi.org/10.15208/beh.2017.02>
- Woodruff C, Zenteno R (2007) "Migration networks and microenterprises in Mexico". *J Dev Econ* 82(2):509-528.
- World Bank, (2014) <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf>
- Ziesemer, Thomas (2012). "Worker remittances, migration, accumulation and growth in poor developing countries: Survey and analysis of direct and indirect effects". *Economic Modelling*, Elsevier, vol. 29(2), pages 103-118.

Statistical Appendix

Table A1: Stationarity Tests

Test		LINV	LREMIT	LSAVINGS	REALINT	LGDPCAPITA
Augmented Dickey Fuller (ADF) Test Statistic	Level	-3.096961	-1.511619	1.569718	-0.999552	0.666782
	First Difference	-7.720077*	-4.799738*	-19.09717*	-9.071186*	-7.498411*
	Order of Integration	I(1)	I(1)	I(1)	I(1)	I(1)
Phillips Peron Test Statistic	Level	-1.992597	-1.509502	2.768116	-1.603503	0.713118
	First Difference	-7.697291*	-4.698637*	-14.90204*	-12.22975*	-7.281362
	Order of Integration	I(1)	I(1)	I(1)	I(1)	I(1)

Note: *, ** and *** represents No Unit Root respectively at 1%, 5% and 10% significance level

From the table it can be seen that the null hypothesis of a unit root for all the time series at level terms could not be rejected by either test, since the test statistic values in absolute terms are significantly less than the critical values at all 1%, 5% and 10% levels of significance. Therefore, in order to eliminate the non-stationarity of the variables the technique of differencing was

applied and the stationarity tests were repeated on the first differences of the all the variables. After doing so, the null hypothesis of a unit root was rejected at the critical values of 1%, 5% and 10% for both tests. Thus, all the variables in this study are integrated of order 1 i.e. I(1).

Table A2: Johansen Co-integration Test

Model 1					
Variables: LINV, LREMIT, LSAVINGS, REALINT					
Trace Test					
Null Hypothesis	Alternative Hypothesis	Eigen-Value	Trace Statistic	0.05 Critical Value	P-values
$r=0^*$	$r=1$	0.638053	56.84958	47.85613	0.0057
$r\leq 1$	$r=2$	0.440834	23.31309	29.79707	0.2310
$r\leq 2$	$r=3$	0.091725	4.129878	15.49471	0.8928
$r\leq 3$	$r=4$	0.028525	0.955025	3.841466	0.3284

Note: i) Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
 ii) *denotes rejection of the null hypothesis at the 0.05 level
 iii) MacKinnon-Haug-Michelis (1999) p-values

Maximum Eigenvalue Test					
Null Hypothesis	Alternative Hypothesis	Eigen-Value	Max-Eigen Statistic	0.05 Critical Value	P-values
$r=0^*$	$r=1$	0.638053	33.53650	27.58434	0.0076
$r\leq 1$	$r=2$	0.440834	19.18321	21.13162	0.0917
$r\leq 2$	$r=3$	0.091725	3.174853	14.26460	0.9344
$r\leq 3$	$r=4$	0.028525	0.955025	3.841466	0.3284

Note: i) Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level
 ii) denotes rejection of the null hypothesis at the 0.05 level
 iii) MacKinnon-Haug-Michelis (1999) p-values

Model 2					
Variables: LINV, LREMIT, LSAVINGS, LGDPCAPITA					
Trace Test					
Null Hypothesis	Alternative Hypothesis	Eigen-Value	Trace Statistic	0.05 Critical Value	P-values
$r=0^*$	$r=1$	0.817227	83.49660	47.85613	0.0000
$r\leq 1$	$r=2$	0.426034	27.41284	29.79707	0.0919
$r\leq 2$	$r=3$	0.235861	9.091763	15.49471	0.3570
$r\leq 3$	$r=4$	0.006481	0.214567	3.841466	0.6432

Note: i) Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
 ii) *denotes rejection of the null hypothesis at the 0.05 level
 iii) MacKinnon-Haug-Michelis (1999) p-values

Maximum Eigenvalue Test					
Null Hypothesis	Alternative Hypothesis	Eigen-Value	Max-Eigen Statistic	0.05 Critical Value	P-values
$r=0^*$	$r=1$	0.817227	56.08376	27.58434	0.0000
$r\leq 1$	$r=2$	0.426034	18.32108	21.13162	0.1183
$r\leq 2$	$r=3$	0.235861	8.877196	14.26460	0.2965
$r\leq 3$	$r=4$	0.006481	0.214567	3.841466	0.6432

Note: i) Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level
 ii) denotes rejection of the null hypothesis at the 0.05 level
 iii) MacKinnon-Haug-Michelis (1999) p-values

The Johansen co-integration test formally uses both the Trace and the Maximum Eigenvalue test statistics in order to establish and determine the number of co-integrating vectors. It can be observed that the null hypothesis of no co-integrating vector ($H_0 : r = 0$) is rejected by both the tests and indicate the presence of one co-integrating vector in both the models given that the large values of the respective test statistics are higher

than the corresponding critical values. The presence of one-cointegrating vector (rank equal to one) at a 5% level of significance is indicated in both models based on the Maximum Eigenvalue and Trace tests. The Eigenvalue statistics reported in the Table drop sharply for the last alternative hypothesis which validates the model as a fair representation of the case under consideration (Chowdhury and Rabbi, 2014).

Table A3: Diagnostic Tests

Model 1

VEC Residual Serial Correlation LM Tests:

H₀: No serial correlation

Lags

LM-Stat

Probability

1

10.00961

0.8661

2

7.255610

0.9680

3

22.09966

0.1400

4

9.733358

0.8802

5

16.67398

0.4070

Breusch-Godfrey Serial Correlation LM Test:

H₀: No serial correlation

Obs R-squared

Probability Chi-Square

0.941324

0.6246

Breusch-Pagan-Godfrey Heteroskedasticity Test:

H₀: Residuals are homoscedastic

Obs R-squared

Probability Chi-Square

9.444082

0.7386

Normality Test:

H₀: Residual are normally distributed

Jarque-Bera Statistics

Probability

2.165302

0.338696

Model 2

VEC Residual Serial Correlation LM Tests:

H₀: No serial correlation

Lags

LM-Stat

Probability

1

10.31113

0.8499

2

14.72724

0.5447

3

27.21020

0.0392

4

15.42590

0.4937

5

16.35535

0.4284

Breusch-Godfrey Serial Correlation LM Test:

H₀: No serial correlation

Obs R-squared

Probability Chi-Square

1.210557

0.5459

Breusch-Pagan-Godfrey Heteroskedasticity Test:

H₀: Residuals are homoscedastic

Obs R-squared

Probability Chi-Square

17.83947

0.1207

Normality Test:

H₀: Residual are normally distributed

Jarque-Bera Statistics

Probability

4.439005

0.108663

Based on the results of the VEC LM test we do not reject the null hypothesis of no serial correlation at the 5% level of significance for any period in either model. As an additional serial correlation check we adopt the Breusch-Godfrey Serial Correlation LM Test which also indicates the presence of no serial correlation, since the null hypotheses could not be rejected as the p-values obtained were significantly greater than 0.05. Similarly,

the Breusch-Pagan-Godfrey tests indicate the absence of heteroscedasticity, as again the null hypotheses of homoscedasticity could not be rejected given the large p-values. Likewise, the Jarque-Bera normality tests indicate the residuals to be normally distributed as yet again the null hypotheses could not be rejected due to the sufficiently large p-values.

Tax Culture: The Bangladesh Perspective

Sams Uddin Ahmed

Commissioner of Taxes
National Board of Revenue, Bangladesh

Abstract

The direct tax administration of Bangladesh is characterised by poor tax compliance. Reasons for such poor tax compliance are manifold. One of the important factors to be considered is tax culture which can greatly contribute towards improvement of voluntary compliance in the field of income tax. The paper argues that Bangladesh lacks a tax culture which needs to be developed for ensuring voluntary tax compliance. The paper delves into the causes of poor tax culture in Bangladesh while discussing some of the measures adopted by the National Board of Revenue to improve the situation.

1 Introduction

Tax culture refers to taxpayers' compliant behaviour. It is essential to ensuring sustainable development of a country (UNDP, 2008). Sustainable development goals cannot be achieved without a robust tax policy which plays a vital role in tax administrations (Chuenjit, 2014). It is argued that if the tax culture issue is not considered seriously, many goals of revenue collection cannot be achieved successfully (Martinez-Vazquez & McNab 2000; Sinkuniene, 2005). However, tax culture reflects the tax compliance mentality of a region's taxpayers in general terms. It is understood in terms of taxpayers' consciousness regarding payment of tax. Georgi Boss (1999), Minister for Taxes & Duties of the Russian Federation, remarked that "There is not any country where people are happy to pay taxes but they do pay taxes because of their tax culture" (Zafar, 2018). However, tax culture encompasses more than the tax mentality, and varies from country to country. The tax culture is more than what is generally meant and demonstrates the embeddedness of different actors in the national culture, of which the tax culture is only a subsidiary part. Actors include taxpayers, politicians, tax officials, experts (such as tax intermediaries) and academics (Nerré, 2001). Tax culture denotes not only the tax system and existing tax practice, but also the relationship between the tax administration and taxpayers (Atuguba, 2006). This relationship builds up a culture of taxation (Chuenjit, 2014) which is based on trust and belief and can be termed a fiduciary one (Ahmed, 2016).

Poor tax compliance reflects a poor tax culture. It is observed that developing countries like Bangladesh face a formidable challenge to improve revenue collection in an efficient, fair and consensual way because of the challenge of a poor tax culture (IMF et al, 2011). Thus, Bangladesh's poor income tax compliance indicates the

country's insufficient tax culture. It is urgent that this culture be improved to achieve sustainable economic and social development in the face of the current global financial crisis. Against this backdrop, tax administrations around the world are persistently creating new techniques to improve tax culture (OECD et al, 2013). The purpose of this article is to argue that poor tax culture in Bangladesh impedes efficient revenue collection in the field of income tax. So a robust, sustainable tax culture must be established to improve tax compliance. The next section provides definitions and the concept of tax culture. Subsequent sections discuss the causes of poor tax culture, and some initiatives of the National Board of Revenue (NBR) to improve tax culture in Bangladesh. Some concluding remarks are offered at the end.

2 Definition of Tax Culture

Defining tax culture seems as difficult as the term culture itself. Culture refers to the beliefs and behaviours of a society (Spencer-Oatey, 2012). British anthropologist Tyler (1870) (cited by Avruch, 1998) defines culture as follows:

'Culture ... is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society.' Spencer-Oatey (2008) defines culture in the following style:

Culture is a fuzzy set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioural conventions that are shared by a group of people, and that influence (but do not determine) each member's behaviour and his/her interpretations of the 'meaning' of other people's behaviour.'

Research on tax culture is going for the last 70 years although in a very sparse way. Tax culture is country-specific and it is not very easy to define. It is not something to be understood within a span of one or two years. Tax culture is a concept which is to be understood from national context. Every nation in the world is different and every nation has nation-specific tax culture. It is a phenomenon (Sinkuniene, 2005) that involves citizens' perception about paying taxes and the tax administration in a country. Schumpeterian view point is that "Tax Culture is an expression of human spirituality and creativity". Pausch (1992) understands tax culture of a country as being connected with personalities determining the evolution of the tax system. According Nerre (2001), the topic of tax culture appears precisely at the intersection of economics, sociology and history. Nerre (2001) states, 'Recently, the importance of tax cultural considerations has become more obvious, since the necessary reform measures to the tax systems of transformation economies partly have failed due to their tax-cultural incompatibility.' The concept of tax does burgeon in the perception of the society and it is embedded or deep rooted in the very artery of society. Long ago Schumpeter (1929) shed light on the concept of tax culture when he compared taxation with art. Schumpeter (1929) narrated, "Like any social institution every tax outlives the era of its economic and psychological appropriateness. But as with all other social institutions anything nonconformist in the tax system does not live eternally. Slowly the tide of evolution wears it away." Schumpeter's analogy of tax culture with art centres on the creators of the taxation system (Nerre, 2001). Spitaler (1954) also took the same approach as did Schumpeter. Nerre (2001) states, 'Important for a comprehensive definition of tax culture, though, appears Spitaler's insight that taxation is influenced by economic, social, cultural, historical, geographical, psychological and further differences prevailing in the individual countries and their societies.'

Tax culture is sometimes explicated exclusively from taxpayers' compliance perspective i.e., voluntary compliance with the tax statutes. It is sometimes associated with the willingness of the citizens to pay tax (Berger, 1998) and tax consciousness of the taxpayers (Tanzi & Tsibouris, 2000). Vazquez & McNab (2000) on the other hand argues that tax reform should take into consideration tax culture. Nerre (2001) defines tax culture as follows:

A country-specific tax culture is the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture, including the dependencies and ties caused by their ongoing interaction.

However, tax culture seems to be learned, not inherited like general culture. It is gathered from the environments and the pattern of peer behaviour and response to tax compliance. Whether it is genetic or not can be a good topic of tax research. In Bangladesh tax culture is seen as the regular payment of tax. This becomes evident when the Prime Minister of Bangladesh Sheikh Hasina, on the eve of the national taxday in 2010, called the people of Bangladesh to develop a tax culture by paying taxes regularly, which is a prerequisite for economic and social development (The Daily Star, 2010).

3 Causes of Poor Tax Culture in Bangladesh

The phenomenon of tax culture including the concept of tax itself has not yet been substantially explored in Bangladesh tax research. However, insights are revealed when one looks at the compliance rate and number of tax payers in Bangladesh. At present, 3.7 million people hold Taxpayer's Identification Numbers (TIN) and of them, 1.6-1.7 million submit tax returns. It is estimated that there are at least, eight million taxable people in the country (Dhaka Tribune, 2017). Neighbouring country India has 95 million taxpayers (Mishra & Prasad, 2018). Tax ratio to Gross Domestic Product (GDP) in Bangladesh is 8.5% which is one of the lowest in the region. Informal economy is very strong in the country. Ministry of Finance, Government of Bangladesh, in a report in 2011 indicates that 45 per cent to 81 per cent GDP of Bangladesh belongs to the underground economy. Informal economy as per cent of GDP in developing countries is in the range of 44-50 per cent in comparison to 14-16 per cent in the OECD countries (Rahman, 2015). The statistics provided represent the lack of taxpaying culture in Bangladesh. The root causes of poor tax culture in Bangladesh are manifold. The causes are discussed below:

- (a) *Lack of Patriotism*: Patriotism is the quality which generates coherence and holds a nation together as it did in Bangladesh in 1971. It is one of the most powerful and deepest human drives (McAdoo, 1931). Patriotism is different from nationalism. It can be labelled as a strong devotion to one's country (Geys & Konrad, 2016). Evidence is there that patriotism increased voluntary compliance during the time of war. Konrad and Qari (2009) state, '... we assume that tax payments generate a patriotic "warm glow", and a higher warm glow for more patriotic persons'. Despite scant research in the field, it can be said that patriotism encourages voluntary compliance and building a strong tax culture in a given society. People of Bangladesh seem to be lacking in patriotism (Rahman, 2015).

The poor compliance statistics as discussed earlier speaks for the lack of patriotism of the taxpayers of Bangladesh. This in turn negatively affects the tax culture in Bangladesh.

- (b) *Lack of Knowledge:* Taxpayer's lack of tax knowledge contributes to non-compliance. Studies suggest that one possible means of ensuring tax compliance is to enhance taxpayers' tax knowledge (Loo, 2006). Researchers suggest that tax knowledge is *sine qua non* to augment voluntary compliance by the taxpayers (Kasipillai, 2000; Saad, Mansor & Ibrahim, 2003; Kasipillai & Jabbar, 2003). Empirical studies were undertaken in Malaysia, Australia, and New Zealand. In Australia it was found through research that small business taxpayers even do not have primary knowledge regarding their tax liability which in turn might lead to noncompliance (McKerchar, 1995). Such evidence was also found among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, McKerchar, & Hansford, 2008). Taxpayers' knowledge is augmented by proper tax education. Taxpayers' education level is a vital factor that influences taxpayers' compliance level specially knowledge in terms of tax legislations Eriksen & Fallan, 1996; Engida & Baisa, 2014). In Bangladesh, taxpayers lack tax knowledge for various reasons. For example, the complexities of tax statutes discourage taxpayers to gather tax knowledge. There is a lack of publicity of tax obligations and tax regulations on the part of the tax authorities. Tax education is not the part of education curriculum in the school and college levels. Outreach tax education system is not yet at the satisfactory level. As a result, taxpayers in Bangladesh cannot get proper tax knowledge which in turn impedes the increase of tax culture in the country.
- (c) *Tax Law Complexities:* Tax law complexities and inadequacies provide opportunities for tax evasion by discouraging honest taxpayers to be noncompliant and encouraging dishonest taxpayers to create ways to evade taxes (FTB, 2006) bypassing laws with the help of tax advisers and big law firms (Braithwaite & Braithwaite, 2001). This negatively impacts tax culture. The present tax statute of Bangladesh is complex and full of rebates and exemptions (Waresi, 2012). A tax statute is complex if, under the law, compliance becomes difficult, requires a significant amount of money, and is not easy to comprehend by taxpayers (Hussain, 2003). Hussain (2003) and Akhand (2012) state that the income tax law of Bangladesh is complex. This is demonstrated by the *Income Tax Manual*, which is divided into two parts, with Part I alone containing 187 sections and eight schedules. These sections are again divided into numerous subsections, while the schedules are divided into several parts. In addition, every year, the parliament passes finance acts that cause various changes in the income tax law. To apply these finance acts, the NBR issues circulars, statutory rules and orders, and various clarifications. This frequent change to the law is another major cause of complexity. The income tax law also depends on various other laws of the land for proper implementation; thus, the income tax laws of Bangladesh are complex and exacerbate the problem of noncompliance.
- (d) *Narrow Tax Base:* Narrow base (Mondal, 2010) both in terms of income and population is the primary cause of unsatisfactory revenue collection. This is particularly true in case of direct taxes in Bangladesh. This narrow base impedes tax culture. McCarten (2005) finds that, in direct taxes, agricultural land is not a buoyant source of revenue. Begum (2007) shows that a significant number of tax expenditure measures exist for both direct and indirect taxes, which adversely affects overall revenue. It is also argued that the large number of tax exemptions, incentives and special provisions erode the tax base, thereby causing the existing tax base to narrow (Haider, 2013). Thus, Bangladesh needs to explore how the tax base can be broadened, and how people in the informal sector can be brought into the tax base.
- (e) *Presence of Corruption:* Corruption reigns in almost all revenue departments of developing countries (Howard, 2001), and corruption causes tax evasion (Tanzi & Davoodi, 2000). Likewise, in Bangladesh, corruption in the tax department is a cause of tax evasion. Tax administration in Bangladesh is perceived as corrupt (Hassan & William, 2016). Survey evidence supports this, with more than 50 per cent of surveyed taxpayers stating that they had been asked by tax officers to pay bribes. In addition, 58.5 per cent of the survey respondents believed that corruption in the tax department is a cause of tax evasion (RIRA, 2003). A third-party information system can be used to reduce corruption. Through third-party reporting, the Income Tax Department of Bangladesh (ITDB) will receive data that will be permanently stored in the data bank. These data cannot be destroyed or hidden, and can be accessed at any time, even if it is possible for the time being to suppress it by giving bribe to the officials. As a result, taxpayers will not be interested in corruption, which will reduce the opportunity for tax officers to indulge in corrupt practices.
- (f) *Nepotism and Personal Relationship among Taxpayers and Tax Officials:* The issue of nepotism

and personal relationship is hardly discussed in the field of tax compliance research. This phenomenon goes unnoticed in tax research. Anecdotal evidences are not uncommon in the Bangladesh tax administration which transpire that relatives and friends of tax officials do not pay tax or pay less. This relationship with the tax officials negatively affects tax culture in the country. Tax officials' low professional ethics causes corruption among tax officials (Pashev, 1995). This low ethics might be one of the factors that contributes to the cause of low tax morale and poor tax culture through nepotism and personal relationship between the taxpayers and the tax officials.

- (g) *Poor Enforcement Initiative:* In Bangladesh, enforcement mechanisms to collect tax and ensure compliance are very weak (Hassan & William, 2016). The income tax department of Bangladesh is characterised by the traditional system of subjective selection and intuitive enforcement, with no measurement criteria for success (NBR, 2012). The causes of this poor state of enforcement include corruption, lack of departmental shelters and political interference. For example, there is a recent trend to politicise the ITDB. Officers that support the political ideologies of the government receive good positions and are rewarded, while the opposite occurs for those with opposing political ideologies. As a result, officers who are politically suppressed are not encouraged to work properly for the government, which hampers the operation of a smooth and efficient tax administration. Politicisation of the administration is not a new phenomenon internationally, but is having severe effects in Bangladesh (Jahan, 2006).

The enforcement measures followed by the National Board of Revenue (NBR) for income tax include imposing penalties by tax officers under the tax law, freezing bank accounts, seizing bank transactions, criminal prosecution and raising risk points. However, as aforementioned, to improve enforcement activities, the NBR established the Central Intelligence Cell (CIC) in 2004. Since its establishment, the CIC has dealt with 1,750 evasion cases and prosecuted 100 taxpayers for tax-related offences (Karim, 2013).

- (h) *Taxpayers Perception Regarding Misuse of Tax Money:* Taxpayers' trust on the state is very important to build up tax culture. Though it is established that the relationship between the taxpayers and the state is an adversarial one, it is also much discussed in the recent years that there exists a fiduciary relationship between the taxpayers and the state (Ahmed, 2016). Taxpayers trust government with their tax money. They want to

believe that the government will spend the money appropriately to provide public goods. If they are not sure about the spending nature of the tax money, they are not encouraged to comply. This mistrust is not congenial to the development of a tax culture in society.

- (i) *Lack of Political Will towards Tax Reform:* In a country where the government does not try to promote tax reform targeting improvement of voluntary tax compliance, the citizens may not be concerned about paying taxes. It is argued that the politicians often remain non-committal to implement tax reform because of the fear of losing power (Case for Tax Reform, 2018). Some governments have strong political will towards tax reform like the USA (Cantillon, 2017). Legal changes aiming at ensuring voluntary tax compliance necessitates strong political will. In Bangladesh, like other developing countries, is might sometimes be frustrating that tax reform that would ensure taxpayers compliance is being discouraged particularly for political reasons. That is the stern reality that speaks for the poor tax culture in developing countries like Bangladesh.
- (j) *Lack of Appropriate Database to tap Tax Evasion and Non-Compliant Taxpayers:* In Bangladesh the ITDB is yet to leverage the use of Information and Communication Technology (ICT) effectively to address non-filing, under-reporting income, and areas such as crime and fraud that generate black money, which in many cases escapes taxation. Although the NBR started modernizing tax administration and there has been noticeable development in the field of ICT, still the use of ICT to tap tax evasion in Bangladesh has a long way to go. To effectively utilize ICT, NBR must ensure that there is standardization across all government Ministries, Departments and Agencies in terms of data capture, reporting, and record keeping. The data from different government and non-government agencies and departments like Bangladesh Bank, private commercial banks, should be interlinked so that if all the data is collected into one repository, it can clearly be segregated on the basis of taxpayer entity.

4 Initiatives of the NBR to Improve Tax Culture in Bangladesh

- (a) *Taxpayers' Education Program:* The National Board of Revenue (NBR) in Bangladesh is the apex body in charge of direct tax administration. This organisation understands the importance of taxpayer education in enhancing compliance. Thus, to improve this, the NBR has undertaken some important

and innovative taxpayer education programs. These programs are gradually being implemented by the NBR to create awareness about tax legislations and procedures, improve voluntary compliance, educate tax officers to perform their duties efficiently, help taxpayers prepare returns and pay taxes, educate taxpayers why they should pay taxes, and increase taxpayers' literacy (Karim, 2013).

Despite the apparent success of these initiatives, the overall tax compliance rate remains very low in Bangladesh. In 2013, less than one per cent of people paid tax in Bangladesh, the informal economy was growing and tax evasion was rampant. Thus, the steps taken by the NBR to educate people about their taxpaying obligations are insufficient to create awareness. This is evidenced by the NBR admitting that taxpayers in Bangladesh are unaware of their obligations to pay tax and the outcomes of doing so. Taxpayers are habitual defaulters and are inclined to disobey tax laws (Karim, 2011).

- (b) *Organizing Regular Income Tax Fair*: To encourage taxpayers' voluntary compliance, from 2010, the ITDB has held an annual income tax fair. At this fair, taxpayers can submit their return and pay their tax easily and without harassment. The income tax fair is considered successful to improve compliance (Mustafa, 2013), and taxpayers' reactions have been very positive. The tax fair is a regular event and is observed with festivities. Day long services are provided to the taxpayers and income tax returns are accepted without asking any questions. The fair is expected to improve the tax culture in the country.
- (c) *National Income Tax Day*: One important innovative step the NBR has taken is observing a National Income Tax Day on November 30. Every year since 2008, the NBR observes this day to motivate the people of the country to pay taxes. On that day, the income tax department holds rallies, seminars and workshops; displays banners and posters; distributes leaflets; holds discussions and conferences; and presents awards to the highest taxpayers. Special programs are broadcast on radio and television to help build tax awareness among the people. In 2013, the slogan of the income tax day was 'Boost income tax, bring prosperity to the nation and the people' (BSS, 2013).
- (d) *Taxpayers Recognition Program*: Under the Taxpayer Recognition Policy (introduced in 2008), the three highest- and two longest-paying income taxpayers from each of the 64 districts and six city corporations are given social recognition (certificates and crests) at a state function. In addition, under the National Tax Card Policy (introduced in 2010), the 10 highest personal and 10 highest corpo-

rate income taxpayers are accorded Commercially Important Person (CIP) status every year. Due to the innovative measures of the NBR in recent years, it is claimed that two to five million taxpayers every year are brought into the tax net. These measures have also improved the image of the income tax department in the eyes of the media and taxpayers, which has had a positive effect on taxpayers' compliance (OECD et al, 2013).

- (e) *Introduction of Bengali Halkhata to Collect Arrear Income Tax*: *Halkhata* is a Bengali program observed on the first of Baishakh, the Bengali month by the businessmen to collect their arrear. The day is observed with festivity and clients are treated with sweets and flowers. Like this culture the income tax department started organising *halkhata* to encourage taxpayers to pay their arrear tax. The program began in 2016 and is unique in the world so far. The program is expected to improve tax culture in the country.

5 Conclusion

An effective and efficient tax administration is *sine qua non* for sustained economic growth of Bangladesh. But tax compliance remains a challenge for the income tax department of Bangladesh. To improve voluntary compliance it is imperative that a strong tax culture be established in the country. It is observed in the present article, Bangladesh has a poor tax culture for reasons stated above. A robust tax culture necessitates the state to honour the basic tenets of the state-taxpayer fiduciary relationship. With the tax money the government should efficiently provide public goods to influence taxpayers' compliance behaviour. As tax culture is not inherited, rather it is acquired, the government should consistently try to establish a tax-friendly environment. The causes of poor tax culture have been identified, hence attempts should be made to address the problems. It is true that there is no silver bullet solution to the problem. But it is time that people form a positive perception about tax administration and public spending of tax money. It is also observed that the NBR recently did take some remarkable steps to improve the state of tax culture. But more is to be done, the sooner the better.

References

- Ahmed, S. U. (2016). *Improving Compliance of Income Tax in Developing Countries: Bangladesh Perspective*. PhD Thesis, Deakin Law School, Australia.
- Akhand, Z. H. (2012). *Coercion or Persuasion? Making Large Corporations Tax Compliant in Bangladesh*.

- PhD Thesis, Birmingham University. http://etheses.bham.ac.uk/3801/1/Akhand_12_PhD.pdf
- Atuguba, R. (2006). *The Tax Culture of Ghana*. Research Report Prepared for the Revenue Mobilisation Support. <http://www.lrcghana.org/assets/Tax20Culture%20Report.pdf>
- Avruch, K. (1998). *Culture and Conflict Resolution*. Washington DC: United States Institute of Peace Press.
- Begum, L. (2007). A Panel Study on Tax Effort and Tax Buoyancy with Special Reference to Bangladesh. Working Paper Series: WP 0715, *Policy Analysis Unit*, Bangladesh Bank.
- Berger, R. (1998). *Als Steuerzahler liebt es sich besser*. In: Tages-Anzeiger vom. <https://vb.vdu.lt/object/elaba:2058625/2058625.pdf>
- Braithwaite, V., & Braithwaite, J. (2001). *Managing Taxation Compliance: The Evolution of the Australian Taxation Office Compliance Model*. In Michael Walpole and Chris Evans (eds), *Tax Administration in 21st Century* (Prospect Media), 215.
- BSS. (2013). National Income Tax Day Observed. *Bangladesh Sangbad Sangstha* (online), 15 September 2013. <http://www1.bssnews.net/newsDetails.php?cat=0&id=358259&date=2013-09-15&dateCurrent=2013-09-25>
- Cantillon, (September 30, 2017) American tax reform has broad political will behind it, *The Irish Times*. <https://www.irishtimes.com/business/economy/american-tax-reform-has-broad-political-will-behind-it-1.3238649>
- Case for tax reform is clear but political will is absent. (3 March, 2018) *The Australian* <https://www.theaustralian.com.au/...tax-reform-is...political-will-is.../87eac7a569105cef8>
- Chuenjit, P. (2014). The Culture of Taxation: Definition and Conceptual Approaches for Tax Administration. *Journal of Population and Social Studies*, 22(1), 14-34.
- DS. (2010). Call to develop tax culture. *The Daily Star*, September 15, 2010. <http://www.thedailystar.net/news-detail-154514>
- DT. (2017). Betting on indirect tax. *Dhaka Tribune*, November 09, 2017. <http://www.dhakatribune.com/business/2017/11/09/betting-indirect-tax/>
- Engida1, T. G., & Baisa, G. A. (2014). Factors influencing taxpayers' compliance with the tax system: An empirical study in Mekelle City, Ethiopia. *eJournal of Tax Research*, 12(2), 433-452.
- Eriksen, K., & Fallan, L. (1996). Tax knowledge and attitudes towards taxation; A report on a quasi-experiment. *Journal of Economic Psychology*, 17(3), 387-402.
- FTB. (2006). *Tax Gap Plan: A Strategic Approach to Reducing California's Tax Gap*. Franchise Tax Board, 9 <https://www.ftb.ca.gov/aboutftb/taxgapstratplan.pdf>
- Geys, B., & Konrad, K. A. (2016). Patriotism and Taxation. *Max Planck Institute for Tax Law and Public Finance*, Working Paper. <ftp://ftp.repec.org/opt/ReDIF/RePEc/mpi/wpaper/TAX-MPG-RPS-2016-11.pdf>
- Haider, A. A. (2013). Improving the Culture of Tax Compliance. *The Financial Express* (online), 12 July 2013 <http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDdfMTJfMTNfMV85Ml8xNzYxMzg=>
- Hassan, M., & Wilson, R. (2016). The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. *The Journal of Development Studies*, 52(12), 1704-1721.
- Howard, M. (2001). *Public Sector Economics for Developing Countries*. University of the West Indies Press, 271.
- Hussain, M. S. (2003). Taxation in Bangladesh: Measures for Improving Income Tax System. *Tax Chronicle (Special Edition)*, 1-36.
- IMF et al. (2011). Supporting the Development of More Effective Tax Systems, 22 <https://www.imf.org/external/np/g20/pdf/110311.pdf>
- Jahan, F. (2006). Public Administration in Bangladesh. CGS Working Paper No 1, BRAC University, http://www.bracresearch.org/workingpapers/jahan_public_administration.pdf
- Karim, R. (2011). Tk 40,000cr Lost in Incentive, Tax Evasion a Year: NBR. *The Daily Star* (online), 14 June 2011, <http://www.thedailystar.net/newDesign/news-details.php?nid=189846>
- Karim, S. M. A. (2013). Enforcement Trends and Compliance Challenges: Bangladesh Perspective. Paper presented at the Fourth IMF-Japan High-Level Tax Conference, 4 April 2013, <http://www.imf.org/external/np/seminars/eng/2013/asiatax/pdfs/bangladesh.pdf>
- Kasippillai, J. (2000). Taxpayer knowledge index as a clue for non-compliance. *Journal on Pakistan's Taxation Laws*, 81(3).
- Kasippillai, J. & Jabbar, A. H. (2003). Tax compliance attitude and behavior: Gender & ethnicity differences

- of Malaysian taxpayers. *The Malaysian Accountant*, 1-7.
- Konrad, K. A. & Qari, S. (2009). *The Last Refuge of a Scoundrel? Patriotism and Tax Compliance*, IZA Discussion Paper No. 4121 April 2009. <https://pdfs.semanticscholar.org/ad17/88afc9660f1614b8949efcb3d4e534501357.pdf>
- Loo, E. C. (2006). Tax knowledge, tax structure and compliance: A report on a quasi-experiment. *New Zealand Journal of Taxation Law and Policy*, 12(2), 117-140.
- Loo, E. C., McKerchar, M., & Hansford, A. (2008). Tax compliance behavior: Findings derived from a mixed method design. Paper presented at the 8th International Tax Administration Conference, Sydney.
- Martinez-Vazquez, J., & McNab, R. M. (2000). The Tax Reform Experiment in Transitional Countries. *National Tax Journal*, 53(2), 273-298. <https://ssrn.com/abstract=228887>
- Mondal, M. A. B. (2010). Tax Evasion and Avoidance: A Real Challenge for Bangladesh to Achieve Millennium Goal. *The Cost and Management*, 15-20.
- McAdoo, W. G. (1931). Crowded Years: The Reminiscences of William G. McAdoo 389-90 (1931), cited in Ajay K. Mehrotra, 'The Price of Conflict: War, Taxes, and the Politics of Fiscal Citizenship' (2010), 108 *Michigan Law Review*, 1053-1060.
- McCarten, W. (2005). *Reforming the Tax Administration*. In Sadiq Ahmed (eds.), *Transforming Bangladesh into a Middle, Income Economy* New Delhi: McMillan India Ltd.
- McKerchar, M. (1995). Understanding small business taxpayers: Their sources of information and level of knowledge of taxation. *Australian Tax Forum*, 12(1), 25-41.
- Mishra, A. R., & Prasad, G. C. (2018). Demonetisation effect: 9.1 million new taxpayers, *Livemint*, March 7, 2018 <http://www.livemint.com/Politics/WRTgYztM2cSiT0deLmMWjN/Demonetisation-effect-91-million-new-taxpayers.html>
- Mustafa, H.B. (2013). Home. Income Tax Fair Draws Huge Crowd on Second Day, Priyo News (online), 18 September 2013, <http://news.priyo.com/2013/09/18/income-tax-fair-draws-huge-crowd-second-day-85939.html>
- NBR (2012). Outline of Modernization Plan (2011-2016): National Board of Revenue (NBR), Government of Bangladesh, http://www.nbrbd.org/tender/NBR_Modernisation_Plan_Final_draft.pdf
- Nerré, B. (2001). The Concept of Tax Culture. Paper presented at the Annual Meeting of the National Tax Association, November 8-10, Baltimore, US, 288 http://www.jstor.org/stable/41954732?seq=1#page_scan_tab_contents
- Nerré, B. (2002). Modeling Tax Culture. (Paper presented at the Annual Meeting of the Public Choice Society in San Diego, CA, March 22-24.
- Nerré, B. (2008). Tax Culture: A Basic Concept for Tax Politics. *Economic Analysis and Policy* 38(1), 155-167.
- OECD et al. (2013). Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education, <http://www.oecd.org/ctp/tax-global/source-book-taxpayer-education.pdf>
- Pashev, K. (1995). Corruption and Tax Compliance: Challenges to Tax Policy and Administration, Centre for the Study of Democracy, 1995. <https://www.files.ethz.ch/isn/28963/6.pdf>
- Pausch, Alfons (1992): Persönlichkeiten der Steuerkultur – Steuergeschichte in Lebensbildern von Johannes v. Miquel bis Armin Spitaler. Herne/ Berlin: Verlag Neue Wirtschafts-Briefe.
- Rahman, D. (2017). A March to Patriotism, Newage Youth March 26, <http://youth.newagebd.net/3525/a-march-to-patriotism/>
- Rahman, M. (2017). Govt must address tax evasion and avoidance to raise taxpayers' number. Dhaka Tribune, 9 November 2017 <https://www.dhakatribune.com/articles/opinion/op-ed/page/36#>
- Rahman, M. O. (2015). Economy in Veil: Concepts and Bangladesh Perspective, *Daily Sun*, 10 December, <http://www.daily-sun.com/home/printnews/98152>
- RIRA. (2003). Reforms in Revenue Administration, *Taxpayer Survey Report*.
- Saad, N., Mansor, M., & Ibrahim, I. (2003). The self-assessment system and its compliance costs. Paper presented at the Accounting Seminar, Malaysia.
- Schumpeter, J. A. (1929). Ökonomie und Soziologie der Einkommensteuer. *Der Deutsche Volkswirt*, 4, pp. 380-385. Reprinted in: Joseph A. Schumpeter: Aufsätze zur Wirtschaftspolitik, edited by Wolfgang F. Stolper and Christian Seidel. Tübingen 1985: J.C.B. Mohr, pp. 123-133.
- Sinkuniene, K. (2005). Taxation principles in tax culture: Theoretical and practical aspects. *Management of Organizations: Systematic Research* 35, Organizacijø Vadyba: Sisteminiai Tyrimai, 177-192.
- Spencer-Oatey, H. (2008) *Culturally Speaking. Culture, Communication and Politeness Theory*. 2nd edition. London: Continuum.

- Spencer-Oatey, H. (2012). What is culture? A compilation of quotations. Global PAD Core Concepts, <http://www.warwick.ac.uk/globalpadintercultural>
- Tanzi, V. & Davoodi, H. (2000). Corruption, Growth and Public Finances. IMF Working Paper WP/00/82, <http://www.imf.org/external/pubs/ft/wp/2000/wp00182.pdf>
- Tanzi, V. & Tsibouris, G. (2000). Fiscal Reform Over Ten Years of Transition. IMF Working Paper No. 00/113, Washington DC.
- UNDP. (2008). *Revenue's Role in the Quest for Inclusive Development: What Works and What Can Work Better?* United Nations Development Programme. www2.s4tp.org/wp-content/uploads/2010/10/inclusive_dev.pdf
- Wares, S. A. (2012). Interpretation of Taxing Statutes and the Role of Professional Accountants. *The Cost and Management*, 85-89.
- Zafar, I. (2018). Evolution of Tax Culture in Pakistan. Unpublished manuscript. <https://www.hg.org/legal-articles/evolution-of-tax-culture-in-pakistan-4917>

Occasional Paper

Borders Without Boundaries: Reimagining Asia

Rehman Sobhan

Chairman, Centre for Policy Dialogue

Keynote Address delivered at an International Conference on North East India
at Tezpur University, Assam
on 9th January 2018

Fluid Boundaries Integrated Peoples

Borders originate in history. Boundaries are products of human geography. Borders enclose the modern nation state with its traditional badges of distinction, the passport, immigration officials, national anthems and national flag carriers. Boundaries are more fluid constructs which encapsulate economic and social spaces which transcend borders and have provided the porous dividing lines between peoples through much of history.

Through millennia humans have moved across various parts of the globe and across the globe in search of livelihood, security against the forces of nature and from their fellow humans. Boundaries tended to be proclaimed when one set of migrant invaders of a land felt strong enough to exclude other migrants who chose to follow their path. For example, nation states such as the United States and Australia were once states without borders which kept expanding their boundaries through armed conquest of the lands of indigenous populations who never managed to either establish boundaries over their domain or to sanctify these within borders. Land, water, air, were seen as part of a divine inheritance to these indigenous peoples, to be shared not enclosed for parochial exploitation.

In the world of today, the fair skinned invaders of the open spaces of North America and Australia would be classified as illegal immigrants. Once those illegal immigrants felt strong enough to proclaim their own state within the 13 areas colonized by them on the East coast of what is now the United States, they had no compunction in perpetuating their illegal immigration and conquest over the lands of what remained of the indigenous populations as well as the lands in Texas and California occupied by Mexicans.

This narrative of waves of immigrant invaders populating lands, not their own and then drawing boundaries around their conquests was once the norm around the world. These boundaries were set not by the

force of law but were established by the sword. Those invaders, who remained within their conquered domain long enough to proclaim it a kingdom or a state, eventually felt strong enough to collect taxes or tribute from their subjects. They used these revenues to enforce their authority and construct an infrastructure for governance. Such states survived long enough, until challenged by stronger invaders or by separatist revolts by their subjects to establish their own set of boundaries. Such was the order which prevailed across Asia and our own, more focused sphere of interest, South Asia. In such a world order, boundaries historically remained fluid and people continued to freely move across these boundaries for settlement, provided they acknowledged the authority of the prevailing ruler and were willing to meet their fiscal demands.

The game changer in large parts of the world, in what is now Asia and Africa, appears to have been the advent of European colonialism. The Europeans, drawing upon their superior weaponry and military might continue in the path of their ancestors and set out to first move into and then militarily occupy lands which were not their own. No force of law guided their illegal invasions beyond the authority enforced by their guns. What set aside these militarised illegal immigrants from their predecessors was the competition for plunder within their respective domains of occupancy.

Eventually they recognized that the resources of Asia, Africa and the Americas were more than enough to satisfy the commercial greed of the invaders. They sensibly decided to divide the spoils of their conquests through the expedient of drawing lines around their respective spheres of conquest. The infamous Treaty of Tordesillas in 1494, sanctified by the Pope, divided the world as it was then perceived, between the Spanish and Portuguese empires for purposes of exploration and exploitation. Such treaties did not have the power or authority to keep out other adventurers from England, France or the Netherlands who were no less equipped to compete for the spoils of faraway lands.

The Colonial Legacy: from Boundaries to Borders

In the next phase which evolved from forced trade to armed conquest, *sans* papal blessings, these contending invaders were more inclined to engage in military competition for the spoils of conquest. But this more hazardous approach to economic competition became increasingly costly and demanded more pragmatic solutions. It was eventually recognized that it would be more sensible for the Europeans to transform, what were historically no more than boundaries set by all who had the power and means to enforce them, into borders which could be both defended by force of arms and also accorded the legitimacy of the colonizer's law.

Today the borders of South Asia, inherited from our colonizers derive, in no small measure, from their military power. Our British masters, as the emerging superior military power in the land, could delimit the domain of the French and Portuguese on the Indian peninsula to a few small coastal enclaves. The boundaries proclaimed by the British for their imperial domain remained fluid down to their last days in South Asia. These boundaries, for mostly opportunistic or strategic reasons, were expanded through military conquest into what is now North East India and Burma, southward into Sri Lanka, northward into Nepal and Tibet and eventually towards the north west into the fluid domain of what is now Afghanistan. What were once porous borders where peoples moved back and forth were, as the end result of wars of aggression or enforced treaties on weaker vulnerable neighbours, redefined as borders, sanctified with the legitimacy of the authority of the then world's dominant power, the British Empire.

As a parting gesture the British chose to leave behind a divided land where its borders were finally delimited by a British barrister, Viscount Cyril Radcliffe, who for the first and only time invested 5 weeks of his life in the Indian subcontinent, during the heat of summer in 1947. Radcliffe, did not need to know anything of the history, geography or peoples of the land he was dividing or to even visit any part of the land. The lands he partitioned could only be visualized through a series of maps where he was expected to pencil out the boundaries which determined the future lives of close to a billion people.

The outcome of the labours of an itinerant British barrister left more than a million dead, through what we now recognize as ethnic cleansing on both sides of the borders drawn by him. Many millions were rendered homeless and forced to become refugees in alien lands. On a personal note I was exiled from my ancestral home in Murshidabad in what is now Purbobangla. In an act of political opportunism the British Barrister opted to trade off Murshidabad, a Muslim majority area, to India in

return for retaining the Hindu majority district of Khulna in what then became Pakistan and is now Bangladesh.

What is remarkable and more relevant to my presentation today is that these borders, drawn on paper by the British barrister six decades ago, the outcome of British adventurism, conquest, geostrategic and political opportunism, have now been set in stone by their successor states. As a result, three wars have been fought between the two successor states of India and Pakistan and another nation state, Bangladesh, has been carved out of the body politic of Pakistan at the cost of countless lives, in order to preserve the borders bequeathed to the subcontinent by our British masters. A short war and a number of military skirmishes have also strained relations between India and China for half a century, because of contestation over border lines drawn in the snow again by gentleman with unindian names such as MacMohan, Johnson and Younghusband.

Within the residual domains of India, Pakistan and more recently in Bangladesh, contestations over what should be a border and what should be a boundary continued, unabated, over the years. These contestations have broken down what was once the most integrated institutional and physical infrastructure in the post-colonial world, fragmented an economy which was more integrated than the European Union today and disconnected people who had, for all their internecine conflicts, co-existed and interacted with each other for a millennia.

Little thought was invested either by our British rulers or by the main protagonists in the Congress and Muslim League parties contending for power in a post-colonial India, on the full implications of such a division. It appears that the founding fathers of Pakistan were innocent of the discipline of geography when they argued for a faith denominated Pakistan state to be carved out of the body politic of India. Such a state would have implied creating a thousand Pakistans, dispersed across India. But Jinnah settled for autonomy for two Muslim majority areas of India, divided by 1000 miles of a Hindu majority India. Within the borders of this version of the Pakistan state more than 40% of its populations would be non-Muslims, whilst at least a third of the Muslim population of India would be left behind in enclaves across India.

The concept of a state, inspired exclusively by religion was, thus, from the outset, a flawed project. The inherent contradiction in such a state emerged when the religious minorities in both Punjab and Bengal demanded that their provinces also be divided on confessional lines. The outcome of those various partitions was massive bloodshed, mass migration and after 24 years, the emergence of another nation state, Bangladesh, who eventually chose to proclaim their Bengali identity as the basis of their nationhood.

Neither Jinnah or the Congress or even the British imagined that a political partition would also mean an economic partition of India. Nor did they imagine that an integrated labour market and shared waterways would need to be disrupted. Within South Asia people moved freely across the land in search of work and better economic opportunities. The waters of the Indus, and the Himalayan waters in the eastern region were visualized as a shared resource to be used by the peoples of India, Pakistan, Bangladesh, Nepal and Bhutan. The transformation of work spaces and resource boundaries into borders where each party would exercise exclusive claim to once shared resources and opportunities left South Asia with a legacy of conflict and distrust which still plagues us today after six decades.

The Human Costs of Disintegrating an Economic Community

I came of age in an Indian subcontinent which had been bifurcated into the states of India and Pakistan but remained sufficiently integrated in its transport infrastructure for me to not fully appreciate the fact of partition for around 5 years after the event. Between 1947 and 1949, I could, as a student of St. Paul's school in Darjeeling, travel with the school party on the North Bengal Mail from Sealdah station in Kolkata to Siliguri, passing over the Hardinge Bridge through what was then East Bengal. In early 1951 I could fly from Delhi to Lahore without a passport. As late as 1956, when I returned from Cambridge, I could buy a ticket at Lahore railway station for travel to Howrah station in Kolkata. Upto 1965 we could travel by train from Sealdah to Goaland Ghat on the banks of the Padma enroute to Dhaka. Upto 1965 the main artery of commercial traffic between West Bengal and North East India was though the rivers of East Bengal. Once these travel boundaries were closed, following the 1965 war between India and Pakistan, it has taken half a century to move towards re-opening them. In this disconnected world which has imposed severe economic costs on all countries, political and strategic concerns rather than their economic and human costs have dominated decision making.

While shared waters and fractured boundaries have remained a source of contestation between the successor states of India the disruption of an integrated labour market has had a no less pernicious impact on the lives of ordinary people who once moved freely across India in search of a livelihood. Most such people were unfamiliar with the concept of borders or passports and continued to seek work across borders which had been set without reference to their concerns. Over the years the livelihood compulsions of ordinary people evolved into a source of inter-state tensions.

While Nepalese were given unrestricted access to India's labour market, no such privilege was extended to the people of what is now Bangladesh, who once saw the industrial suburbs and docklands of Kolkata as sources of employment. Over the years these poor people continued to seek work where they could find it. The once open boundaries and uncultivated lands of North East India provided opportunities for the then impoverished landless peasants of eastern Bangladeshi to eke out a living cultivating hitherto uncultivated land. Rakhaine state in Myanmar was another historic area of expansion which had provided opportunities from the Mughal era, into British times and in the years after the partition of India, for Bengali peasants, mostly from the Chittagong area, to seek their fortunes.

Eventually, the enterprising working people of Bangladesh, in perpetual quest for opportunity moved further afield when the boundaries of South Asia became too constrictive for their aspirations. An increasingly globalized world now beckoned them. Once Bangladeshis discovered the wider realms of opportunity outside South Asia the world has become their work place. Today Bangladeshis will be found in virtually every part of the globe, in the jungles of Bolivia, the streets of metropolitan Europe and as far as afield as the frozen wastes of Northern Finland, driving taxi cabs in New York or working and even owning restaurants across the UK. As East Asia has developed Bangladeshis have moved east to sustain the plantations of Malaysia, work in the industries and service sectors of South Korea, Hong Kong, Singapore and Japan.

These workers invest large sums of money extracted from meagre family savings, incurring crippling debt to pay off cruel human traffickers who expose them to ruthless exploitation and compel them to take unimaginable risks, to reach their destination. Dispersed across the world migrants work night and day to sustain their families back in Bangladesh, in the process helping their country to build up foreign exchange reserves from less than a billion dollars in 1975 to nearly \$40 billion today. Today there are few households in Bangladesh who do not have some member working outside Bangladesh or who at least know of someone from their village or its environs who is working abroad. There is no home where some member, below the age of 25, does not aspire to travel abroad whatever it may cost them.

The Bangladesh of today has moved a long way from the age when they sought their livelihood in neighbouring countries. The image of Bangladesh as visualized by Sanjoy Hazarika in his excellent book, *Strangers of the Mist*, written in 1994, of a backward, impoverished, least developed country needing to move into its equally impoverished but naturally richer, neighbouring regions, is a distant memory. Bangladesh's GDP growth this year has exceeded 7%, its foodgrain

production has quadrupled from 10 million tons in 1972 to 40 million tons, its poverty levels have fallen to around 25% its external earning are around \$40 billion, and it has emerged as the second largest exporter of readymade garments in the world, behind China but ahead of India.

In the 1980s a million Bangladeshis moved to Pakistan in search of work and helped to sustain entire industries and many urban households with their labour. Today, Pakistan is lagging behind Bangladesh in terms of providing economic opportunities. As a result few Bangladeshis contemplate moving into a now more impoverished and increasingly intolerant Pakistan state. At best they would see Pakistan as a stepping stone towards moving to the Arabian peninsula. Similarly those who seek work opportunities in India are more interested to move to the more developed states of India

where there are conspicuous labour shortages which are not readily being filled from their domestic labour market. The once more proximate areas of migration to the North Eastern states of India and in Myanmar, which once provided opportunities for impoverished landless peasants of Eastern Bangladesh are now far less attractive outlets of opportunity. The North Eastern states have, over the last two decades, lagged behind Bangladesh in terms of levels of development, economic growth rates and diversification of the economy. We can see from Table-1, that Bangladesh's most recent GDP figures have reached \$226 billion compared to a GDP of \$58 billion for all the 7 NE states, \$21 billion for Nepal and \$66 billion for Myanmar. It is to be expected that the better educated, more globally aware *Bangladeshis* will now prefer to migrate towards countries which provide significantly better opportunities than their own.

Table 1: Economic Trends in Eastern South Asia, Myanmar and Yunnan

2016	Population in million	GDP in \$ billion	GDP growth %	GDP per capita in \$
Bangladesh	163	226	6.5	1466
Nepal	29	21	3.4	751
Myanmar	52	66	7.6	1268
Yunnan Province	47	224	10.1	4714
NE India		58		
Assam (2017/18)		37.0		
Tripura (2014/15)		4.5		
Meghalaya (2014/15)		4.5		
Arunachal Pradesh (2015/16)		2.9		
Manipur (2015/16)		2.7		
Nagaland 2014/15)		2.6		
Mizoram (2017/18)		2.9		

In this now globalized and more connected world order transformation in the horizons of working people manifests itself not just in Bangladesh but across South Asia. The Asian region is no stranger to outmigration. Not only has the demography of most regions within South Asia been transformed over the years by inward migration but the tradition of outmigration from specific regions or communities has been ongoing from pre-colonial days. Our colonisers took advantage of this enterprising trait among South Asians. Working peoples from specific regions in South Asia were transported by our colonisers to work abroad in other parts of their colonial domain, in Burma, in the Caribbean, in South and East Africa, in Mauritius, in Malaysia and into Fiji in the Pacific. These workers have been followed everywhere by traders, professionals and academics who have travelled even more widely than the more concentrated working populations of South Asia. Today,

the diaspora of South Asia have established themselves as significant contributors to the economies of not just the Middle East, but also in other developing and developed countries around the world. The world view of these working populations has undergone further transformation in a more integrated, increasingly globalized world.

Reconnecting Asia

South Asia still appears to be mesmerized by memories of their divisive history and remain captives within the borders bequeathed to them by their colonial rulers. In the remainder of my presentation I will attempt to interpret the consequential outcome of our complex inheritance of moving from an integrated community to a divided region. We can then explore how we may

attempt to transcend our legacies from another century in order to move forward through the 21st century where our borders can evolve into boundaries so that our peoples can reconnect with each other to build a better future for themselves and their countries.

The narrowing of South Asia's horizon's at a time when the global community is becoming more integrated appears to be costly for its peoples and politically counterproductive. Reliving the conflicts bequeathed to us by our ancestors, aggravated through colonial intrigues, appears less meaningful to our peoples than it once appeared a long while ago.

In an age where the world was smaller and we were one of the more backward regions of the world, the compulsion to reconnect ourselves was less evident. Early relations, in the wake of a costly divorce, tended to turn into zero sum games where minor irritants escalated into major quarrels. Our erstwhile brothers and sisters were now perceived as the sinister, 'other'. Statesman were replaced by more inward looking leaders. Some of these leaders chose to make a political livelihood out of demonizing their erstwhile neighbours, confusing their opportunistic counterparts with the entire population, who were being misled for political gain. Whilst similar conflicts remain alive and well within every nation state, conflicts across borders become particularly dangerous because people with limited means at their disposal to engage in conflicts are replaced by uniformed combatants, equipped with expensive toys and a vested interest in being rewarded with ever more expensive toys.

In a world dominated by the North Atlantic nations who once ruled the world and hoped to continue to do so, even in a post-colonial world, opportunities for their once colonized subjects remained limited. A world economic order created in the image of our colonisers and designed to perpetuate their hegemony was increasingly coming under challenge as once subject peoples grew more proficient in the rules of the game and could now use it to their own advantage. Over time particular countries of the once colonized world took the lead in establishing autonomy over their own economic destinies and other, resource rich countries who discovered the exponential benefits to be gained from resource nationalism, were better positioned to challenge the economic domination of the West.

The fluidity of capital and labour within a more interconnected world opened up areas of opportunity for the once less developed world. The phenomenal rise of Asia, led by Japan followed by the Asian tigers and then taken to a new level by China, followed by India, has progressively transformed the global balance of economic power. The changed balance of power has encouraged the Asian giants to reach out to the rest of

Asia and further afield into other regions in Africa and Latin America, encouraging them to come together to build up their collective strength to lay claims to seats at the high table of global economic power. The phenomenal growth of China has further stimulated growth within the neighbouring countries of East and South East Asia. Exporters of energy and other natural resource producers in West and Central Asia, Africa and Latin America have moved away from their traditional dependence for markets on the capitalist West, towards Asia where new economic ties are being forged. The concept of an Asian community, once perceived as a fantasy of unworldly statesman such as Pandit Jawaharlal Nehru, is now coming to life through strengthened economic ties and access to enhanced investible resource from within Asia to underwrite their own development.

It is this changing world order that has inspired me to make this presentation today and to contextualize the opportunities opening up to those parts of Asia which are of more immediate concern to me and for those of us assembled here. For all the dynamism of Bangladesh today the peoples of our regions, which include NE India, Nepal and Myanmar, remain the most backward parts of the Asian region and have a long way to go before we can share in the new Asian drama where at least some of the more economically advanced regions of India are important players. If we are to fully participate in these expanding opportunities we need to explore, more closely, the advantages of transforming our borders into boundaries where goods, capital and people can move more freely across our lands. The concluding part of my address seeks to track some of the opportunities now available to our people and to examine what may be done to realize these possibilities.

Borders without Boundaries

Today the inherited commitment of nation states to use their borders as self-contained enclosures rather than boundaries for shared movement of goods, people and ideas, remains a driving force dividing the states of South Asia and its immediate neighbours. This tendency to transform boundaries into enclosed borders is not limited to South Asia but is becoming more pervasive within the less dynamic parts of the global economy.

Over the last year we have observed that border nationalism is being enforced by the present President of the United States. He fought an election, campaign on the slogan 'America first' premised on building a wall along the border with Mexico to exclude Mexican immigrants who he has projected as murderers, rapists and drug traffickers. He has also sought to exclude even

legal immigrants or visitors from countries of a particular religious persuasion. Similar sentiments against prospective immigrants, legal and otherwise, have emerged as a staple of electoral politics in Europe.

In our own neighborhood we continue to bear witness to the resort to ethnic cleansing of Rohingya minorities from Rakhine State in Myanmar where murder, arson and rape have assumed the dimensions of a possible genocide. We have recently noted that in the state where we are meeting today, lists are being enumerated and published to identify those of a certain linguistic identity and also faith as 'illegal' residents to be presumably sent back to where their ancestors once originated. Interestingly, this exclusion does not apply to those who speak the same language as the excluded but who share the same faith as the majority community. This suggests that the ghost of Mohommed Ali Jinnah, who once argued that faith should serve as the border to divide a historically integrated people, continues to haunt these parts.

Such exclusionary enterprises whether, in what is fancifully perceived as the world's oldest democracy or closer to home, suggest that mind sets still appear encapsulated in the post-colonial area where once non-existent borders came to assume the properties of divinely ordained legacies intended to divide people whose ancestors saw the world as their inheritance.

For better or worse this bequest of our colonizers has progressively been eroded by the improved connectivity and progressive economic integration of the world. The digital revolution has now connected the remotest parts of the globe which no longer remain part of a mysterious domain but is viewed as a visible and possibly reachable destination. We all recollect the narrow village world of little Apu in Satyajit Ray's epic film, *Pather Panchali*, set in the Bengal of the 1920s where Apu's boundaries extended upto the railway line carrying a train to Kolkata. Today the Apus of Bangladesh think nothing of boarding trains not to Kolkata but Mumbai or boarding planes or even creaky boats, to travel to Dubai, Benghazi, Greece, Italy and even across the Atlantic.

In such a universe borders which are recognized as legitimate enclosures which should preferably be crossed with bonafide documents are seen by the subaltern classes of the world, largely as an inconvenience. In a contemporary world order where it has been made increasingly difficult to cross borders using recognized documents many more people are crossing borders than at any time in history. As a consequence, the demographics of nation states across the world are experiencing changes. Today, for example, in the United States, in such states as California and progressively so in states along the southern borders of the country, the hitherto dominant Euro-centric populations are being

reduced to minorities with the continuing expansion of populations of Hispanic, Afro-American and even Asian origin.

The ruling empires from the Mauryas to the Mughals had established an integrated market for labour and capital, and even constructed the Grand Trunk road to facilitate such connectivity. The British Empire in South Asia built on this inheritance to further integrate the economy of the region and its labour markets where people were free to move across the land in search of work and opportunity. The British, where needed for their business interests, actively promoted such movements. Such an open labour market occasionally created tensions between more enterprising migrant communities and their hosts who were rarely consulted by the British in such ventures. However, people kept moving across India in search of work. Not just Bangladeshi peasants, but doctors and lawyers from Bengal, various classes of Biharis, Sikhs, Tamils and Gujratis treated India as a common trading and labour market.

The emergence of independent nation states with clearly defined borders dividing Pakistan, Sri Lanka, Nepal and Myanmar from India did not immediately put an end to such labour movements. Incoming working people were now viewed with greater hostility by local host communities and eventually invited official action by states to determine the terms and condition of cross border movements. Imposition of such formal barriers discouraged free movement but did not altogether arrest it. In the case of Bangladesh its out-migrants changed their direction and began to increasingly moving westward to the faster developing states of India.

In the globalized world of the 21st century, where the once unknown now falls within the horizon of expectation of all peoples, even if such expectations have little practical possibility of being fulfilled, people will continue to move across borders in search of work. Nothing short of ethnic cleansing of such immigrants is going to abridge the expectations of the outwardly mobile peoples of Bangladesh or other parts of South Asia and beyond. Nor can we expect to contain movements of people to wherever opportunity presents itself, particularly where prospects at home remains limited. In such circumstance the primary goal would be to widen opportunities at home through promoting more expansive and inclusive policy agendas underwritten by a sufficiency of resources both from abroad and from within. However, it takes time for such developments to fully fructify so that the more excluded peoples from such countries will continue to aspire to move away from home. It would, thus, be more sensible to see how far these movements can be accommodated within the reality of nation states with national borders.

Reimagining Asia

The world is too large and my expertise too limited to address such an issue on a global scale so I will limit my horizons to South Asia and beyond to Asia. I believe that South Asia, on its own, needs to view its future within the wider domain of Asia since each of its component states have already become increasingly integrated with the economies of both East and West Asia. For example, India's largest export destination today is in China, whilst most of its energy imports originate in West Asia which is also a major destination for its migrant labour, West Asia is correspondingly the largest destination for migrants from all other South Asian countries as also for energy imports into these regions. To the East, China has established itself as the principal source or imports for all countries of South Asia and is also emerging as the largest source of capital inflows. China has already established itself as the principal trading partner of South East Asia, and East Asia, including Japan, ROK and Taiwan and is attaining a similar status in many countries such as West and Central Asia, Africa, Latin America and even with the United States.

The central assumption underlying my subsequent discussion argues that tensions and conflicts over the crossing of borders originate in economies and societies, whether developed or underdeveloped, where economic opportunity and scope for social mobility remain abbreviated, stagnant or even moves into recession. It is in such circumstances that the 'other' from across the borders is seen as a competitor for work and opportunities, possibly a societal threat and even a potential rival for personal and social advancement. Within the framework of a more dynamic economy, situated within a dynamic region, which can construct a more inclusive society, scope for transforming borders into boundaries of opportunity would appear to provide a more sensible course of action for addressing the problems of the Asian region.

I believe that such opportunities are now opening up for the once entombed states of North East India, Myanmar, Nepal and Bangladesh. Our location at the heart of Asia, at the cross roads between East/SE Asia, India, West and Central Asia, uniquely position us to transform our economies and societies. Four decades ago such a possibility tantalized such scholars as George Verghese in his prescient work, *India's North East Resurgent*. In the Asia of today such possibilities remain tangible and merit serious address.

The world's largest economy (in PPP terms) China and the world's third largest economy, India, which are also among the fastest growing most dynamic economies in the world are the direct neighbors of our sub-region. Where location is now accepted as one of the critical variables in promoting development and growth, our

region needs to view its future without looking backwards to the 20th century but towards the unprecedented opportunities provided by the 21st century.

If we look at the world economy in 2016/17 it may be observed that during a period of low growth in Europe, North America and Japan a major share of global growth originated in South, South East and East Asia. A recent study has presented evidence which indicates that East/South Asia will contribute 53% of global growth between 2010 and 2050. This would dramatically reposition Asia's presence in the global economy.

The new dynamic in the Asian economy does not originate in the good fortune of booming commodity prices but in the growing global competitiveness of its economies and the capacity of their working people to not only uplift their domestic economies but to make a decisive contribution in the transformation of energy rich but labour scarce economies within Asia. These assets which have driven Asia's growth are not likely to disappear within the next few years, but will sustain its competitiveness over the years.

Underwriting the Asian Century

Asia's enhanced competitiveness has served to relocate global capital surpluses away from the North Atlantic capitalist economies to Asia. In 2017 over two thirds of global foreign exchange reserves, and over 70% of assets located in Sovereign Wealth Funds (SWF), were provided by Asia. China alone is the world's largest holder of foreign exchange reserves valued at \$3.5 trillion as well as the largest owner of SWF holdings which are valued at \$1.5 trillion. As a result, capital resources from within the region retain the capacity to underwrite a new era of development opportunities which can diversify, expand and transform the economies of every Asian country, including the countries within our sub-region.

The availability of such an abundance of capital within Asia has already inspired the launch of the BRICS Bank, which brings Brazil, Russia, India, China and South Africa together to build a South based financial institution to support growth across the developing world. China has moved on to take the initiative in establishing the Asian Infrastructure Investment Fund (AIIF) and the Belt and Road Initiative (BRI), where the major share of the investible capital originates from China. Whilst there are reservation in some countries in Asia, such as India and Japan, about the BRI, which is an exclusively Chinese project there is no strong reason why both these countries should not collaborate in this venture. The BRI is likely to be the

principal vehicle for Chinese investment in Asia and regions beyond and could provide almost unlimited resources for infrastructure investment which could expand the developmental capacities of the region and particularly its less developed members.

Chinese engagement in Asia should not be viewed as an act of benevolence any more than was the post-war Marshal Plan, established by the US to underwrite the reconstruction of Western Empire after the devastation of World War-II. China visualizes significant economic benefits for itself insofar as many of the BRI infrastructure projects will be constructed by Chinese construction firms, using the surplus capacity accumulated in their steel, construction materials and engineering industries which are today the largest in the world. Such Chinese supported infrastructure projects are expected to establish durable, long term links between China and the recipient countries, which will provide future markets for Chinese goods and services and further access to the natural resources of West and Central Asia, Sub-Saharan Africa, Latin America and Central Asia. By midcentury, if not earlier, China and its economic partners would have possibly replaced the United States as the main drivers of globalization not just within the Asia region but with Europe.

It is unlikely that China's upward trajectory within the global system will move smoothly. This rarely happens for economic superpowers who increasingly tend to be viewed as prospective hegemonies. However, there is no strong reason to believe that this will discourage most countries in the Asian region or in Africa and Latin America from accessing Chinese capital to strengthen economic ties with China. In such circumstances India, for example, would need to seriously decide whether it should position itself as an adversary rather than a prospective partner of China in the transformation of the global political and economic landscape. It is natural for India's leaders and the people they represent to decide what best serves India. But within the boundaries of Asia, neighbours of both countries would much prefer to be part of an Asia, where India and China work together to transform the region and in the process reconstruct the global balance of power from an unipolar to a multipolar world.

The neighbours to the two Asian giants, such as Bangladesh, Myanmar and Nepal may prefer not to be held captive within a zero sum game where they have to take sides between their two neighbors. Bangladesh and Nepal's have strong historic ties with India. We are inseparably linked by geography and share ethnicity, languages and faiths. We also benefit from both trade and aid from India. Ties with China have been more remote. But in recent years Bangladesh and Nepal have developed strong economic links with China as has Myanmar where China is its principal economic partner.

Today these countries look to China as an unprecedented source of capital for meeting their massive infrastructure needs and as a prospective market with unlimited potential for accommodating their exports. These countries as well as other near and more distant neighbours such as Sri Lanka, Maldives and Afghanistan, look towards a future where their two large neighbours share a vision to transform the region and collaborate in the development of their respective economies.

Pakistan, which has had longer standing and deeper ties with China has already received around \$60 billion from China, under the BRI, which has significantly improved its infrastructure. It is however less clear if the dysfunctional nature of the present Pakistan state can effectively utilize these investments to transform its underperforming economy.

Reimagining the North East

The case of the North Eastern states is somewhat more complex. It is an integral part of the Indian state and therefore needs to define its relations with its neighbours within the external alignments of the nation state. However, it is recognized by the policymakers of India as much as by the leaders and people of North East India, that the economic potential of the region can be more fully realized through enhancing its connectivity with its immediate neighbours to the West, South and East. The hitherto land locked region of the North East states, more than other states in India and its neighbors needs to convert their borders into boundaries for purposes of trade, capital movements and for opportunities for the people of the North East to move freely in and out of their neighbouring regions.

As we have earlier observed, the compulsion for a reverse flow of people into the North East is less compelling than it once was as countries such as Bangladesh have accelerated their economic development. Their outward aspirations now extend beyond South Asia into East and West Asia and beyond to Europe and North America. But what Bangladesh would welcome is the opportunity to trade and contribute to the development of the rich natural resources of the North East. To this end Bangladesh needs to move much more rapidly than it has done so far in opening up connectivity with the North Eastern states. The port of Chittagong and the prospective ports that are under development further south, more than Kolkata or Haldia, should provide the most competitive outlets for the exports and imports of the NE region. Well-developed transit links to connect the North East to these ports as well as to the interior of Bangladesh and beyond to Purbobangla and Bihar, should move ahead more rapidly.

In spite of the provision of \$5 billion in soft loans from India to Bangladesh for investment in such infrastructure projects, the elephantine movements of our respective bureaucracies have ensured that in the last decade, since transit protocols were concluded between the respective governments, the progress in expanding connectivity has been modest. With the expansion of the Bangabandhu Bridge over the Jamuna and the completion of the massive Padma bridge project, fully developed transport arteries connecting India with the North East should be in place. However, the complementary road and rail development components of the project must also be in place to realize the full transit potential of the bridge.

Even with well-developed transit routes between mainland India and North East India, in the days ahead it is Bangladesh which is likely to serve as the most competitive trading partner for the region. Given the much closer proximity of the North East states to the markets of a now fast growing Bangladesh economy it would make good business sense to invest in the development of the resources of the North East which can establish itself as a prospective source of supply for Bangladesh for its natural resource based projects. Similarly, Bangladesh's now more diversified manufacturing base can use duty free access to the Indian market to be a competitive source of supply to the NE.

Such possibilities should be more fully explored by Bangladesh who should offer to invest in joint ventures in the North East by involving Indian, East and South East Asians as partners in such projects. Such investments should not just be designed to exploit the natural resources of the North East but should invest in adding value to those resources which can then be marketed in Bangladesh, Myanmar, Thailand and Yunnan province in China.

It is hoped that investments by both India and also by China, drawing on its BRI and AIIF resources, can be utilized to make the massive investments needed to connect the North East with its neighbours. We can visualize major investments in the Asian Highway and Railway, which have been agreed upon to connect Yunnan province and Thailand with India, Myanmar, North East India and Bangladesh. Here the extant but direct Stilwell road, constructed at high cost in 1945, to provide a northern road link between Assam and Yunnan province, should be reconstructed as a superhighway, underwritten by funds from China, India and possibly multilateral financial institutions such as the AIIF and ADB. Similar investments, enhancing the North East's connectivity with Myanmar and Bangladesh can be made. The prospects for the North East emerging as a major transit destination for both Bangladesh as well as its neighbours from China and South East Asia hold out

unlimited opportunities for benefitting the economies and serving as sources of employment for the local population.

It should be kept in mind that Yunnan province, the most proximate Chinese region to Myanmar, NE India and Bangladesh, is today the third fastest growing state in China. Table 1 shows that Yunnan's GDP of \$224 billion is now larger than that of Bangladesh. Yunnan was, until two decades ago one of China's most backward regions. For this reason, in the late 1990s, the Chinese state encouraged the Social Science Research Council of Yunnan Province to join hands with think tanks in India, Bangladesh and Nepal to initiate a track-2 process to identify scope for sub-regional cooperation. My own organization, CPD, was involved in this exercise. This came to be known as the Kunming initiative which has now matured into a Track-1 program of cooperation between the states of Bangladesh, China, India and Myanmar (BCIM).

Inclusive Cooperation

The exclusive and exploitative nature of projects underwritten by external capital tend to be one of the principal concerns of less developed regions and countries rich in natural resources. Historical experience has driven the fear that more entrepreneurial investors from abroad and even domestic comprador elites will come across their boundaries to exploit their resources and extract the value added benefits and profits for themselves, leaving little for the local population. This is an enduring and valid concern. We have absorbed many lessons from our colonial encounters as well as from contemporary foreign investors, particularly in weak countries such as a Sub-Saharan Africa, coming in to exclusively exploit their natural resources on unequal terms.

Some energy rich countries, have attempted to address such problems by nationalizing their energy wealth and exploiting it themselves. Foreign multinationals have been demoted from primary beneficiaries to junior partners where needed, in resource development ventures. Such a model has worked less well in other natural resource rich countries.

Such concerns about exploitative external partners are no less valid in the North Eastern states. In most major projects to exploit the natural resources of the region, starting with multinational investments during the colonial era in the energy resources of Assam and in its tea gardens, the principal returns from these investments accrued to non-indigenous people whether from abroad or from business communities from mainland India. In the specific case of Bangladesh we have greatly benefitted in the extraction and processing

of limestone into cement from the quarries in Meghalaya, across the border from Sylhet.

I have, in a recent book, *Challenging the Injustice of Poverty: Agendas for Inclusive Development in South Asia*, attempted to address the concerns of primary producers through a suggested strategy for promoting more inclusive development. I have argued that primary producers need to be moved upmarket in the value chain. The principal gains from exploiting natural resources accrue to the extractors and marketers of these resources and eventually to the corporates who add value to the resources.

My own suggestion has been to promote a more inclusive approach to resource utilization by negotiating a direct partnership stake for the natural resource providing country, state or even the local community where the resources originate, in any project designed to develop these resources. This would ensure that the local resource provider would not just realize the immediate revenues provided through resource concessions or even the primary sale of these resources but would share, for all time, in the profits from the final value addition extracted from these resources. As a Bangladeshi I would gain no friends at home by making such a suggestion but I would have advised the state of Meghalaya to negotiate an equity stake in the multinational Lafarge Cement project, so they could continue to share in the rich profits accruing to the company.

As a further refinement to the idea of the state sharing in value addition, thought may be given to providing a similar stake, whether in addition to or in lieu of, depending on circumstances, to the tribal group or local community traditionally living in the lands from where the resources are extracted. Similar arrangements could apply for tribal communities in other Indian states, where these communities have been reduced to destitution through the takeover of their ancestral lands for resource exploitation by corporate groups. A number of such tribals have reportedly taken to insurgency to resist such exploitation.

Conclusion: A Reimagined Asia

This address before you is not about migration, illegal or otherwise. Nor is it about geo-strategy. It is an exercise in stretching the limits of our imagination to explore the realistic possibilities of transforming the lives of nearly three billion people across Asia and in the process rebalancing global power to end two centuries of domination and dependence on a western dominated world order. What elevates my presumptions from the realm of fantasy into the realm of the possible is the changing objective circumstances of the world order.

Today, for the first time in history, the Asian region has collectively established itself as the principal source of investable capital. Particular countries in the region are now emerging as the most competitive exporters of goods and services whilst people within the region are now moving out across the world to provide their labour services to underwrite the prosperity of not just other Asians countries but even the aging societies of the developed world. This dynamic and fast growing region has now created its own engine of economic growth and is no longer dependent on the vagaries and instability of the US and European economies which once served as the sole engine of global growth. Today Asia's large and growing economic capability has also emerged as a source of growth, markets, competitive exports and capital for the countries of Latin America as well as Africa. Asia has now also emerged as an important source of growth for the developed world.

In these changed circumstances which were neither conceivable or possible three decades ago, it is indeed possible to visualize a new world order. However the realm of the possible is not necessarily the realm of the realizable. For such a reimagined Asia to emerge we would, above all, need enlightened leadership not just from the principal players in the region, China, India and Japan but from many of the smaller partners whose compulsion for regime survival have tied them to the apron strings of the still militarily more powerful Western world or who have nurtured suspicions about the intentions of their larger neighbours.

These observations are made without prejudice to the security and strategic concerns which divide India from China or some of its more immediate neighbours. Such issues merit redress but remain outside the remit of my address. What I have attempted here is to highlight the gains to be derived from a reimagined Asia and its consequential importance for resolving differences with greater urgency if such historic opportunities are to be seized.

For such a transformational agenda to move ahead we need more visionary thinking within the leadership of India and China which can set the direction for a new Asia. China is the dominant economic power in the region. It will therefore need to be more attentive to the political concerns as well as the sensitivities of their Asian partners. They will have to be particularly conscious of the political and security concerns of India so that they can travel together on this historic journey rather than drive India to engage in a zero sum competition for power and influence in Asia.

India in turn will need to move beyond frozen attitudes influenced by past encounters and look ahead to the transformative role it can play in the years ahead. They should take inspiration from the enlightened

observations of Pandit Jawaharlal Nehru, a genuine visionary of his time, made at the *Asian Relations Conference* convened by him in Delhi in March 1947, on the eve of India's independence. In his address to the conference Pandit Nehru observed,

‘Asia is again finding herself... one of the notable consequence of the European dominance of Asia has been the isolation of the countries of Asia, one from the other. Today this isolation is breaking down because of many reasons, political

and otherwise – this conference is significant as an expression of the deeper urge of the mind and spirit of Asia which has persisted. In this conference and in this work there are no leaders and no followers. All countries of Asia have to meet together in this common task.

If we truly aspire to transform Asia's borders into boundaries of opportunity this historic message of Nehru could be delivered again today, in spite of the needless delays in the realization of his vision.