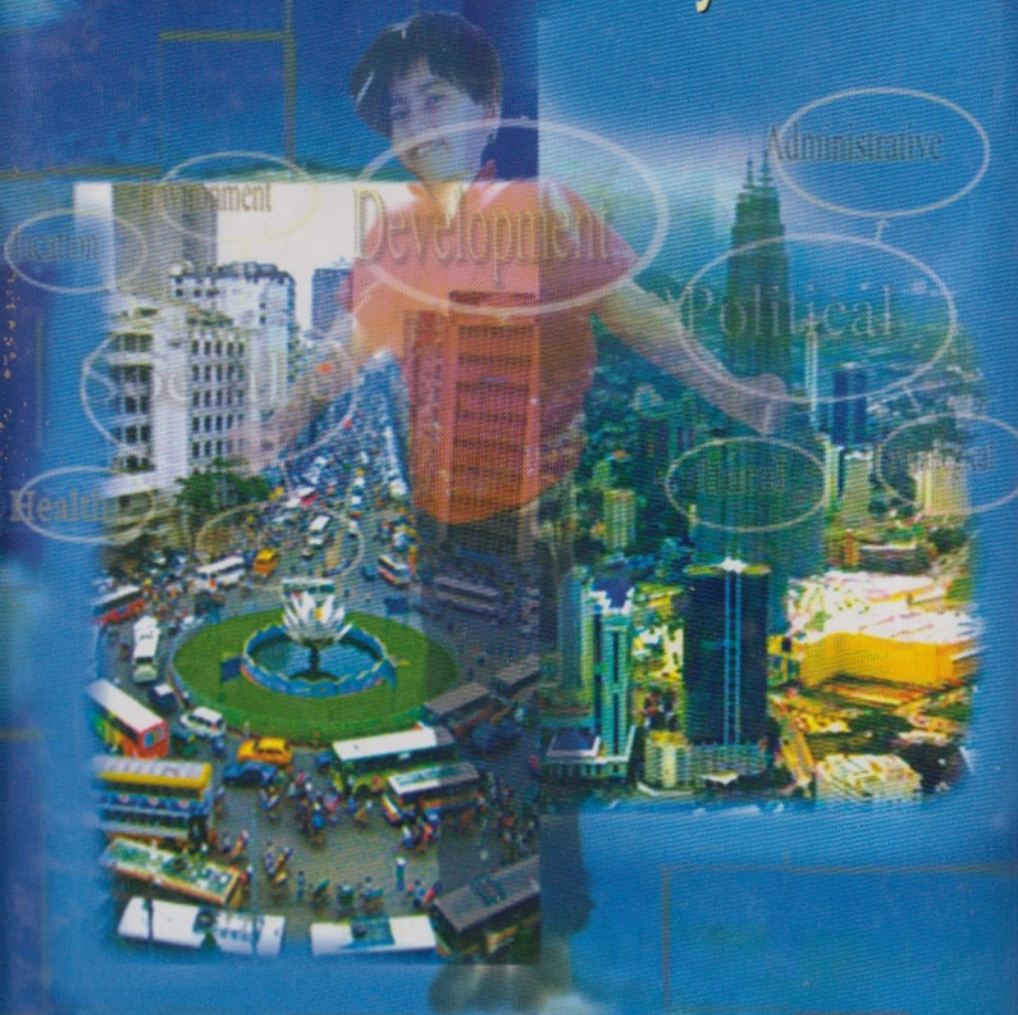


Development Issues and Strategies of Bangladesh Lessons from Malaysia



Muhammad Ruhul Amin



Mr. Muhammad Ruhul Amin was born on June 5, 1968 in a small village of Kismetpur in the city of Jessore, Bangladesh. He has possessed distinctions in all his academic achievements starting from the secondary to the higher secondary and university levels of education. Apart from the 'A' grade primary and junior scholarships, he secured the first position among all students who got the first division in both secondary and higher secondary country-wide examinations. He completed his under graduation and graduation studies from some renowned universities of the world including University of Dhaka, Bangladesh, University of South Carolina, USA and International University of Japan, Japan. He got various awards and scholarships in recognition to his brilliant results in examinations.

**DEVELOPMENT ISSUES
AND STRATEGIES OF BANGLADESH
LESSONS FROM MALAYSIA**

DEVELOPMENT ISSUES AND STRATEGIES OF BANGLADESH LESSONS FROM MALAYSIA

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DEVELOPMENT ISSUES AND STRATEGIES OF BANGLADESH : LESSONS FROM MALAYSIA
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DEDICATED
To
My Dad Hanif Bin Hussein
and My Mom Hazira Binte Quraiysh
Who are in Heaven
And
Encouraged my work from therein

PREFACE

This book aims to examine the adaptability of the emulation of the Malaysian development strategy to Bangladesh. Since both countries possess some common characteristics in terms of their history, culture, religion and foreign policy outlook, the researcher contends that the policy of Malaysia can be adopted as a viable, effective and appropriate strategy for the development of Bangladesh.

The study observes that despite huge potential for development including domestic resources, human capital, rich cultural values and fertile lands, Bangladesh failed to achieve the long-term goals of its development owing to the inefficiency inherent in its development strategies. Apart from the imprudence of its strategy, the lack of vision and direction, and the absence of desirable consciousness regarding the socio-cultural and religious values and, above all, unplanned implementation technique, inconsistent policy behavior and widespread corruption contributed to the failure of constructing the very foundation based on which Bangladesh could formulate an appropriate strategy for stimulating its economic growth and development. Malaysia, in contrast, succeeded in transforming itself from a labor-intensive to industrial economy by virtue of its holistic development approach that combines a set of efficient, coherent and consistent strategies such as domestic resource-intensive industrial policy, infant industry protection strategy, social harmonization mechanism, science based and skill-oriented education system, stable political environment and, above all, strong spiritual and cultural stimuli.

By emulating the human resources-based development approach of Malaysia, Bangladesh can transform its population burden into productive human resources through work-oriented education and skill-generating training systems. Bangladesh, a nation without vision, needs to be enlightened with a deep sense of spiritual, socio-psychological and cultural values and provided with a set of concrete socio-economic and political principles. The study concludes that if the necessary correct strategies to be appropriately emulated from Malaysia are adapted wisely, Bangladesh can achieve sustained economic growth, transparent political system and long-lasting social development.

* A part of this writing was published in the journal "Philosophy and Progress", Dhaka University (June-December-2005) under the heading "Towards a Viable Development Strategy : A Holistic Model".

Foreword

As supervisors to the originally conceived Masters thesis we were in an ideal position to follow the progress of the work and become personally acquainted with the author Associate Professor Muhammad Ruhul Amin. The book develops on the arguments and themes of the thesis and involves an intensive examination of the development strategies adopted by Malaysia and Bangladesh which allowed the former dramatically to transform its economy while the latter adopting a less 'enlightened' approach merely regressed or remained largely static. The present work is an exploration into the different strategies adopted by the two countries and an analysis of the consequences for each of them. The author's basic premise is that the Malaysian development model may satisfactorily be adopted in Bangladesh which would result in a similarly dramatic transformation of its economy allowing it to finally take-off.

According to the book the Malaysian development strategy has been successful because of a 'holistic development paradigm' which advances a basket of efficient, coherent and consistent strategies such as domestic resource intensive industrial policies, infant industry protection strategy, social harmonization policy, skills generating education system, congenial political climate and effective spiritual, cultural and entrepreneurial symbiosis. In the case of Bangladesh hardly were any of these strategies adopted (or were half-heartedly adopted at most) in a consistent or determined way because of a failure of leadership in providing an appropriate vision to the nation and injecting a progressive consciousness amongst the vast proportion of the people of Bangladesh who could have been profitably transformed into potentially productive human resources but who were instead allowed to remain apathetic, indolent, uninspired and backward looking.

Overall the book is a splendid and original contribution and deserves wide reading by development scholars, students, policy makers and in particular political leaders and finally the interested general reader. However, the book lacks in certain areas such as in its appraisal of different development techniques and in a comparative International Political Economy (IPE) perspective. In another respect, although, the author confined his examination to Malaysia there were several other alternative examples available among the South East Asian 'miracle' nations and tiger economies. The language can at times appear stilted but nevertheless remains clear and lucid in its articulation and argument. Having said all this we would unhesitatingly recommend this book and we wish the author all success.

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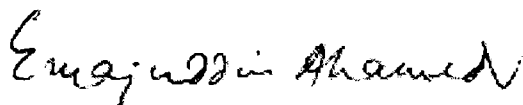
Foreword

The publication of Associate Professor Muhammad Ruhul Amin's book *Development Issues and Strategies of Bangladesh: Lessons from Malaysia* is indeed pleasing for me. It presents a new model for the development of Bangladesh based on the experience of Malaysia. Being a different kind of a model, the thesis propounded will draw attention of both Bangladeshi government and economists as well as international development agencies.

Malaysia gained independence after India and Pakistan and slowly tried to start its own way towards development. It had the challenge of building a nation out of the three ethnic communities of Malays, Indians and the Chinese. While many of the newly independent third world countries opted either for western style capitalism, or a kind of socialistic, command economy, Malaysia did not choose either. It thought that the free market economy might exasperate race and class relations, while the socialistic model would stifle individual endeavor. The latter was also inimical to the culture of the Malaysians to a great extent. Malaysia chose or rather charted a way of its own. It tried to create a harmonious inter-racial situation by adopting affirmative action or quotas for the majority Malays and it guaranteed the right of communities and individuals fair play and a holistic approach to development. This holistic model of development satisfied all the needs of human beings, rather than just the economic. While Western model, had an inherently deprecatory bias against third world cultures, the Malaysian model, being a truly postcolonial one, avoided culture shock and cultural friction to a great extent.

The Malaysian model considered the human beings to be the most important element in development and thus upheld Malaysian or Asian Values, as well as attained socioeconomic well being of the people. While there are differences between Malaysia and Bangladesh, they are close in religion and culture. Mr. Ruhul Amin thinks that the Malaysian model can be innovatively replicated in Bangladesh. He has provided suggestions and a blue print for doing this. While scholars may disagree with Mr. Amin, I believe that they will agree that he has made a point and in cogent matter.

I wish that this book, which is based on the author's MA thesis, is read by economists, development planners and others interested in the issue. I believe that they will find many things to consider true, if not accept.



Professor Emajuddin Ahamed, Ph.D
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and
Former Vice Chancellor
University of Dhaka

ACKNOWLEDGEMENTS

This book is written on the basis of my master's thesis that I conducted at International University of Japan (IUJ) with funding by Asian Development Bank and Japanese Government. The present work is the result of my long-cherished academic interest in search of viable development strategies for my motherland called Bangladesh, which emerged in 1971. It took quite a long time to study the development strategies of the Southeast Asian countries that have registered phenomenal economic growth and development after the 1970s. Finally, I came to conclusion that the Malaysian development model can be an appropriate development strategy for Bangladesh to emulate.

I am indebted to Professor John B. Welfield and Professor Shee Poon Kim, who worked as my supervisor and advisor respectively for the earlier thesis and who have provided me with necessary guidelines, instructions and advice for last two years that helped me a lot to convert the thesis to the present book. Even on weekends, they allowed me to talk on phone maintain frequent email contacts and discuss various issues relating to my work. Thanks are due to other Faculty Members of IUJ who rendered endless support and cooperation in various ways. Particularly, all my course teachers of International Relations and International Development programs have taught me how to build and nurture intellectual exercises. They are so great! The Asian Development Bank, Japanese Government, International University of Japan, Bangladesh Government and Dhaka University have created for me the opportunity of this research through funding and logistic cooperation, without which the thesis which is the foundation of the present book could not be accomplished.

Outside the academic sphere, many sources have been instrumental in conducting this research. My heart-felt gratitude is dedicated to my elder brother Professor M. Abdul Jalil who has taught me how to write,

read and contribute in the academic world and who has always wanted me writing such a book which is very helpful for our national development. Thanks are also due to the Professors and Faculty Members of the University of Dhaka, Bangladesh and University of South Carolina, USA who have taught me International Relations and International Political Economy during my undergraduate study.

My students from Dhaka University especially Nafisa grandly share the credit of this work since they sent to me various information and materials all the way from Bangladesh. I am also thankful to Mrs. Ruth Shee, the beloved wife of Professor Shee, who has taken good care of me like my mom all along my work by giving me advice and directions for such an academic endeavor.

Finally, I owe much to all members of my family including Daisy, Shoury, Oyshi, Shohagh, Bhayya, Bhabi, and my nephew and nieces. Particularly my little mummies, Shoury and Oyshi sacrificed a lot, endured my long absence from them and encouraged me in many ways for my research. In addition, I am grateful to my colleagues, friends and all who have directly and indirectly extended their cooperation.

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CHAPTER I

THE STUDY AND ITS HYPOTHESIS

Introduction

More than three decades have passed since Bangladesh emerged as an independent nation-state in 1971. The six different regimes of the country have at various times, planned, formulated and attempted to implement various strategies in order to enhance its growth and development. In their government pronouncements, almost all the ruling authorities seem to have proclaimed great success in achieving the country's development goals. However, the scholarly works so far conducted by the academics and researchers tend to demonstrate quite a reverse picture. The explicit incongruity between the government pronouncements and civil society's observation has produced more complexities in understanding the dynamics of Bangladesh's development. It is to be mentioned here that the strategies for its development have been fine-tuned, modified and changed at different intervals to ensure its development, but nothing could bring significant achievements. Now, It is a pertinent question why the country, despite its emergence as an independent Asian country in the era of the Asian economic miracle, has lagged far behind.

Against this backdrop, the development issues and strategies of Bangladesh need to be reexamined, reviewed and revised, and to that end, some of the development strategies and techniques of other developing countries in Asia that have ascended considerable growth and development may be experimented.

The central theme of the present work is to study the development issues and strategies of Bangladesh, to identify the problems that have constrained its development, and finally to examine the applicability of certain economic policies of Malaysia

in searching for an alternative development strategy for Bangladesh. What issues should be at the core of its development thinking, whether these are appropriately addressed by its policy planning and decision making authorities, whether the development strategies so far adopted prove to be right and if not, what impediments hampered its development and whether there may be any ways and means to overcome them- are the principal concerns of this research. Special attention would be given to the development experience of Malaysia- almost a similar country compared to Bangladesh in terms of history, culture, religion and development experience. Investigation will be made to experiment whether the Malaysian strategy may be emulated by Bangladesh for the better pursuance of its development targets.

Background and Rationale

Although the development potential of Bangladesh economy remains largely unrealized, its achievements in some respects are not inconsiderable. In its recent assessment, the World Bank labeled Bangladesh's development as a "mosaic of achievements and missed opportunities."¹ Compared to other low-income countries and given the weak initial conditions at the time of independence, socio-economic development indicators have steadily improved. Among about 100 low to low-middle income countries, it ranks in the top 10 percent in terms of export and GDP growth over the last 10-15 years.² An estimate shows that compared to 4 percent in the 1980s, its economy moved to a higher growth trajectory of 5 percent per annum during the 1990s.³ Yet the poverty incidence remains one of the highest in the world and the envisaged diversification of the industrial and export base has yet to take place.

-
1. World Bank, *Bangladesh: Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper*, Document of the World Bank, Report No. 25888-BD, May 13, 2003, p.1.
 2. Mahmud, W., "Bangladesh Economy into the 21st Century", a keynote paper for the 13th Biennial Conference of the Bangladesh Economic Association, BEA, Dhaka, August 10-12, 2000, p. 12.
 3. World Bank, op. cit., p. 1.

In its long-term perspective study, the World Bank found major disappointments despite some notable achievements. It estimates that nearly half the population still lives in poverty, over 60 percent is illiterate and barely 20 percent is truly functionally literate.⁴ It expressed concerns that if this lackluster performance be repeated in the next 25 years, the pressures of population, urbanization, natural calamity and environmental degradation could leave Bangladesh right where it started at the bottom of the ladder of low-income economies.⁵

In the Human Development Report 2000, Bangladesh is ranked 146th, among 174 countries in terms of both Human Development Indicator (HDI) and GDP per capita (adjusted for purchasing power parity of domestic currency with dollar).⁶ Its level of human development is not different from what would be normally expected at the given level of GDP per capita. Dr. Amartya Sen suggests that in view of its low per capita income, it should emulate the examples of those countries, which are high achievers in human development in relation to their GDP per capita.⁷

Thus, while explaining the pros and cons of Bangladesh development scenario, almost all the research works done by the government and non-government agencies, international organizations, and independent research bodies have identified both hopes and dismay; expectations and frustrations; and challenges and opportunities. Although these research projects offered many suggestions for furthering the development thinking of Bangladesh, most of them undermined the significance of applicability of development models that helped other developing countries in the East and Southeast Asian region

4. World Bank, *Bangladesh 2020: A Long-Run Perspective Study*, The World Bank Bangladesh, Online available:

<http://wbi018.worldbank.org/lo%20web%20sites/bangladesh%20Web.nsf/0/7798edeba2b94b034625670a0022c0e9?OpenDocument>, January 10, 2004.

5. *ibid.*

6. Mahmud, W., *op. cit.*, p. 7.

7. *ibid.*, p. 8.

to promote their development. The present work aims to focus on this untouched area of studies.

The East and Southeast Asian countries, while not deviating from their socio-economic and cultural values, have incorporated some of the important elements of the western approach into their models, integrated them into their own system and constructed their development framework based on the Asian values, culture and traditions. The South Asian countries including Bangladesh, on the other hand, seem to have adopted the west-guided principles in its development venture without necessary modifications. While the countries in the East and Southeast Asian region reached the zenith of development experiencing double-digit growth, the south Asian countries have been trapped in the vicious cycle of poverty, malnutrition, and unemployment. In order to come out of this self-acquired economic and social backwardness that has largely been a result of the wrong policies, Bangladesh requires an overhauling of her development strategy.

Since there is a lack of study in this field and there is no significant literature on the topic, the proposed work will fill the vacuum. In Malaysia, there has always been a relative lack of academic interest on South Asia in general and Bangladesh in particular. Even the works, which have so far known to be done in Malaysia, tend to downplay the importance of the region for Malaysia. Regrettably, from the Bangladesh point of view, also, there has not been much serious academic works done with an overall perspective of the developing relationship between Malaysia and the countries of South Asia including Bangladesh. There is thus a lacuna in this field of studies, which needs to be addressed.

The present topic has been proposed out of the researcher's long academic interest in studying development dynamics of Bangladesh, understanding its development strategies, and exploring for it a revised development model by emulating some of the Malaysian techniques. The attempt to apply the Malaysian strategies into Bangladesh's development scheme would help promote better understanding between the two countries as well as demonstrate the importance of their mutually beneficial relationship.

Hypothesis and Research Questions

The present research aims to provide a framework for learning from the Malaysian development model and adapting some of the Malaysian strategies into the Bangladesh development paradigm. The researcher presumes that Bangladesh's failure to attain self-sufficiency, to cope with the development speed of the neighboring Asian countries and above all, to adapt in the highly advanced international economy is the direct ramification of the absence of formidable, pragmatist and sustained development strategies. The unavailability of such strategies barred the country from achieving development goals despite its destined high potentials and positive national attributes that are required for unhindered progress. As a result, once a country, which was branded as a 'bottomless basket'⁸ immediately after the independence, has again been discredited as the 'number one corrupt'⁹ country after long thirty years of its independence. As already mentioned that during the last three decades, a number of Asian countries have achieved remarkable progress and transformed themselves from largely agrarian and underdeveloped economies into strong industrial and export powerhouses only because of their correct strategies. Unfortunately, Bangladesh failed to formulate or maintain the prudent development strategy.

In this context, the study hypothesizes that the experience of the high-performing economies of the East and Southeast Asian region especially that of Malaysia might provide some useful lessons for a country like Bangladesh in searching for the appropriate development strategies. The researcher assumes that the viable strategy for Bangladesh would be to emulate the Malaysian development model to survive and sustain its development pursuits. If Bangladesh's policy framework undergoes a massive transformation, it would be able to overcome the present challenges and speed up its development. The study

8. Henry Kissinger used the phrase to indicate the poverty situation of Bangladesh at the time of independence.

9. For details, see Ahmad, M. "Governance, Structural Adjustment and the State of Corruption in Bangladesh", Transparency International Document, online available, <http://www.ti-bangladesh.org/pubs/index.htm> ; February 9, 2004.

contends that despite some dissimilarities between these two countries, there are many socio-economic features that are common to them and given that identical socio-cultural background, Bangladesh can largely be benefited from imitating Malaysia.

While the current development efforts in Bangladesh largely depend on continuing foreign assistance, the future of such support does not seem to be very bright owing to the increasing trend of donor fatigue. To promote the much-needed economic development, Bangladesh might consider other alternative measures. One such option is to build bilateral and multilateral relationships. The particular emphasis would be given on the multidimensional analysis of development by using a holistic approach. This holistic model attempts to examine both countries' socio-economic and politico-cultural perspectives and recommends for Bangladesh a strategy to be built up on the basis of emulation of the Malaysian strategy.

The 'learn from Japan' policy of the East and Southeast Asian countries guided them towards ambitious plans and yielded them excellent results¹⁰ and thus the 'Look Malaysia' policy would open the windows of opportunities for Bangladesh. Given the socio-cultural and politico-historical background of both the countries, the proposed development strategy would bring prospects for Bangladesh in realizing its objectives of diversified aid, technical assistance, trade cooperation and socio-cultural interactions. Once Bangladesh goes to execute the 'look Malaysian' policy, Malaysia is likely to extend its cooperation on a large scale and the Bangladesh-Malaysian relations will likely to enter into a new phase involving significant Malaysian involvement in its development efforts. Under such circumstances, the new strategy of Bangladesh is assumed to be of mutual benefit and thus the reexamination and reassessment of Bangladesh's development strategy deserves significant academic attention.

The present work will focus on the following research questions:

10. Kalam, A., *Japan and South Asia: Subsystemic Linkages and Developing Relationships*, The University Press Limited, Dhaka, 1996, p. 217.

1. What are the development strategies that Bangladesh has, since its inception, adopted for promoting its growth and development?
2. What are the reasons those strategies have failed to bring the desired goals?
3. What are the principal foci in its economic policies and what are the missing links in shaping those policies? Is there any urgency to revise its economic policies?
4. What are the impediments that stand as bar to the path of its development and what strategies may contribute most effectively to resolve the problems?
5. In what ways could some of the development strategies of East and Southeast Asian countries especially that of Malaysia be applicable in framing a revised development strategy for Bangladesh?
6. And how will this new strategy fit in well to keep pace with the fast changing global economic scenario?

Scope and Limitations of the Study

The researcher observes that the tiger nations, the newly industrialized countries (NICs) of Southeast Asia and other countries in the East and Southeast Asian region have rapidly developed by following the Japanese model of development. One such country is Malaysia that emulated the Japanese development strategies, and transformed itself from simply a rubber and tin exporting country to an industrialized economy. This leads him to assume that for Bangladesh, the Malaysian model can be a viable and efficient alternative for redefining her development strategy.

The most important limitation of the study emanates from the fact that the two countries-Bangladesh and Malaysia possess a number of dissimilarities despite many factors common to them. In view of these differences, it may appear in the first place that the comparison between them may be difficult and thereby the suggested Malaysian model for Bangladesh may be unrealistic.

One obvious difference is related to Japanese involvement in these countries. Unlike in Bangladesh, Japan has huge investment in Malaysia. The Malaysian development has been enhanced by the significant Japanese investment, which has been maintained for

quite a long time. Japan's long-cherished plan of establishing greater East Asia Co-Prosperity Sphere may have been one of the reasons of Japan's engagement in Malaysia, whereas Bangladesh exists outside this sphere. As the US needed to develop Japan and South Korea in order to set showcase examples during the cold war era, Japan needed to develop Malaysia for achieving greater flexibility and credibility in the region. Thus the development of Malaysia has been promoted largely by the Japanese investment in Malaysia. Since Malaysia does not possess such global or regional vision, Bangladesh may not appear as a significant ground for the former's involvement in the latter. Second, the flow of economic investment may not necessarily follow economic logic, rather political reality. Japan's involvement in Malaysia might have been driven more by politico-security considerations than economic interests. On the other hand, Bangladesh may not be considered so important for Malaysia for the latter's politico-security calculations. Third, the demographic features of both the countries are not also similar. Malaysia is a heterogeneous society composed of the Malays, Chinese and Indians. By contrast, Bangladesh is almost a homogenous country.

However, each and every model has some limitations and the models are applied with their limitations. The efforts are made to gain maximum fruits from the model by minimizing the constraints. The application of the Malaysian strategy for Bangladesh is not an exception.

Despite differences, there are many significant features that are quite common to both the countries. Both are moderate Muslim nations with common historical past of colonialism. Both are members of the Commonwealth and have shared socio-economic and religio-cultural values. Second, the history of poverty and the pattern of social behavior of both countries are more or less similar. Malaysia had the opportunity of external income by exporting rubber and tin, whereas Bangladesh was destined with the opportunity of jute export. Third, agricultural products possess major parts of the economy of both the countries. Rubber, tin, Palm oil, raw materials, assembling of electronics have been the main determinants of the Malaysian economy. The agriculture, garments, leather, seafood are the main

determinants of Bangladesh economy. The cheap labor force of Bangladesh has also the potentials for assembling electronics sectors. Fourth, although both are predominantly Muslim populated country, their minorities have also important role in socio-economic and political decision-making. The Malaysian government is run by a coalition of Malays, Chinese and Indians. In Bangladesh, the Hindus, Christians, Buddhists etc. are also having significant role in framing national policies on different issues. Fifth, both the countries suffered serious political turmoil in the sixties. The Malay-Chinese riot of 1969 and the mass movement of Bangladesh during the same period created a major turning point in socio-political directions of both the countries.

Both of them inaugurated the journey of their development from the early 1970s. Under the leadership of Tun Abdul Rajak, Malaysia introduced new economic policies (NEP) in September 1970. During the same time, Bangladesh emerged as a newly independent country with new policies in social, political, and economic areas. Sixth, both Malaysia and Bangladesh are glaring examples of social harmony amidst heterogeneity of the people. The main stream Muslims of both the countries have peaceful, friendly and kin-type relationships with the minorities like Chinese, Christian, Buddhists and Hindus. Finally, both the countries adopt almost similar policies on international issues like terrorism, nuclear non-proliferation, Palestine issue, and so on so forth. Unlike the West, both the countries adopt policies of non-exploitation and non-interference and raise similar voices in international forums. Developmental elites or modernizing elites like Mahathir and Lee are very popular in both the countries.

The Organization of the Study

Structurally and content wise, the present work is divided into six chapters and a number of sub-chapters. The first chapter introduces the central argument of the thesis, the research hypothesis, the researcher's motivation and rationale behind the present work and literature review. This is a feasibility study of the emulation of the Malaysian development strategy for the development context of Bangladesh. Since both countries possess some common characteristics, the researcher contends that the

policy of Malaysia can be adopted as a viable, effective and appropriate strategy for the development of Bangladesh.

The second chapter concentrates on the theoretical and conceptual foundation of the present work. Different development theories and approaches are analyzed and a distinctive holistic model is constructed, which views development in a multidimensional perspective. The development of a country depends on the overall development of its socio-economic, politico-cultural and even spiritual and psychological phenomena.

The third chapter is an overview of the growth, history and evolution of the development strategy of Bangladesh. Different policy issues are critically raised and the policy implications are evaluated from a broad dimension. It clarifies that most of the development policies of Bangladesh could not provide with the expected results owing to some internal and external factors.

In the fourth chapter, the development strategies of Malaysia are summarized and the main features inherent in these are sketched. The study observes that a set of coherent, efficient and consistent development strategies worked effectively for the development of the country. The combination of multidimensional strategies such as domestic resource-intensive industrial policy, infant industry protection strategy, social harmonization mechanism, science based and skill-oriented education system, stable political environment and, above all, strong spiritual and cultural stimuli, has contributed significantly to the phenomenal economic growth and development of Malaysia.

The fifth chapter approaches a comparative discussion of the development strategies of both countries in a comprehensive manner and concentrates on the state of the art of the emulation of the Malaysian strategy for Bangladesh. Efforts are made to identify the common features of both countries and examine the relevance of the Malaysian strategy for Bangladesh. The finding of the research suggests that despite some differences between the two countries, the development policies of Malaysia can be adapted to Bangladesh in order to implement the long-term goals of Bangladesh's sustained economic growth and development.

The final chapter draws a clear, concise and straight conclusion that the emulation strategy is a realistic and feasible alternative for the developing countries like Bangladesh. It contends that a backward country can adopt and adapt the development mechanism of a developed country that possesses almost similar social and cultural conditions. On the basis of this argument, this chapter concludes that Bangladesh as a moderate Muslim country can emulate the development strategy of Malaysia- another moderate Muslim country and in that way it can achieve development.

Literature Review

The present study covers a vast subject and the most important and latest literatures available regarding the topic have been more or less consulted. I have collected the books and journal articles that focus on three main areas- the first set of literatures are concerned with the development theories, the second and third sets are related to the development policies of Bangladesh and Malaysia.

In constructing the development model and the theoretical framework for the present work, a number of books and journal articles on the theory of Development Economics have been studied. The most important among them are reviewed here. H. J. Chang's *Rethinking Development Economics* published in 2003 by Anthem Press, has provided with a radical critique of Neoclassical development economics. This is rare collection to understand the economics of development from the perspectives of developing countries and in this sense, this book is a revolutionary contribution in the alternative thinking of development economics.

Another important piece of work is *Economics of Development*, edited by D.W. Perkins and other Harvard University Professors. This book is unique in describing economic growth theories and empirical evidences. This book examines how a particular economic theory is relevant to a certain country while it is quite irrelevant in the context of others.

D. Rodrik's *In Search of Prosperity: Analytical Narratives on Economic Growth*, published in 2003 by Princeton University

press, is one of the most important development books to appear in recent time. Leading authorities dissect country experiences in light of recent growth theories and empirics.

W. Easterly's *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, published by MIT Press, Cambridge in 2001, has raised the question on why development opportunities have been so often missed in many parts of the world.

Y. Hayami's *Development Economics: From the Poverty to the Wealth of Nations*, published in 2000 by Clarendon Press, Oxford, has identified the economic theories to employ in order to transform a poverty-torn country towards prosperity.

G.M. Meier and J.E. Rauch's *Leading Issues in Economic Development*, published by Oxford University Press in 2000, is a concise collection of empirical researches of prominent issues in development economics.

Apart from these latest books, Hettne's *Development Theory and the Three Worlds*, Todaro's *Economics for the Developing World*, Rostow's *The Stages of Economic Growth: A Non-Communist Manifesto*, Nurkse's *Problems of Capital Formation in Underdeveloped Countries*, Todaro and Smith's *Economic Development*, Smith's *An Enquiry into the Nature and Causes of the Wealth of Nations*, Marshall's *Principles of Economics*, Barro and Martin's *Economic Growth*- all these are the important collections on studying development of a country. Almost all these books have examined the multifarious aspects of development that include structural change, sustainable growth, dynamics of population growth and its implications for development, education, health, capital, savings, trade and investment and, above all, macroeconomic issues.

Above books are related mainly to the analysis of socio-economic and political dimensions of development. Almost all these literatures have ignored the significance of spiritual, moral and cultural aspects of development. Some literatures such as, Mahathir and Ishihara's *The Voice of Asia*, Huntington's *The Clash of Civilizations*, and Max Weber's *The Protestant Ethic and the Spirit of Capitalism*, can contribute in offering significant

knowledge for understanding development from this core point of view.

In explaining the Bangladesh development strategy, the most important research works and government documents have been extensively used. *Bangladesh Strategies for Development*, edited by Roy H Grieve and Mozammel Huq is very rich collection of nine papers contributed by a number of researchers on various aspects of Bangladesh development. This book is an outcome of a conference of the UK forum of the Bangladesh Economic Association held at the University of Strathclyde, Glasgow, in May 1994. This is one of the earlier contributions that dealt with some vital issues such as macro policies, export growth, industrialization, rural income, health and education. The researchers examined the question of what strategy may contribute most effectively to the development of Bangladesh. However, since this volume was published in 1995, most of the information have become outdated.

Contemporary Issues in Development, published by Bangladesh Unnayan Parishad in 2002, is another important source of information and analysis offered by various scholars regarding a wide range of issues that include domestic resources, education, public opinion, regional cooperation, gender perspective and environmental development. As this book is a tribute to Q K Ahmad, a noted scholar on the development literature, most of the articles contributed by his colleagues and friends have been selected from among those to which Q K Ahmad has devoted over the years in terms of research. Thus, it does not cover other important areas of development.

Clare E. Humphrey's *Privatization in Bangladesh: Economic Transition in a Poor Country*, published in 1992 by the University Press Limited, is an outstanding contribution in understanding the privatization programs of Bangladesh. The book examines the question of whether the policies of privatization and liberalization have had a beneficial effect on Bangladesh's economic development. Humphrey argues that the goals of privatization have not been achieved on the desirable level owing to the intra-

fighting of various interest groups including political personnel, bureaucracy and labor, and the government's failure to adopt an efficient strategy to implement it.

An in-depth econometric analysis of interrelationships of exports and economic development of Bangladesh has been made by M. Azizur Rahman in his *Export and Economic Development of Bangladesh*, published in 1993. The author has estimated export-multiplier, commodity and geographic concentration of trade and income elasticity of demand for Bangladesh exports. By using econometric tool like Sims Test of Causality between manufacturing and exports, he explains whether export-led growth strategy can provide with economic growth for Bangladesh. In order to investigate the correlation between devaluation and exports, this study attempts to segregate the devaluation effects from export price effects.

The Task Force Report of the first Caretaker Government during 1990-1991 under President Justice Shahabuddin Ahmed is the first comprehensive government document on understanding various issues of development of Bangladesh. This source has not been used in this work, because most of the issues have been updated and supplemented by *Civil Society's Task Force Reports 2001*, prepared and published by Centre for Policy Dialogue in 2003. This collection attempts to examine the burning issues of Bangladesh development. The policy briefs brought together some scholars, professionals and civil society activists to identify major challenges of development and to suggest policy interventions required to address these problems.

The Government's recent *Interim Poverty Reduction Strategy Paper (I-PRSP)*, the *Long Run Perspective Study* recently done by the World Bank, the World Bank's *Joint Staff Assessment of the I-PRSP*, provide with the most important and latest information on the policy issues of Bangladesh development. Various problems have been identified in these volumes and prospective solutions have been directed. Apart from this, some government documents such as *Annual Development Programme, 2003-2004*,

and *Statistical Pocketbook of Bangladesh 2001*, published by the Planning Commission of Bangladesh are important sources of information on the present topic.

In order to have an overview of the Malaysian development policies, the old and new *Outward Perspective Plans (OPP, 1970-1990 and OPP, 1990-2020)* of Malaysia and other government documents as well as internet sources have been consulted. Two books "*Growth and Structural Change in the Malaysian Economy*" and "*Japan and Malaysian Development: In the Shadow of the Rising Sun*", that have been written and edited by K.S. Jomo, are very significant sources of information on understanding Malaysian economic development. In his book, Jomo discussed in detail how Malaysian economy was successfully transformed from a labor-intensive to the capital intensive industrialization stage. He examined the impact of the government strategies of foreign investment, financial liberalization, and export-orientation on the country's growth and development. In his edited volume, Jomo produced a collection of a number of articles that give an overview of the development scenario of Japan and Malaysia in a comparative perspective.

Restructuring the Malaysian Economy and Human Resources by R.E.B. Lucas and D. Verry, which has been published in 1999 by Macmillan gives an account of the development process of the Malaysian economy from a human development perspective. The authors have concentrated on the human-resources-based development strategies of the Malaysian government. The analysis of the book has emphasized on the government initiatives to improve human development indicators by introducing specific education and skill-oriented training programs and explained how these policies have had beneficial impact on the country's economic growth.

C. Barlow's *Modern Malaysia in the Global Economy* published in 2001 by Edward Elgar is a wide-ranging stocktaking of Malaysia's economic, social and political development. This book is an excellent contribution to examine the development of Malaysia from a multidimensional point of view.

K.S. Jomo's *Malaysian Eclipse: Economic Crisis and Recovery* and P.C. Athukorala's *Crisis and Recovery in Malaysia: the Role of Capital Controls*, published in 2001 by Zed Books and Edward Elgar, have paid particular attention to Malaysian response to the financial crisis. These books demonstrate how the Malaysian government has faced the challenge by an efficient macroeconomic strategy and prudent financial policies. While the sub-title of Athukorala's book seems to be critical of Malaysia's controversial role in meeting the crisis, Jomo's book details an account of the recovery process of the country.

S. Anand's *Inequality and Poverty in Malaysia*, published by the Oxford University Press, has focused on the contribution of income inequality among different ethnic groups to poverty in Malaysia that existed in the early years. He explained how the government policy has attempted to eliminate poverty by reducing income inequality through social harmonization strategy.

The emulation strategy of Malaysia, particularly its Look East Policy has been narrated in M.K. Khadijah's *Whither the Look East Policy*, published in 2003. It has explained the broad dimension, nature and extent of the policy and examined its implication for the development of the country.

Lim Hua Sing's *Japan's Role in Asia: Mutual Development or Ruthless Competition?* has described the dynamics of Japan's involvement in the development of the countries in the Asian region. This book explains whether Japan, as the most developed nation in Asia, plays a role of mutual development cooperation or competition.

M.I. Hussin's *Islam and Ethnicity in Malay Politics* contributes to understanding the political reforms, Islamization and ethno-religious issues of Malaysia. He has mentioned about how, in a multi-ethnic and multi-religious society of Malaysia, has introduced Islamization and whether this process has affected inter-ethnic relations.

Rents, Rent-Seeking and Economic Development: theory and Evidence in Asia, an excellent book edited by M.H. Khan and K.S. Jomo describes the relevance and impact of various forms of

rent-seeking on the economic life of the Southeast Asian countries. The post-colonial economic diversification of Malaysia, its increased state intervention during 1970-1985 and deregulation and new regulation in the later years and their economic consequences for the country have been illustrated in the book.

K.S. Jomo's *Tigers in Trouble: Financial Governance, Liberalization and Crises in East Asia* is an important contribution in understanding macroeconomic concerns, implications of financial liberalization as suggested by World Bank and IMF and, above all financial crisis of east Asia. This book has depicted how the wrong policies of World Bank and IMF have been instrumental in the collapse of the financial institutions of the East Asian countries.

CHAPTER II

DEVELOPMENT STRATEGY: A HOLISTIC MODEL

Introduction

"Development" has been one of the most popular and widely used terms in the different branches of Social Sciences in the post World War II period. Theorists both in the tradition of Western Liberalism and those who have opposed it have dwelt at length on the wide dimensions of the concept as well as the nature and scope of the term. Almost all development theories have recognized the multidimensional aspects of development and "the far reaching transformation of a society's economic, social and political structure"¹¹ it involves. However, theorists have differed, at various times, on the extent and priority of development and since the 1950s, the idea of development itself has undergone considerable modifications. Although increased production was largely emphasized in the development strategies of the 1950s and 1960s, the focus shifted to basic needs approach in the 1970s. The development goals in the 1980s and 1990s included, among other things, alleviation of poverty, reduction of social inequality, and the development of human resources. With the onset of the new century, some other remarkable shifts of focus have dominated the study of development

Following the UN Millennium Summit in September 2000, the World Bank first endorsed the Millennium Development Goals that envisaged a poverty-focused operation. It is now recognized that balanced development is not only related to economic

11. Baran, P., *The Political Economy of Growth*, Monthly Review, New York, 1957, P. 3.

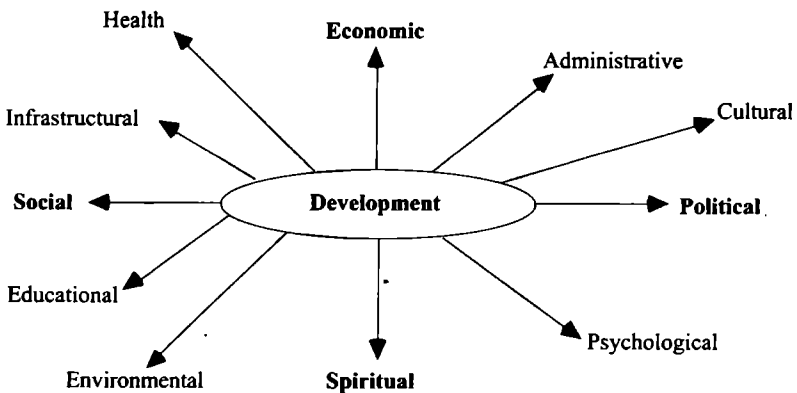
growth; equal importance needs to be placed on social, political and ecological aspects. The key factors that the Bank takes into consideration for development are good governance, participation, empowerment and environmental sustainability along with economic growth and social health.¹²

A Holistic Model of Development

Development needs to be understood as a multidimensional approach that satisfies the socio-economic and politico-security indicators. Under this criterion, only the economic success cannot be considered as a phenomenon of development. In order to understand the dynamics of development strategies of Bangladesh, the present study concentrates on a holistic approach of development, which is shown in the following diagram.

This diagram is an exposition of the consideration of development based on the holistic model that encompasses the multidimensional aspects of human life including economic, social, political, cultural, and ecological. Development, which is located in the center, is composed of the multifarious elements of transformation from the backward to the advanced stage.

The Diagram: Holistic Model



12. Yoshimura, Y., "The World Bank and Japan: Towards a Broader Partnership for a World Free of Poverty", paper presented at the seminar on World Bank and Japan, organized by International University of Japan, February 19, 2004.

According to the diagram, economic development is founded on the spiritual enlightenment together with the economic, social, political, institutional and cultural developments. The holistic model of development is supported by Baran's "far reaching transformation of a society's economic, social and political structure, of the dominant organization of production, distribution, and consumption"¹³ and Todaro's "three core values- life sustenance, self-esteem and freedom from servitude."¹⁴

Development Theories

As mentioned above, the perceptual and practical differences in development thinking that have taken place since the 1950s and 1960s have evolved through some contrasting theories of International Relations. Liberalism was the dominant economic doctrine of the late nineteenth and the early twentieth centuries. Although initially the Marxists were the principal opponents of liberal thought, subsequent criticisms were also raised by people from the liberal camp itself.

In the post World War II era, the conceptual basis for development came from the dominant modernization paradigm within the context of liberal doctrines. During this time, development was often equated with modernization, a process of change towards socio-economic and politico-cultural systems developed in the Western Europe and North America. The modernization strategy focused on the industrialization of economics, secularization of society and democratization of politics. Thus development, modernization and Westernization were being used almost synonymously.¹⁵ The traditional modernization theory was challenged by a radical approach called dependency theory that explained the premise of development from an alternative perspective. Frank's surplus extraction¹⁶;

13. Baran, *op. cit.*, p. 3.

14. Todaro, M. P. *Economics for the Developing World*, 1990, Longman, London, P. 83.

15. Hettne, B., *Development Theory and the Three Worlds*, Longman Scientific and Technical, London, 1990.

16. Frank, A.G., "The Development of Underdevelopment (1969)" in Roberts, J.T. (ed.), *From Modernization to Globalization*, Blackwell Publishers Ltd., UK, 2000.

Emmanuel and Amin's unequal exchange¹⁷; Cardoso, Faletto and Furtado's dependent capitalist development¹⁸ and Dos Santos' new dependency¹⁹ explained the dominant capitalist exploitation as the main reason of backwardness of the developing countries.

In the last quarter of the twentieth century, Neoliberalism appeared as the heir to Liberalism, with some extensive development prescriptions that included privatization, radical deregulation, opening up of goods and capital markets and tightening of macroeconomic policy. The World Bank and IMF suggested a series of reform measures as envisaged by the neoliberal orthodoxy. Unfortunately, these guidelines failed to produce long-term economic growth for many countries in Asia, Africa and Latin America. As a result, many people both in the developed and the developing world have lost faith in the Neoliberal formula of development. The Neoliberal ideas are now treated with great suspicion and dissatisfaction. The resignation of Joseph Stiglitz and Ravi Kanbur from the World Bank increased the suspicion and made a great many theorists talk about the failure of the Neoliberal doctrine. This reemphasized a massive rethinking in development studies.

The development strategy outlined in the present work has been designed keeping in view above issues related to development thinking. The development policies with regard to economic, social and political aspects are derived from the experiences of success and failure of the countries of the East and Southeast Asia that once achieved economic miracles and then succumbed to financial crises and again revived the economic shocks. As the adaptability of the Malaysian development model for a developing country like Bangladesh will be discussed, keen attention is given to Malaysian development perspectives while constructing the theoretical foundations of the study.

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17. Amin, Samir, *Unequal Development*, Monthly Review Press, London, 1976,
– Amin, Samir, *Accumulation on a world Scale : A critique of the theory of Under development (2 vols.)*, Monthly Review Press, New York, 1974.
 18. Cardoso, F.H., "Dependency and Development in Latin America (1972)" in Roberts, J.T. (ed.), op. cit.
 19. Dos Santos, Theotonid, "The Structure of Dependence", *American Economic Review*, 1970, 60 (2), P. 231-6.

Economic Aspects

In this section, the dynamics of development from the economic perspective will be examined. The components of economic growth that are essential for development will be identified and the strategies that are instrumental to achieve the development goals will be explored. Various perspectives of the economics of growth, such as capital, labor, foreign investment, global trade, industrialization, and agriculture will be dealt with in detail.

Capital Accumulation

Invested savings is the main source of capital accumulation, which is the number one condition to plan, develop and promote any development strategy. The savings are generated from income. In the developing countries, income may come from diverse sources. The comparative advantage of most of the developing countries lies with mainly two sectors- their primary products and their human resources. Development economics theory as well as empirical evidence suggests that these two sectors can contribute a significant portion of the capital required for their growth and development if the appropriate strategies can be evolved. Therefore, the development strategies of these developing countries need to be made keeping in consideration of these two sources of available income.

Primary products and primary industry include a broad range of sectors including raw materials, agricultural products, food processing industries, mineral resources, rain forest resources and so on. Although the agriculture and primary industry products contribute typically less than half the gross domestic product in the national economy²⁰, their contribution is significant for savings and hence for investment. Human resources are another important source of capital accumulation. The huge labor forces can be trained with appropriate skills and be mobilized both at home and abroad. The foreign exchange earned by foreign employment constitutes a significant part of some developing countries' GNP.²¹

20. Perkins, D.H., et al., (eds.), *Economics of Development*, W.W. Norton & Company, New York, 2001, p. 579.

21. *The Daily Inqilab*, Inqilab Bhaban, Dhaka, April 7, 2004.

Industrialization: Dual Focus and Outward-Orientation

The terms 'industrialization' and 'development' are many often used by the economists as synonymous. Industrialization process has been considered as the most significant factor for raising per capita income, which is a precondition for development. Following the industrial revolution, the industrial products of Britain rose 400 per cent and since then industrialization has been prescribed as the vehicle for development for all countries. The biggest contribution that industrialization can offer is that it helps a country in achieving self-sufficiency by reducing external dependence.

An integrated industrial structure with a dual focus on both primary and secondary industries is the best option to achieve that goal. In another words, a country needs to undertake phased diversified industrialization programs starting from the primary to manufacturing to heavy industries. Yet the key is an outward-looking strategy, that is, the country has to produce various goods so that these can be traded on international markets and at the same time it can obtain some goods overseas to its advantages. Malaysia, for example first concentrated on primary industries that include minerals, agricultural and forest resources and then moved gradually to manufacturing and technology-oriented industrialization.

In terms of policy selection, the developing countries need to make very cautious decisions. A slow and steady transition towards industrialization may be more beneficial than a hasty process. The consolidation of indigenous and primary industries may serve as the foundation of capital-intensive and technology-based industrialization. The East Asian industrial policy was very selective of priority sectors and built a strong foundation of selected industries. Initially, the policy maintained temporary protective barriers to start new industries that were followed by subsequent industrial upgrading.²²

22. Chang, H.J. (ed.), *Rethinking Development Economics*, Anthem Press, London, 2003, p. 116.

Trade Strategy

After World War II, the policy makers of most of the developing countries had reservations about outward-oriented trade strategies owing to the frustrating international trade experience following the Great Depression, volatility of the prices of primary goods and their declining terms of trade. In the 1970s, the resurgent Neoclassical economists found positive association between openness and growth that shifted trade focus from inward-orientation to an outward-oriented direction. Since then international trade has been considered as the engine of growth.

Although it has stimulated unprecedented economic growth for the advanced nations, it has not been notably instrumental in promoting progressive development for the developing countries. Despite immense expansion of their trade, they have always faced formidable difficulties in achieving growth based on open trade. The reasons for this have been many, such as unfavorable terms of trade, non-competitiveness in terms of the products and their prices, tariff and non-tariff barriers, dependence on natural resource-intensive trade sectors, West-biased trade rules and the discriminatory structure of the international political economy. Discriminatory trade issues have been on the top of the agenda of the North-South dialogue in different forums. The collapse of WTO's Seattle (1993) and Cancun (2003) talks has been largely the result of the exploitative Western-biased trade principles and the Westerners' rigid commitment to maintaining those rules. Another central issue revolves around the abundant natural resources of the poor countries and trade theories concerning those resources. An extraordinary, but very real feature of the international economic structure is that the resource poor countries enjoy resource-rich economies and vice versa.²³

The leading economic theories also raise similar points. Matsuyama's model looks at two sectors of economy- agriculture and manufacturing. Manufacturing economy enhances 'learning by doing', while agriculture transfers resources from manufacturing to agriculture. According to this model, agriculture employs the factors of production that otherwise would be used in

23. Meier, G. M. and Rauch, J. E., *Leading Issues in Economic Development*, Oxford University Press, Oxford, 2000, pp. 161-164.

manufacturing. The model suggests that the shift of resources from manufacturing towards agriculture results in decreased growth. Similarly, the Dutch Disease Model suggests that the availability of huge natural resources leads to resource-based production and transfers capital and labor from the manufacturing to the agricultural sector. Thus it causes the manufacturing sectors to shrink and non-traded goods sectors to rise.²⁴

In view of above situation, the developing countries many often face decision dilemmas regarding international trade. There has always been a controversy over the choice of development strategy between exponents of emphasis on the efficiency of the free market and those who urge control on market activities through government planning and command. Two contrasting arguments on international trade have emerged out of this debate- the free trade argument, based on the free market approach and the infant industry protection argument, based on the concept of trade protection.

The infant industry argument postulates that the government should extend temporary support to the nascent industries during the 'learning by doing' period. The history of the vast majority of developed economies shows that their manufacturing industries were protected initially against external competition. The British protectionist policy of the eighteenth century and the Taiwanese protectionism in the 1950s and 1960s are vivid examples. The strategy of protectionism through government regulations (like tax, tariffs, quantitative restrictions and subsidies) in order to stimulate domestic industrialization and thereby to replace or substitute imports is regarded as import-substituting industrialization (IS) policy.

A subtle way for a developing country to benefit from trade is to incorporate, in its trade strategy, the contents of both free trade and protected trade. A developing country needs to identify the industries in which its long-run comparative advantage lies and in which the potential for its economic growth is predicted. The next step is to protect these initially from foreign competition until

24. *ibid.*, p. 161.

they reach maturity.²⁵ As noted above, the infant industry protection strategy was followed by almost all developed countries in the early days of their development. During those days, they also used tariffs, subsidies and other measures of intervention to protect new industries.²⁶

Along with an infant industry protection strategy, an emphasis on openness is equally important. In their regression analysis, Meier and Rauch found evidence that natural resource abundance may affect growth indirectly through the extent of trade openness. They argue that although the existence of natural resources may result in a squeeze of the manufacturing sector, it generates the strengths and capabilities of industrialization despite the Dutch Disease.²⁷ The proposed trade strategy may be supported by Krueger's Trade Model, which includes an agricultural sector plus a manufacturing sector. Her argument suggests that both the agricultural and manufacturing products can be traded internationally.²⁸

The Economics of Agriculture in Development

Both conventional and modern wisdom recognize agriculture as an indispensable element of successful development. Rostow considered an agricultural revolution as a necessary condition for successful take-off.²⁹ Some scholars hold that agricultural development is the first step towards inauguration of industrialization. Nurkse argued that the industrial revolution in Britain would not have been successful if the agricultural revolution had not preceded it.³⁰ Thus modern development analysts find a close association between agricultural productivity

25. Hayami, Y., *Development Economics: From the Poverty to the Wealth of Nations*, Clarendon Press, Oxford, 1997, p. 206.

26. Chang, H.J., *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2002.

27. Meier and Rauch, *op. cit.*, pp. 165-166

28. Deardorff, A.V., "An Exposition and Exploration of Krueger's Trade model", *Canadian Journal of Economics*, 17, November 1984, pp. 733-740.

29. Rostow, W.W., *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge University Press, Cambridge, UK, 1960, p. 8.

30. Nurkse, R., *Problems of Capital Formation in Underdeveloped Countries*, Oxford University Press, New York, 1953, p. 52.

and development. The modern views suggest that the huge productivity potential can be seen if the “science-based agriculture”³¹ is introduced, an “appropriate agricultural policy”³² is designed, the “computerized farming and agro-industries”³³ are established, a “green revolution”³⁴ is geared up and above all, the “transformation of the peasant subsistence to specialized commercial farming” is conducted.³⁵ It is to be noted that many of these policies, however, can be ecologically disastrous and non-sustainable in the long-term.

The agro-sectors can be a major source of capital for modern economic growth. Some development experts even argue that this is the main, central or sole source of capital in the initial stage of development.³⁶ There are three important ways to understand the relationship between agriculture and development. First, most people in developing countries rely on the agricultural sector for their basic needs, including food, clothes and housing. Agriculture can ensure food sufficiency, shortage of which causes the curse of famine. When people are hungry, the world becomes a place of horror, sufferings and miseries. Once the people are provided with the necessary food, nutrition and drink, they can concentrate on development activities. The productivity of agriculture thus can sustain a growing population in the industrial sector. Second, agriculture contributes to generate domestic savings that can finance industrialization. Unless a country possesses abundant natural resources like petroleum or copper, its agro-products may generate the necessary foreign exchange to import capital equipment and intermediate goods. Third, the income earned by agro-sectors may create domestic demands for industrial products and thus agricultural productivity enhances markets for industrial goods.

31. Hayami, *op. cit.*, pp. 78-83.

32. Meier and Rauch, *op. cit.*, pp. 336-340.

33. Mingsarn, S.K. and Benjavan, R., *The Growth and Sustainability of Agriculture in Asia*, Oxford University Press, Oxford, 2000, pp. 179-220.

34. Perkins, et al., *op. cit.*

35. Todaro, M.P. and Smith, S.C., *Economic Development*, Addison Wesley, New York, 2003, pp. 440-449.

36. *ibid.*, p. 579.

The strategy, therefore, needs to focus on the multidimensional aspects of agriculture. The first and the foremost task is to modernize agriculture through technology in order to increase labor or land productivity and thereby to increase production. The agro-technology may be of two kinds- mechanical and biological. These differ from country to country. The mechanical package of technologies includes tractors, combines and other machinery that increases labor productivity. The biological package includes improved plant varieties such as hybrid corn or rice that improves land productivity. The US and Japan have increased labor and land productivity through the use of modern agro-technologies.

Establishment of an efficient institutional set up is another important job. Agricultural subsidies, rural bank and credit cooperatives, rural markets, strong R&D agencies, improved communications and transportation for agro-products and, above all, infrastructural development, are necessary conditions for exploiting agriculture based development. The government incentives for the rural entrepreneurs in order to establish agro-industries equally play important role in this regard. Finally, agricultural strategy needs to focus on national and international policy aspects. The prices of agro-products in international trade have declined since the 1950s and 1960s. These poor terms of trade need to be revised both in national and international trade.

Foreign Aid, MNCs and Foreign Investment

During the 1950s, 1960s, and 1970s, foreign direct investment (FDI) and multinational corporations (MNCs) were generally treated with suspicion. There was a widespread view that the developed countries use them as a means to take advantage of the developing countries. But in subsequent years, attitudes changed and most countries began to draw up development strategies on the basis of foreign investment and foreign investment exceeded the growth of global trade. In 2000, total amount of global private foreign investment rose to US\$ 1.1 trillion whereas in 1991, it has been US\$ 159 billion.³⁷

37. Bora, B. "Introduction", in Bora, B. (ed.), *Foreign Direct Investment*, Routledge, London and New York, 2002, p.1.

The MNC theory suggests that foreign technology is associated with MNCs and foreign investment, because rapid technological improvements compel producers to upgrade production through sophisticated technology.³⁸ However, in reality, technology transfer seldom takes place.

In the 1960s and 1970s, there was a strong bias in favor of aid-oriented development strategies. By the 1980s and 1990s the failure of these strategies had become clear. Foreign aid became a burden for most of the recipients rather than the instrument of development. A major portion of aid is spent in the aid-receiving formalities from the donors and a significant amount is spent in satisfying other economic rents. In addition, the associated political and economic conditions set out in the aid packages make the recipient countries dependent on the donors instead of awakening the spirit of self-reliance, which is a prerequisite for development. In his work, William Easterly studied the situation of foreign aid in 88 countries that received aid during the period 1965 to 1995. He found that only seven countries could utilize aid for investment.³⁹ In another study in 1994, researchers found a negative relationship between aid and investment.⁴⁰ Easterly suggests that in order to make aid beneficial for development, certain incentives and appropriate plans need to be introduced.

Macroeconomic Strategy

Macroeconomic strategy is classified into two policy packages—financial and fiscal. Financial policy is concerned with money, interest and credit whereas fiscal policy deals with government taxation and expenditure. Much emphasis has been given to deregulation and financial liberalization in recent years, especially following the IMF and World Bank propagated stabilization and

38. Lall, S. "Foreign Direct Investment, Technology Development and Competitiveness: Issues and Evidences", in Lall, S. and Urata, S. (eds.), *Competitiveness, FDI and Technological Activity in East Asia*, Edward Elgar, UK, 2003, pp. 12-57.

39. Easterly W., *The Elusive Quest for Growth*, The MIT Press, Cambridge, 2002, pp. 39-44.

40. *ibid.*, p.40.

structural adjustment programs in the 1980s and 1990s. A number of developing countries were obliged to adopt the deregulation strategy since it was set as a condition for aid. However, in reality, the policy proved to be ineffective in many parts of the world. It was highly criticized in view of a series of bank panics and bankruptcies in the Southern Cone of Latin America.⁴¹

An effective macroeconomic strategy needs to structure the financial and fiscal policies in a way that increases investment needed for industrialization. This pro-investment macroeconomic strategy may increase industrialization and reduce poverty. In order to encourage investments, banks should be regulated so that consumption loans can be restricted.

Another important strategy is related to 'supply-leading phenomenon', which refers to the creation of financial institutions and the supply of their financial assets, liabilities and financial services in order to transfer resources from traditional sectors to modern sectors. The supply-leading funds may stimulate strong psychological effects on new entrepreneurs, help them to 'think big' and contribute to set up new industries.⁴² Although the supply-leading strategy may not be a necessary prerequisite for economic growth and development, it may create opportunities for real growth, especially at the beginning of the growth process of an economy.⁴³

A prudent fiscal policy is also important to stabilize the economy and generate necessary resources to finance public developmental efforts. One of the reasons of the failure of stabilization programs in many developing countries lies in the fact that they have exaggerated the importance of cutting government expenditures to maintain budgetary balance. In order to achieve the goals of development program, an appropriate fiscal policy is of the utmost significance and to that end, a long term, efficient and equitable collection of taxes is very important

41. Alejandro, C.D., "Good Bye Financial Repression, Hello Financial Crash", *Journal of Development Economics*, September-October, 1985.

42. Meier and Rauch, *op. cit.*, pp. 138-140.

43. *ibid.*, p. 139.

for realizing the development aspirations.⁴⁴ The East Asian states' fiscal policy imposed high tariffs on luxury items in the early stages of development. In Korea, foreign holidays were banned until the late 1980s.⁴⁵

Social Aspects

Social harmony and cohesiveness, strong religio-cultural values, commitment to education, and sound health system contribute to build up strong social fabrics on the basis of which a stable, well-educated, highly spirited and healthy society can be established. In order to make a development strategy operate successfully, the elements of social development need to be fulfilled.

Human Capital Approach through Education and Health

The term "human capital" is used by economists to imply that education, health and other human capabilities can play important role to increase productivity. The human capital approach is a viable strategy for enhancing growth and development. Education and health are two important indicators of social development by means of which efficient human resources that are beneficial for raising productivity and thereby stimulating growth and development can be generated. Todaro considered them as 'joint investments for development'.⁴⁶

Education and Development

'Education is the backbone of a nation' says the maxim. No country or nation can prosper without education. From time immemorial, emphasis has been given on education for socio-economic development and the prosperity of human society. The emphasis that has been placed on education in governmental and donor policies in past years has resulted in remarkable increase of enrollment in primary, secondary and higher institutions. However, empirical studies differ on the question of whether education stimulates growth.

44.. Newberry, D. and Stern, N., *The Theory of Taxation for Developing Countries*, Oxford University Press, New York, 1987.

45. Chang, H. J., "The Political Economy of Industrial Policy in Korea". *Cambridge Journal of Economics*, vol. 17, no. 2, 1993.

46. Todaro and Smith, *op. cit.*, p. 362.

Administrative authorities as well as economists have been very concerned with the proper utilization of human resources through education. Adam Smith, in his famous book "The Wealth of Nations" especially mentioned the subject and included, "acquired and useful abilities of all the inhabitants or members of a society" in his "Fixed Capital".⁴⁷ Alfred Marshall, known as the father of Modern Economics, emphasized the importance of education as "a national investment" and according to him "the most valuable of all capital is that invested in human beings".⁴⁸ After observing the bad performance of Neoclassical theories, a new growth theory- the Endogenous Theory- suggests a government strategy of generating huge human capital through private and public investments in knowledge-based industries, including computer software, telecommunications and other modern technologies. Human capital generation is the only means to transform the 'burden of huge population' into 'productive human resources'.⁴⁹

This economic theory is supported by substantial empirical evidence. In his cross-country comparison, Hayami has found high positive correlations of the two social development indicators-education and health with per capita GNP and concluded that investment in these sectors promotes human productivity and thereby increases per capita output.⁵⁰ Some studies suggest that variations in growth across nations have very little to do with variations in human capital.⁵¹ Some researchers have found that there is no positive association between the two and in some cases they found even a negative association.⁵²

47. Smith, A., *An Enquiry into the Nature and Causes of the Wealth of Nations*, Random House Inc., 1937, pp. 265-266.

48. Marshall, A. *Principles of Economics*, Macmillan and Co. Ltd., London, 1930, pp. 216-564.

49. Asaduzzaman, M. and Amin, M. R., "Human Resources Development in Bangladesh: An Islamic Perspective", *Dhaka University Journal of Business studies*, vol. 18(2), 1997, pp. 97-100.

50. Hayami, *op. cit.*, pp. 41-43.

51. Klenow, P. and Rodriguez-Clare, A., "The Neoclassical Revival in Growth Economics: Has It Gone Too Far?", in Bernanke, B. and Rotemberg, J. (eds.), *NBER Macroeconomics Annual 1997*, The MIT Press, Cambridge, 1997.

52. Pritchett, L. and Filmer, D., "What Educational Production Functions Really Show: A Positive Theory of Education Spending", *Economics of Education Review*, 18, no. 2, April, pp. 223-239.

The researchers who found nonrelationship have based their argument on the lack of African growth despite educational explosion during the period 1960-1990. During this time, a number of African countries did not grow economically, although massive educational development was carried out. The growth rates of the Soviet Union and East European countries were also disappointing despite their very significant achievements in education. Conversely, a country like Japan achieved growth miracle with only a modest growth in human capital.

Now, it is very important to explain the nonassociation phenomenon. In fact, none of these works actually negate the significance of education for development. Rather, most of these researchers found that initial levels of education are positively correlated with subsequent productivity growth.⁵³ As already mentioned, the development model suggested in the present work focuses on the combination of a number of factors that are important for development. The backwardness of Africa and that of East Europe can be explained by the legacy of colonialism and communism, an unstable political situation, inefficient economic strategies and discriminatory international political economy. More important regarding East Europe is the enduring legacy of the devastation of the two World Wars and the crushing economic burden of the Cold War. On the other hand, Japan's economic miracle has been the result of its sound economic strategy, political stability, social cohesiveness, educational development at the primary and secondary levels and above all, the role of United States.

Towards a Viable Education Model

An appropriate education model is the number one criterion to make education useful for development. In the preceding section, we noticed that the educational revolution did not promote development in some countries. Yet, countries like Japan, Singapore and Malaysia and some other Southeast Asian nations have been able to make use of education. The most important

53. Barro, R.J. and Martin, X., *Economic Growth*, McGraw-Hill, New York, 1995.

strategy to get benefit of education is to build up a skill-oriented education structure. At the basic education levels, the academic curriculum and syllabi need to be made in a way that will create necessary skills for work in various fields. My three year stay in Japan provided me the understanding that Japanese students start experiencing practical knowledge at work right from the school levels by working part-time in factories, industries and convenience stores. Malaysia has also benefited from a skill-oriented education system.

The key is to structure a skill-oriented general education at the initial stages of education that every student has to learn and then to select a few of the outstanding high school graduates for specialization through higher education. Without a solid background in such a general education, a country's efforts to strive for capital intensive or skill-intensive industrialization must back fire and instead of strengthening the industrialization process, it nips the industrial base in bud. Blind imitation of the developed countries, without a strong human resource-led education system, has made the development policies of many developing countries unrealized and unrealizable. Their initiatives to establish capital and skill intensive industries in the mistaken calculation that these will accumulate capital have thus been ended in fiasco.⁵⁴

Health Policy

As already mentioned, health is a second important ingredient of social development. A good health system is essential to bring up people of sound body and sound mind so that they can effectively contribute to development activities. The World Health Organization has defined health as "a state of complete physical, mental and social wellbeing and not merely the absence of disease and infirmity."⁵⁵ The health policy to be adopted must consider the definition of health within this broad framework.

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54. Lucas, R.E.B. and Very, D., *Restructuring the Malaysian Economy: Development and Human Resources*, Macmillan, London, 1999, p. 291.
 55. World Health Organization, *About Who*, Online available, <http://www.who.int/about/en/>. April 9, 2004.

Health problems are enormous in the developing countries. Compared to the developed world, infant mortality and life expectancy rates in these countries are deplorable. Seasonal viral fevers, diarrhea, malaria, measles, respiratory infections and many other childhood diseases cause premature child death. In addition, HIV and AIDS threaten the lives of almost all developing countries. Malnutrition is caused by the scarcity of appropriate foods and drink, lack of health education and lack of social awareness. A health strategy must develop a system whereby all health-related activities can be organized and managed in order to promote, restore or maintain health. Along with the establishment of health departments, hospitals and clinics, a favorable doctor-patient ratio needs to be maintained. Contact with physicians, admission to hospitals or clinics and the availability of medicine need to be ensured within the reach of ordinary peoples' affordability.

Environment and Infrastructure

Environment and infrastructure are two important aspects of social development. Roads, highways, railways, airports, telecommunications, and satellites are now considered as integral parts of development. The infrastructural development in Japan and in Malaysia and in other East Asian countries has tremendously contributed to the path of their development process.

Policy planners need also remember that development activities should not cause environmental problems. Environmental degradation is now one of the severe threats that the world faces. At the very outset of this chapter we mentioned that the World Bank has incorporated environmental issues in its Millennium Development Goals. The strategy in this respect should focus on manufacturing environment-friendly products.

Political and Cultural Aspects

Development depends on political stability and social homogeneity. Political ideology plays an important role in determining political activities, economic strategies and social-cultural rituals for a country. Along with political ideology, good governance, freedom and democracy, human rights, rule of law,

administrative decentralization and strong cultural values can constitute a sound political system which is inevitable to development.

Determinants of Political Development

Politics and political situations are interlinked with other factors related to the socio-economic development of a country. Every country must aspire to achieve a developed political system in order to achieve a developed economy. Political development results in enhancing effective public policy, institutionalizing bureaucracy, establishing administrative legitimacy and, above all, creating a system where peoples' interactions with political parties and their participation in decision-making processes are ensured. Political development is determined by a number of factors that include legitimate authority and responsible government, people's participation in forming government as well as in decision-making, assertive political institutions, freedom of opposition and press, competitiveness of political parties, administrative efficiency, good governance and administrative decentralization and so on.

Efficient Leadership and Development

The perspective of leadership needs to be considered to understand development. The political leaders are the torchbearers and forerunners of a country and development largely depends on their perception, efficiency and vision. The development of Japan, Malaysia and Singapore owes much to their educated, efficient and incorruptible leaders.

Generally speaking, the leaders of the developed countries are equipped with necessary knowledge and skills for running politics and administration. In most cases, the political leaders of the developed West are graduates from their best universities. A very large number of Japanese political leaders and leading elements in bureaucracy have come from Todai (Tokyo University). In East Asia, leaders like Lee and Mahathir are highly educated. Even in ancient times, there were special arrangements and programs for political education and training among the circles of political elite. One of the important factors of backwardness among the developing countries is related to the inefficiency and under-literacy of their leaders.

Freedom, Democracy and Development

Many scholars found strong relationship between freedom, democracy and growth⁵⁶. Starting with the work by Adelman and Morris in 1967, economists have concurred that the standard of living in a society is a direct result of the dynamic interdependence of economic, political, and social forces. They admit the importance of valid political structures and social cohesion for good economic health, in addition to sound macroeconomic policies. However, the empirical studies conducted to examine the above views have led to rather contradictory results.

Some works suggest that there is strong relationship between the two⁵⁷ while some others indicate almost negative relationship.⁵⁸ Other studies find inconclusive results⁵⁹. Interestingly, the works suggesting inconclusive results are of the opinion that economic freedom, open markets, liberal trade and other democratic features are conducive and helpful for economic growth⁶⁰. If this is so, democracy and maintenance of human rights have an undeniable linkage to economic growth.

Barro mentions the Lipset and Aristotle hypotheses, both of which suggest a sharp positive relationship between economic prosperity and democracy⁶¹. The Aristotle hypothesis suggests that a wealthy society results in people's participation, which is the

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56. Barro, R. J. *Determinants of Economic Growth: A Cross Country Empirical Study*, The MIT Press, Cambridge MA, 2001.
 57. Francisco, L. R. B, "Democracy, Governance and Economic Growth: Theory and Evidence", paper presented at the conference on Democracy, Participation and Development, sponsored by Columbia University on April 1999 in New York; Shen, J. G. "Democracy and Growth: An Alternative Empirical Approach", *BOFIT Discussion Papers*, Bank of Finland: Institute of Economics in Transition, Finland, no.13, 2002.
 58. Ludovic C. J. "Democracy and Growth: A Relationship Revisited" *Eastern Economic Journal*, vol.. 29, no. 1, Winter, 2003.
 59. Bhagwati, J. N, "Democracy and Development: Cruel Dilemma or Symbiotic Relationship?", *Review of Development Economics*, 6(2), 151-162, Blackwell Publishers, Oxford, 2002.; Helliwell, J. F., "Empirical linkages Between Democracy and Economic Growth", *NBER Working Paper 4066*, National Bureau of Economic Research, Cambridge, May 1992.
 60. Barro, R.J., *op. cit.*, Chapter Two: Interplay Between Economic and Political Development
 61. Barro, *ibid.*

fundamental component of democracy. According to the Lipset hypothesis, prosperity stimulates democracy. That means, there is a strong relationship between economic growth, freedom and democracy.

It has been strongly argued that all developed countries, including the US and European DCCs, are developed because of their democracy and the poor countries are backward because of their political instability or the autocratic natures of the regimes. An in-depth study on African countries shows that the more the country is democratic, the more is its economic growth⁶². This may be so, but some scholars ⁶³ doubt it. They claim that the proposition ignores too many historical facts. For example, at the time of the industrial revolution, few European societies, including Britain, were 'democracies'. The US was still a slave society and slavery undoubtedly contributed much to its prosperity. The impact of war and strategic aid policies of great power must also be considered.

Politics, Values and Stability

A sound political atmosphere can be created if the country's political philosophy or ideology reflects the beliefs, values and attitudes of the mass of the people. Politics and culture are closely intertwined; one cannot be separated from the other. To Huntington, the culture of a country or society is founded on its religion. According to Huntington, in fact, the most powerful determinant of civilization is religion and thus his "clash of civilizations" means a clash of culture along religious fault lines.⁶⁴

If a political system is an expression of the majority's culture, it is more likely that it will bring stability in political life and prosperity in economic life. Vivid evidence may be found in support of this claim. There is a widespread belief among many people that the European or American political systems exclude

62. Barro, *ibid.*

63. Welfield, John, *Lecture Series*, International University of Japan, January-April, 2004.

64. Huntington, S. P., "The Clash of Civilizations?" *Foreign Affairs*, Summer, 1993.

their religious or cultural teachings and values from their political life. There may be some truths to this argument. However, in reality, the rich cultural values of these Western countries have been incorporated in their political life. In fact, their political ideology has been founded on their cultural values. The perennial features of the Western political ideology- freedom, democracy, human rights, and rule of law are the manifestation of Biblical teachings and classical Greek philosophers, all of whom were deeply religious men. In his “The Protestant Ethic and the Spirit of Capitalism”, Max Weber argued that the religious values contained in Christianity serve as the foundation of capitalism.⁶⁵ There should not be any doubt that the religio-cultural values that have been expressed in the political principles of the Western societies have contributed tremendously to political stability and social cohesiveness and served as the driving forces of their growth and development.

In explaining the growth and development perspectives of East Asia, some writers have also argued that the religious teachings and beliefs of the East Asian countries have been contributing factors for East-Asian economic miracle. Chan argues that Confucianism has been an integral element in enhancing growth and development in China, and Four Little Dragons-Hong Kong, Taiwan, Korea and Singapore.⁶⁶ In their “Voice of Asia”, Mahathir and Ishihara Shintaro explained the implications of Asian values (that emanate from Asia’s religious teachings) for building Asian prosperity.⁶⁷ One explanation for the backwardness of the Arab world may be made on the basis of this argument. That is to say, the cultural values and religious beliefs of the mass of people in the Arab world have not been articulated in their political systems. Most of the Arab countries seem to be confused in terms of their political philosophies. Their political systems seem to be based on a fusion of liberal, socialist and Islamic doctrines. Their objectives are undetermined, their

65. Weber, Max. *The Protestant Ethic and the Spirit of Capitalism*, Allen & Unwin, London, 1976.

66. Chan, A. “Confucianism and Development in East Asia”, *Journal of Contemporary Asia*, vol. 26, no.1, 1996, pp. 28-45.

67. Mahathir M. and Ishihara, S., *The Voice of Asia*, Kodansha International Ltd., Tokyo, 1995, p. 13.

goals are uncertain and, as a result, they have lagged far behind the developed world.

The proposed development strategy envisages that the political system must encompass the cultural values of the mass of people, incorporating and adapting, at the same time the principles of other value systems. In a world of cross-cultural societies, greater flexibility creates the strengths of adaptability, which are necessary for development. Any effort to impose a political system built on one particular socio-cultural value system will be most likely to fail. The political transformation of a society must be made on the basis of its long standing socio-cultural and religious values.

Huntington maintains that any effort towards a shift of identity must succumb to failure unless it fulfills three requirements- cultural commonalities, general acquiescence and the favor of political, economic and intellectual elites. It is because these elements have been, wholly or partially lacking that, countries like Turkey, instead of becoming Westernized or modernized have remained devastated and torn. The reawakening of identity in these torn countries like Turkey, Egypt and Iraq is fuelling the cultural reconfiguration of global politics. Huntington observes eight major religions that revolve around core states of major civilizations. Huntington's major religions include Western Christianity, Orthodoxy, Hinduism, Buddhism, Islam, Confucianism, Taoism and Judaism. China is a core state in East Asia, France and Germany are the European core while United States is the core of the Euro-American states. According to him, despite an overwhelming civilizational consciousness, Islam lacks cohesion and a core state.⁶⁸

Conclusion

From above discussion, it should be abundantly clear that economic growth and social development are closely related. A country cannot grow economically, if it lacks social development indicators and vice versa. If a country fulfils almost all prerequisites of economic growth, but fails to satisfy social development preconditions, it can not be considered as a

68. Huntington, S.P., *The Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster, 1996.

developed country. Thus, this study tends to examine the development strategy from a broad perspective of development that includes socio-economic and politico-cultural aspects.

Development is a complex phenomenon of interaction of these elements. The overall level of development depends on the desired level of achievements in all these sectors. The development of one sector affects the development of the others. The development is an integrated whole-a junction where political stability, economic prosperity and cultural flowering meet together. Culture is a broad aspect that includes values, beliefs, religious rituals and institutions, including both formally stipulated laws and informal conventions. When the economic variables of a country like capital and labor interact with cultural elements and evolve in a sound social system under the management of a stable political atmosphere, the country moves towards rapid development. The inefficiency or lack in any of these indicators might retard the growth of others and eventually jeopardize the developmental process.

CHAPTER III

**REVIEW OF DEVELOPMENT
STRATEGIES OF BANGLADESH**

Introduction

In 1971, Bangladesh achieved independence after a long nine-month freedom fighting against the Western wing of the erstwhile Pakistan. Immediately after the independence, the paramount task was to reconstruct the war-ravaged country and to accelerate the pace of its economic and social development. Along with the physical and economic development, the issue of social development had also been on the forefront of national development in Bangladesh since its inception. Education, health and population and rehabilitation were given the most priority during this critical period. Soon the question that engrossed the leadership and the policy planners was to restructure the economy, rebuild the social and political institutions, reconstruct the socio-economic infrastructure and remove the abject poverty in which more than eighty per cent of the population was steeped. This chapter concentrates on the evolution of the development strategies of Bangladesh.

Economic Aspects

From the very beginning, the strategies of the nascent country paid attention to the multidimensional perspectives of development. Initially an inward-oriented Import-Substitution (IS) Industrialization, nationalization and the framework of socialist political economy were geared up. In view of the failure of these policies, the country's development strategies underwent massive reorientation and reorganization right from the late 1970s. The new policies focused on the outward-oriented trade liberalization in order to enhance the economy through export expansion.

Import Substituting Industrialization

Initially, Import Substituting Industrialization (IS) was on the top of the policy agenda of the post independence government. It was assumed that a rapid success in economic development could be achieved through the IS strategy and extensive government intervention in resource allocation. Emphasis was given on production for domestic markets and incentives were biased in order to realize that goal. This was reflected in high nominal and effective rates of protection, direct controls and an overvalued exchange rate.⁶⁹ Nationalization and foreign aid were considered to be key instruments in realizing the IS policy.

Studies on Bangladesh economy suggest that the IS strategy failed to promote export performance and to produce a sustained growth in manufacturers' share in GDP. Love observed that although there was a slight rise in the manufacturers' share in GDP in the beginning of the 1970s, it recorded a slow growth in the later part of the decade. The GDP growth averaged 2.3% per annum while the export growth averaged -4.1% per annum.⁷⁰ However, a number of economists observe that the failure of the IS in the early few years in Bangladesh does not necessarily indicate that this strategy itself is bad. Theoretically speaking, the development of a country under this strategy depends on certain conditions. The availability of a huge domestic market is primarily essential for smoothly operating the IS program. The competitiveness of domestic goods in terms of price and product quality is also an important criterion. The existence of a minimum economic performance sometimes can play a very important role for the success of this. In the case of Bangladesh, the IS formula may have failed because of the absence of these requirements.

The Spirit of Socialism: the Vehicle for Development

Socialism was considered as one of the fundamental principles of the new state. The ambitious leaders in the newly independent countries were indulged into the obsession with socialism that led

69. Love, J., "Adoption of the Export-Led Growth Strategy in Bangladesh: Some Thoughts", in Grieve, R. H. and Huq, M. (eds.), *Bangladesh Development Strategies*. University Press Limited, Dhaka, 1995, p. 15.

70. *ibid.*, p. 19.

them to formulate the development strategies on the basis of the spirit of this alien ideology. However, the policy makers, political leaders, bureaucrats as well as the scholars and academics were divided on the issue.

There was a threadbare debate among them with regard to the development strategy of the new country: should it follow the 'socialist model' of development or should it opt for the 'mixed economy' approach being pursued by a number of Asian countries. The bureaucracy appears to have been inclined to the 'mixed economy' or 'joint (public-private) venture' model. The academics and political leadership were divided. The four key advisors⁷¹ of the Planning Commission were the principal supporters of the socialist model. In the debate, the supporters of the socialist model were able to convince the people in the core of the political leadership that the socialist model would generate public appreciation. Finally, socialism was adopted as the foundation of the development strategy of Bangladesh.

The Policy of Nationalization

In order to speed up the process of the IS based industrialization, a countrywide nationalization policy was adopted. Most of the industries, business enterprises and financial institutions were nationalized or taken over by the government management. It is very important to note that the nationalization process followed the 'slow and steady' strategy in order to avoid the antagonism of the upper bourgeoisie. The policy makers planned to go for a 'phased transition' to the socialist direction.⁷²

Certain rules regarding private sector enterprises were announced in January 1973. Accordingly, the ceilings of private investment and growth were limited to US\$197,000 and US\$30,000 respectively. Foreign investment was treated with strict restrictions in many ways. For example, external collaboration with the country's private sectors was confined to only licenses and patents and the equity participation was not

71. They were Rehman Sobhan, Nurul Islam, Anisur Rahman and Mosharaf Hossain.

72. Sobhan, R. and Ahmad, M., *Public Enterprise in an Intermediate Regime: A Study in the Political Economy of Bangladesh*, Bangladesh Institute of Development Studies, Dhaka, 1980, pp. 203-204.

allowed. Foreign companies were allowed to invest only in the joint venture with the government.⁷³

As a part of the nationalization program, certain measures were taken to solve the problems of the West Pakistani-owned industrial enterprises. The new government issued the Abandoned Properties Ordinance on January 2, 1972 by which it took possession of all commercial and business establishments, houses, and vehicles. By March 26, 1972, President's Orders- P.O. No. 26 and P.O. No. 27 were passed by which the industrial, banking and insurance sectors were nationalized. There were no clear directions or guidelines regarding the private sectors under these Orders. Chishty notes that the new post-independence government's privatization program did not hold any organized rules and regulations. The government arbitrarily excluded private enterprises from insurance and banking and from jute, textile and sugar industries, but it did not clearly define the role of the private sectors.⁷⁴

The nationalization process was a direct outcome of the socialist policy which was hastily adopted as a result of the ideological triumph. In the policy planning, long-term vision and the future directions were not reflected. The prescription of socialism as well as nationalization was made out of the obsession with the triumphant ideology rather than consideration of long-term development based on prevalent economic theories. There was hardly any coherent policy to direct the public and the private sectors.

The new government massively lacked the required manpower and skilled human resources to implement the nationalization process. The people in the core were involved more in preserving their own interests than realizing the goals of nationalization. Chowdhury remarked: "The expansion of state ownership took place under a political leadership which had traditionally followed a middle-of-the-road policy, and neither had an ideological conviction and training, nor a cadre and an organization to

73. Chishty, S. H., "*Privatization in Developing Countries: the Experience of Bangladesh*", paper presented at a conference on 'Privatization Policies, Methods and Procedures', sponsored by the Asian Development Bank, Manila, January 31-February 1, 1985. pp. 7-8.

74. *ibid.*

politically oversee implementation.”⁷⁵ Identifying the practical problem, Baxter explained that “there was a lack of qualified people in government to run and manage the public sector economy and most of the entrepreneurial talents were concentrated in the private sector”.⁷⁶ The most brilliant persons were recruited in the private sectors and the remaining people were engaged in the public sectors. The regulations and restrictions out of the nationalization strategy of Bangladesh contributed nothing but strangulation of the private sectors resulting in the stagnation of economic growth.

The policy of nationalization also opened the windows of opportunities for corruption and exploitation. It kept the wealth of the nation concentrated in the hands of a few political bourgeois. Some analysts of Bangladesh politics called it “state capitalism” or “capitalist nationalization”.⁷⁷ In the post liberation period, the people in political leadership jockeyed to consolidate their power base and utilized the resources of the nationalized enterprises towards that end.⁷⁸ The strategy of nationalization helped flourish an environment where corruption had spread widely in varied ways. In the shade of nationalization, the influential people took the control of the government enterprises. Outright plundering was an obvious phenomenon in the case of several thousand abandoned commercial firms. The political musclemen, arms hooligans, party cadres, managers, the employees and even sometimes the general public were involved in the notorious plundering. Besides, black markets quickly flourished throughout the country as a result of the imposition of several restrictions on private sectors.

Foreign Aid Strategy

Foreign aid was another strategy that was prescribed by the development advocates both at home and abroad. In fact, the war-

75. Chowdhury, T. E., *Privatization of State Enterprises in Bangladesh (1976-84)*, Korea Development Institute, Seoul, 1987, p. 2.

76. Baxter, C., *Bangladesh, A New Nation in an Old Setting*, Westview Press, London, 1984, p. 84.

77. Yusuf, F. H., *Nationalization of Industries in Bangladesh*, National Institute of local Government, Dhaka, October, 1985, pp. 277-287.

78. *ibid.*, p. 25.

ravaged country needed significant external assistance to undertake its development activities. Some people wanted to experiment Bangladesh as a test case of development through massive international aid.⁷⁹ Foreign aid was recommended for the gigantic task of the country's economic reconstruction. The foreign policy objective of diversification was set in order to diversify aid flow into the country.⁸⁰

As a result of aid-oriented foreign policy, the total quantum of aid in grants and loans increased from US\$ 7164.082 million during the first five years after independence (1971-72 to 1975-76) to US\$ 15873.262 million, that is, more than two-fold during the next five years (1976-77 to 1980-81).⁸¹ Sobhan estimates that Bangladesh, during 1971-1981, received US\$ 10885.6 million in food and commodity aid.⁸² Initially, foreign aid used to be in the form of food aid and disaster relief and gradually it started to meet the diversified development needs of the country. The aid committed to Bangladesh up to 30 June 1999 was US\$ 42.54 billion of which 14.68 per cent was for food aid, 24.42 per cent was for commodity aid and 61.5 per cent was for project aid. The aid disbursement in 1972 was US\$ 270.8 million and it gradually rose to US\$ 901.3 million in 1975, US\$ 1.27 billion in 1985, US\$ 1.81 billion in 1990 and US\$ 1.5 billion in 1999. The per capita aid burden increased from US\$ 6.59 in 1973-1974 to US\$ 115.9 in 1998-99.⁸³

79. Notable among these people are Faaland and Parkinson. For details, see Faaland, J. and Parkinson, J. R., *Bangladesh: the Test Case for Development*, Hurst and Company, London, 1976.

80. Amin, M. R., "Economic Diplomacy of Bangladesh: A post-Cold War Perspective", *Journal of International Relations*, vol. 3, No. 1, July-December 1995, pp. 74-75.

81. Huq, M. S., *Bangladesh in International Politics: the Dilemmas of the Weak States*, University Press Ltd., Dhaka, 1993, p. 207.

82. Sobhan, R., *The Crisis of External Dependence*, University press Ltd., Dhaka, 1982, pp.122-3.

83. Rahman, S. M. M., "Foreign Aid", in Islam, S. (ed.), *Banglapedia: Encyclopedia of Bangladesh*, vol. 4, Asiatic Society of Bangladesh, Dhaka, 2003. pp. 230-233.

Export-Oriented Growth Strategy

The failure of the policies of socialism, nationalization and import-substitution led to the rethinking of the post independence development strategies. Initiatives were taken to revise the ideology of socialism by reducing government interventions, privatizing the state-owned enterprises (SOEs), restructuring the industrial sector, liberalizing the foreign trade, incorporating structural adjustment programs and, above all, strengthening macroeconomic policies. Bangladesh now entered into an era of export-orientation and trade liberalization.

Privatization and Trade Liberalization

The export-oriented growth strategy has been continued till today. The policy shift has undergone a number of modifications during the previous years. However, privatization and trade liberalization processes have been developed through a number of phases in order to enhance the export-led development strategy.

The First Phase: Limited Liberalization (1975-81)

The Revised Investment Policy of December 1975 (RIP-'75) and the amendment of socialism by the post-1975 government facilitated the path towards a mixed economy model that significantly contributed to denationalization, privatization and liberalization processes in Bangladesh. The new policy started a limited privatization and liberalization process, which opened the new phase of industrial growth and export performance in the development history of Bangladesh.

Under the new policy, although 18 reserved categories were maintained, 10 out of them were kept open to joint ventures between the public and private sectors. The remaining 8 categories that were reserved to the public sector included: (1) arms, ammunition, and allied defense equipment; (2) atomic energy; (3) jute; (4) textiles; (5) sugar; (6) air transport; (7) telephone, telegraph and wireless; (8) electricity. As the result of the policy shift, tax holidays and other incentives were increased for promoting industrialization. In order to increase the productivity of agro-based and export-oriented industries, Bangladesh Shilpa

Bank (BSB) was directed to provide the equity support to such industries. The Investment Corporation of Bangladesh (ICB), and a Disinvestment Board were set up and the Dhaka Stock Exchange, which was closed in 1972, was reopened. A large number of commercial firms from among the 'abandoned' or 'enemy' properties appeared on the list of sale of the Disinvestment Board. But the important problem was that it was really impossible to determine how many properties were nationalized and how many of them were returned. Neither the government sources nor the academic articles were available on the appropriate data of these properties. Despite the unavailability of reliable data on the abandoned or enemy properties, the then government took the initiatives to transfer those trading firms to the private sector.

The RIP-'75 remained as the basic policy statement and guideline until the major shift of 1982. It had a tremendous impact on the country's industrial sector. Some scholars argue that the effects of liberalization and privatization were seen just in the beginning of the 1980s. Some consider the year 1981 as a relatively good year for Bangladesh from the economic point of view. Humphrey noted: "Some of the earlier policies and programs began to pay off, albeit modestly. GDP increased 7 percent, which was significant more than earlier years. Industrial production increased 8 percent and improved domestic food production lowered prices somewhat, helping to bring the inflation rate down to 10 percent."⁸⁴

The Second Phase: the New Industrial Policy (1982-86)

The second phase started with the introduction of the New Industrial Policy (NIP-'82) in 1982. It aimed at providing a new dimension and greater thrust to industrialization of the country through stimulating greater participation of the private sector in the process.⁸⁵ Despite criticism by the leftist academics and the main opposition party- Awami League, the government could

84. Humphrey, C.E., *Privatization in Bangladesh*, University Press Limited, Dhaka, 1992, . 63.

85. Ministry of Industry and Commerce, *New Industrial Policy*, Government of Bangladesh, June 1, 1982.

generate overwhelming support from the business community and took bold steps to transform the country from nationalization to privatization. The policy consisted many objectives, such as:

1. To strengthen industrialization and expand manufacturing sectors by limiting public sectors and increasing private sector involvement;
2. To encourage private sectors in order to set up basic heavy and strategic industries;
3. To promote local small and cottage industries;
4. To increase employment opportunity in the diverse industrial and commercial firms led by both public and private sectors.
5. To promote export-oriented industrialization in order to enhance export-oriented growth.

The NIP-'82 set up important institutions to operate its policies. In order to settle the issue of transferring the abandoned or enemy properties to the private sectors or the owners, four basic forums were built- Tender Committee, Scrutiny Committee, Working Group and Disinvestment Board. A "Foreign Investment Cell" and a "One Stop Service" were set up to facilitate investment applications of foreign companies. Another special task force named Committee for Reorganization of Public Statutory Corporations (CRPSC) was formed. The Committee prepared many important recommendations in order that the private enterprises run smoothly. Its suggestion for transferring the SOE debt to equity deserves academic attention. World Bank estimates that the debt of 24 SOEs amounting to US\$244 million was converted to equity by the early 1984 and another US\$36 million was given to them as additional equity.⁸⁶ The NIP-'82 has been a hallmark in the history of industrial development of Bangladesh. It contributed some basic rules and created the environment in which private sectors could develop very quickly. A new stimulus was created in private sector investment and thus commercial traders began to emerge as industrial entrepreneurs. World Bank notes that economic activity became more varied. Industrial growth reached 9 percent in 1984 and 1985.⁸⁷

86. World Bank, *WB-Bangladesh*, 85-2, 1985, p. 87.

87. World Bank, *WB-Bangladesh*, 86-1, 1986, p. 33.

The Third Phase: The Revised Industrial Policy (1986-91)

The Revised Industrial Policy (RIP-'86), which existed during the 1986-91 period, inaugurated the third phase of the export-led growth strategy. It combined a broad and diversified industrial policy package. The strategy focused on: (a) removal of a large part of the Quantitative Restrictions (QRs) on imports; (b) rationalization of tariffs; (c) reduction in the number of tariff slabs; (d) zero-tariff access to imported inputs; (e) subsidization of export credit; (f) concessions and incentives for export-oriented activities.

The Fourth Phase: (1991-Present)

The most comprehensive and intensive reforms were made through the fourth phase that started in the early 1990s and is still continuing. The industrialization policy introduced during the 1991-92 period contributed to an environment that resulted in export promotion through reduction of anti-export bias in the country's economy. In order to strengthen the participation of private sector, the government undertook plans to improve key areas including infrastructure, financial and capital markets, law and order situation and, above all, institutional and regulatory framework.⁸⁸

During this phase, a very important reform was made through the Industrial Policy of 1999. Under this policy, restrictions on private sector participation in all areas except defense, nuclear energy, currency note printing and forest plantation were withdrawn. It set a target contribution of 25 percent of GDP coming from the manufacturing sector along with a target of 20 percent employment generation in the sector. The 1999 policy was followed by the Privatization Law, which was enacted in July 2000 in order to unburden the public sector of loosing SOEs.

88. Economic Relations Division, *Bangladesh: A National Strategy for Economic Growth and Poverty Reduction*, Ministry of Finance, Government of the People's Republic of Bangladesh, Dhaka, April 2002, p. 28.

Impact of Liberalization on the Economy

The strategy of trade liberalization aimed at stimulating economic growth by expanding foreign trade, increasing export, strengthening industrialization, and creating a strong manufacturing base. Emphasis was given on the privatization of the SOEs, tax holidays, tariff reduction and incentives for export-oriented activities. During the limited liberalization and privatization phase (1976-82), Bangladesh economy began to improve at a slow pace and with the increased liberalization, gradual but remarkable improvements began to take place. It brought an important shift in the country from resource-based to process-based exports and from dependence on primary commodities to manufactured goods.⁸⁹ During the pre-liberalization period of 1972-75, average annual export was 4.2 per cent, whereas it increased to 5.3 per cent and 6.5 per cent with the liberalization programs during the 1976-82 and 1982-92 periods. The export orientation ratio for Bangladesh also increased from 3.7 per cent in 1973-74 to 8.4 per cent in 1990-91.⁹⁰ The following table shows the overall export performance of Bangladesh in the first decade after the liberalization strategy was introduced.

Table 1: Export Performance in Macro Perspective

Year	Exports/ GDP(%)	Manfg/ Export(%)	Import/ GDP(%)	Exports/ imports(%)	Trade gap/GDP(%)
1972-75	4.6	61	10.4	42	6.0
1976-82	6.1	65	16.4	37	10.3
1982-92	7.7	80	17.5	49	8.4
1972-92	6.6	72	15.8	44	8.3

Source: Nath, N. C., "The Export Performance of Bangladesh", in Grieve and Huq.(eds.), *Bangladesh Strategies for Development*, UPL, Dhaka, p. 49.

89. *Developing a Policy Agenda for Bangladesh: Civil Society's Task Force Reports 2001*, Centre for Policy Dialogue and University Press Limited, Dhaka, 2003, pp. 59-61.

90. Nath, C.N., "The Export Performance of Bangladesh", in Grieve and Huq, (eds.), *op. cit.*, pp. 31-60.

The above table which contains the data of the earlier two decades (1972-92) after the independence of Bangladesh demonstrates the gradual development of the nascent country's export performance. It shows that the annual export-GDP ratio gradually increased from 4.6 per cent during the 1972-75 period to 6.1 per cent and 7.7 per cent respectively during the 1976-82 and 1982-92 periods. The ratio of manufactured exports to total exports also increased from 61 per cent in 1972-75 to 65 per cent and 80 per cent respectively in the two phases of limited and increased liberalizations. Along with exports, the imports also increased from 10.4 per cent in 1972-75 period to 16.4 and 17.5 per cent in the next periods. The ratio of export to import also increased in the 1980s and 1990s from 42 per cent to 49 per cent. The ratio of trade gap to GDP reached at 10.3 per cent in the 1976-82 period and 8.4 per cent in the increased liberalization period of 1982-92.

Structural Adjustment Strategies

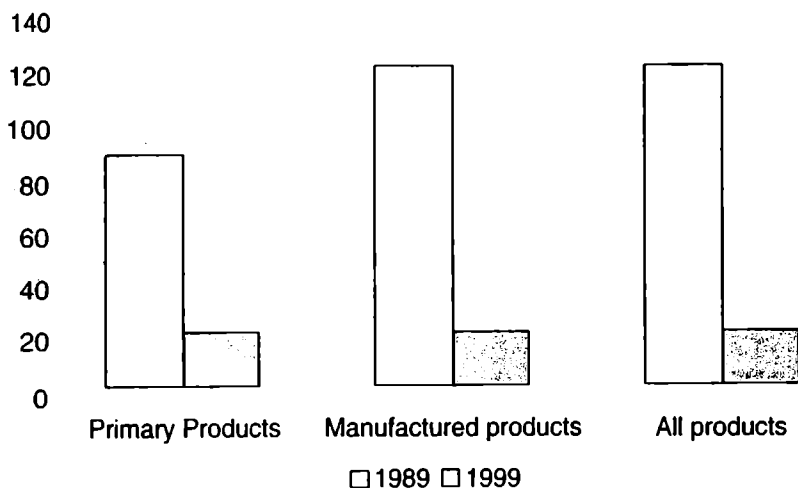
Along with liberalization, another important strategy of Bangladesh was its resort to the Structural Adjustment Policies (SAP) that started from the mid 1980s with policy based sectoral lending of the World Bank. With the International Monetary Fund (IMF), Bangladesh initiated Structural Adjustment Facility (SAF) during the periods of 1986-87 to 1988-89, which was followed by Enhanced Structural Adjustment Facility (ESAF) in the 1990-91 to 1992-99 periods. The SAF and ESAF with IMF and other adjustment programs with the World Bank and the Asian Development Bank heralded for Bangladesh a new era of stabilization and structural reforms. Bangladesh had to abide by the strict rules laid down in the Policy Framework Paper (PFP) of the IMF and World Bank in order to utilize highly concessional but extremely conditional loans.

The adjustment programs contained a very wide dimension including deregulation, privatization, tariff rationalization, liberalization of trade and investment, and financial and monetary reforms. The reforms under the SAF and ESAF provided

increased market-oriented incentives for priority sector lending programs. It aimed at removing gradually the distortions in the interest rate structure with a view to improving the allocation of resources. Interest rate decontrol which was considered as the corner stone in the financial sector reforms comprised some policy measures that included: a) to move towards more market-determined level and structure of interest rates; b) to allow banks to charge different lending rates based on borrower credit risk; and c) to phase-out interest rate subsidies.

Understanding the tariff rules is very important in any discussion on the adjustment policy. As per the prescription of the structural adjustment, less restrictive and more outward-oriented strategies dominated the industrial and trade policies after the 1990s. The outward-looking strategy simplified and rationalized the tariff structure by reducing the number of tariff bands from 15 in 1992-1993 to 5 in 1999-2000. The number of trade-related quantitative restrictions was also reduced. The following figure shows that for all primary and manufactured products, tariff rates have been reduced to 20 per cent in the 1990s from around 120 per cent in 1980s.

Figure 1: Mean Unweighted Tariff Rates (%)



Source: World Bank, *World Development Indicators*, Washington D.C., 2000.

Some economists argue that the expectations out of liberalization as well as the promises of adjustment programs were not fulfilled.⁹¹ After studying the growth situations of 18 developing countries as well as that of Bangladesh, Nath observed an insignificant impact of liberalization on economic growth and poverty alleviation.⁹² Love argued that some requirements need to be fulfilled before any liberalization is successful.⁹³ Undoubtedly his ideas are in line with Kohli and Singh who hold that the overall economic growth is not ensured until a minimum growth level is achieved.⁹⁴

Macroeconomic Policy

Economic theories of Development suggest that a sound and stable macroeconomic framework is a prerequisite for sustained high growth.⁹⁵ The aims of the macroeconomic policy of the Bangladesh government have been to increase investment and savings in order to enhance its long-term economic growth. The monetary and fiscal policies- the two important aspects of a macroeconomic strategy of Bangladesh are discussed below.

The Monetary Policy

Significant reform measures were undertaken in Bangladesh's monetary policy in terms of interest rate deregulation, deposit rate functioning, credit operation, debt management and banking sector activities. Bangladesh Bank (BB) announced a new policy guideline in 1989 on the interest rate deregulation. Before 1989, the Bank determined the deposit and lending rates for the commercial banks. After the new regulation was made, banks were free to set on their own the interest rates for deposit and lending within a band set from time to time by the central bank. In 1992 the interest rate bands were removed from all except three of the

91. *ibid.*, pp. 31-33.

92. *ibid.*

93. Love, *op. cit.*, pp. 11-23.

94. Kohli, I. and Singh, N., "Exports and Growth: Critical Minimum Effort and Diminishing Returns", *Journal of Development Economics*, 30, 1989.

95. *Developing a Policy Agenda for Bangladesh: Civil Society's Task force Reports 2001, op. cit.*, p.2

lending sectors and banks were allowed to fix lending interest rate on their own judgment.

Bangladesh Bank also removed the ceiling on deposits and allowed multiple rates within a lending category and increased the frequency of interest rate changes by individual banks. In 1997 the floor rate of the deposits was also removed. From August 1999, the interest bands from the agriculture and SME sectors were removed.⁹⁶ The monetary policy reform also aimed to introduce a flexible and indirect monetary management moving away from direct credit controls and sectoral allocations of credit. The rediscount window was established and the various refinance rates were abolished and all lendings to commercial banks were made at the central bank rate.

Measures were also taken to strengthen the central bank through enlargement and broadening its horizon of activities in order to ensure its supervisory role in running the financial and banking sectors in the country. Before 1990, the bank supervision focused on the implementation of the economic directives of the Government. After the transformation of banking strategy from controlled to liberalization, BB needed to pay more attention to the financial sector activities. Another prudent initiative in the financial sector reform involved the strengthening of the financial system through building strong management cadre. Some measures were taken to improve the operations of the national commercial banks (NCBs) through development of new banking technologies, computerization of banking operations, and upgradation of skills of human resources of the banks.

In order to improve the debt recovery environment and overall lending quality, a number of new laws, regulations and instruments were formulated, such as screening, monitoring, transparency, and lender's recourse regulations. For improving the debt recovery status in private sector enterprises, the NCBs undertook special programs to identify large borrowers that required restructuring. It is widely stated by WB and IMF that the recent privatization effort of NCBs is another remarkable step in

96. Bangladesh Bank, *Economic Trends*, Volume XXV, No. 3, March, 2000, p. 66.

the monetary policy reforms. In order to comply with the WB and IMF prescription, the Government of Bangladesh has decided to transfer the public banks to the private sector. In his letter to the World Bank Vice president Prafulla Pattel and in his talk to World Bank's Appraisal Mission, Bangladesh Finance Minister mentioned that the four NCBs- Agrani Bank, Rupali Bank, Sonali Bank and Janata Bank would be privatized by the end of 2004.⁹⁷

The Fiscal Policy

The fiscal policy simply refers to the use of taxation and government expenditure to regulate the aggregate level of economic activity in a country. Immediately after independence, Bangladesh had to be engaged in the difficult tasks of reconstruction and rehabilitation of the war-torn country that led to a very weak fiscal structure and poor fiscal management. Thus the past fiscal policies failed to realize its objectives of ensuring macroeconomic stability.

From the early 1990s, the government undertook some comprehensive steps in order to improve the fiscal policy. Its major objective was to restrict the growth of current expenditure to a level below the growth of the nominal GDP, thereby making more resources available to support the Annual Development Program (ADP). A new tax system called Value Added Tax (VAT) was introduced in 1991 under the ESAF policy direction. The recent fiscal strategy of the government is focused on the domestic sectors. Tax collection will be dependent on domestic sectors other than import sectors. Initiatives have been taken to expand tax and VAT on internal sectors and as a step to that direction, Income Return Notices have already been sent to the villages.⁹⁸

A few positive results seem to have been contributed by the revised macroeconomic policy. The policy managed to keep the growth of current expenditures below the rate of the GDP growth. It also resulted in an increase in the government revenues. During 1989-90, the revenue was below the 10 per cent of GDP, where as in the periods 1991-92 and 1994-95, it rose to 11 per cent and 12

97. *The Daily Inqilab, op. cit.*, February 6, 2004.

98. *ibid.*, February 9, 2004.

per cent respectively.⁹⁹ The increasing tendency of the government revenue is continuing despite minor fluctuations. The improved fiscal situation also resulted in the decrease of budget deficit. The budget deficit of 8.4 per cent in the 1980s decreased to less than 5 per cent in later years.¹⁰⁰ Thus it is argued that the new fiscal policy contributed much to stabilize the economy.

Social Aspects

As stated above that the development strategy of Bangladesh placed equal emphasis on improving the social development indicators along with its efforts to achieve economic well-being. The government policies in this area focused on building an educated nation, constructing a prosperous society with healthy population and enhancing rural development through modernization of its agricultural sector.

Education Sector

From the dawn of civilization, human resources have been considered as the most important factor for the development of a society. In order to make the most effective use of this factor, the developed countries have devised various scientific ways and means to promote human resources through education. The government of Bangladesh has adopted certain policies with regard to education. Despite enormous physical improvements in the country's educational inputs, the long-term goals and objectives of its education have remained far behind.

Education Policy and Planning

The Ministry of Education and the attached Departments and Directorates as well as a number of autonomous bodies are responsible for planning, financing, and managing education at all levels.¹⁰¹ The post-independence constitution of Bangladesh laid down the following principles with respect to education :

99. Islam, S. (ed.), *Banglapedia: National Encyclopedia of Bangladesh*, op. cit., vol. 4, March 2003, p. 122.

100. *ibid*, p#122

101. .Ministry of Education, *Education Structure and System*, Government of Bangladesh, Online available, <http://dns3.bdcom.com/iactive/moe/mansys.html>, February 13, 2004.

- a. To build up a uniform, mass-oriented and universal educational system;
- b. To make education free and compulsory for all children;
- c. To create a need-based education system so that the most important contribution of the educated segment of the society can be ensured for the building of the new nation; and
- d. To eliminate illiteracy.

In order to maintain a modern, scientific and effective education system, the government adopted certain acts and policies. In order to maintain sound education policies, seven education commissions or committees have so far been formed. Among these acts and commissions, Qudrat-e-Khuda Education Commission of 1972, Mofiz Uddin Education Commission of 1988, Compulsory Primary Education Act of 1990, Private University Act, Shamsul Haque Education Committee of 1997, National Education policy of 2000 and Moniruzzaman mia Education Commission of 2003 deserve special attention.¹⁰²

Immediately after independence, the ad hoc Bangladesh Education Commission was formed to investigate and report on all major aspects of education. In 1987 another high-level body named the National Education Commission was constituted. In August 1988, the commission put forward some recommendations that included compulsory free education, reforms in the madrasah and medical education systems, and removal of student politics from the campus. The compulsory primary education was reinstated through the 1990 Act. A separate division named Primary and Mass Education Division (PMED) was created in 1992.

The education policy 2000 is also important to understand the government strategies to develop the education sectors. It recognized the need for pre-primary education and recommended that the 5+ children be recruited in primary schools with a view to universalizing one-year pre-primary education. A program called "Education for All" by 2000 was undertaken to ensure 95 per cent of enrolment at primary education. The Fifth Five-Year Plan

102. Ministry of Education, *National Education Policy*, Government of Bangladesh, Online available, <http://dns3.bdcom.com/iactive/moe/policy.html#top>, February 10, 2004.

(1997-2002) accorded the highest priority to primary education. It sets a target of achieving gross enrolment rate of 110 per cent, and net enrolment rate of 95 per cent by the year 2002.¹⁰³ The recently submitted 340-page report of Moniruzzaman Mia Commission suggested radical reforms including a single-discipline secondary education, raising the teacher-student ratio, revising education management and restructuring pay scale for the teachers.¹⁰⁴

Education Structure and System

There are mainly four categories of education system in Bangladesh.¹⁰⁵ The mainstream is a vernacular education system, which has been carried over from the secular model of colonial period. The second stream is an English medium education system, which has been directly borrowed from the secular British system. The third stream seems to uphold an integrated system combining major subjects of both the vernacular and the religious education systems. Two languages- English and Arabic are given equal importance as the medium of instruction. The fourth stream is solely a religious education system, which tends to specialize in Islamic theology. Under this system, only Arabic is considered as the medium of instruction. Despite apparent differences between and among these systems, there are certain elements that are common to each of them, which may provide flexibility of reintegration of graduates of one system with the other at different levels.

The diagram of education structure and system¹⁰⁶ prepared by the Ministry of Education reveals that the children (6 +) enter the compulsory primary education after one or two year pre-primary

103. Planning Commission, *The Fifth Five-Year Plan 1997-2002*, Planning Commission, Government of Bangladesh, Dhaka, 1998.

104. *The Daily Star*, Kawran Bazar, Dhaka, April 1, 2004.

105. Ministry of Education, *The Education Systems in Bangladesh*, Government of Bangladesh, Online Available, <http://sanisoft.tripod.com/bdeshedu/introduction.html>, February 16, 2004.

106. To see the diagram, visit this website: Ministry of Education, *Education Structure and System*, Online available, <http://dns3.bdcom.com/iactive/moe/mansys.html>, February 13, 2004.

education in private schools, kindergartens, and day-care centers. The government schools as well as non-government institutes that are managed by private sectors or NGOs run the primary education. The vernacular and English medium private schools are expensive and located in big cities targeted to the affluent section of the society. So, the poor parents send their children to the schools run by the government or NGOs. The NGO run schools are usually non-formal in nature that attract only the dropouts and on completion of 2-3 year non-formal education from these schools, students reenroll in the government or private schools.

After the primary education, the students (11+) enter a three year junior secondary education, and after completion of this level, they go for a two year secondary education with any of the specialization areas from science, commerce or humanities and some of them branch out at this level for entering into the government and non-government vocational and technical institutes. At the end of the secondary level education, students sit for public examinations- Secondary School Certificate (SSC), Dakhil or 'O' level conducted by education board, Madrasah board and London/Cambridge University respectively.

After successfully passing the public tests, the students (16+) get enrolled either into the two year higher secondary level of education in their chosen fields or into technical or polytechnic institutes and on completion, they sit for another public test- Higher Secondary Certificate (HSC), Alim or 'A' level conducted by the education boards and London/Cambridge University respectively. The successful students (18+) then get admitted into the two or four year undergraduate degrees (BSc, BBA, BSS, BA Pass and Honors, Fazil) which are followed by one or two year graduate programs (MA, MSc, MSS, MBA, MBBS, Kamil) under public or private universities, degree/technical colleges, madrasahs and specialized institutions. The students of 23+ age group involve in various research, M.Phil and Ph.D programs.

Management of Education

The Ministry of Education in association with several directorates, departments and autonomous bodies are responsible for overall

management of education system in Bangladesh.¹⁰⁷ Given the significance of primary education, its management has been given to the PMED created in 1992 and now located within the Prime Minister's Secretariat. The PMED is responsible for making policies that are to be implemented by a Director General of the Directorate of Primary Education (DPE) in cooperation with Deputy Directors, District Primary Education Officers (DPEOs) and Upazila Education Officers (UEOs). The responsibilities of DPE include recruitment, posting, transfer of teaching and administrative staff, organizing training, and distributing free textbooks.

The management and policy implementation as well as teacher recruitment and evaluation of the secondary and higher secondary levels are assigned to the Directorate of Secondary and Higher Education (DSHE), which is divided into eight zones, each in charge of a Deputy Director assisted by two Inspectors and two Assistant Inspectors. Moreover, District Education Officers (DEOs) work as the heads of the district offices. The Boards of Intermediate and Secondary Education (BISE) are assigned to conduct the SSC and HSC examinations and to grant recognition to non-government secondary schools. The periodic evaluation of the non-government schools lies in the Directorate of Inspection and Audit along with the zonal Inspectors and Assistant Inspectors.

The National Curriculum and Text Book Board (NCTB) bears the responsibility of developing curricula and publishing text books for the primary, secondary and higher secondary levels. The technical and vocational institutions are run and managed by the Directorate of Technical Education (DTE). The management Committee (MC) or Governing Body (GB) is responsible for policy planning, policy implementation and recruitment of the private sector or NGO run schools, colleges and madrasahs. National University is an affiliating university responsible for academic control of all the affiliated colleges that offer the Degree Pass, Honours and Masters courses.

107. Ministry of Education, *Management of Education*, GOB, Online Available, <http://dns3.bdcom.com/iactive/moe/mansvs.html>. February 14, 2004.

The management of the secondary and higher secondary education has been centralized and politicized to a great extent in recent years. The MC members are made based on their political and social identities. The political leaders, rich persons, vested interest groups and the socially influential people occupy the key positions. The local MP holds the status of Chairman of MC of these institutions.

The public universities which enjoy autonomy are managed by authorized statutory bodies such as Syndicate, Senate, and Academic Council. The private universities are administered by different management structures set by the founding authority of the respective university, where the role of MC, syndicate, senate, and academic councils and, above all, the supervision of the University Grants Commission (UGC) are very important. The UGC is responsible for co-coordinating activities of the universities and distributing government grants of them.

Health and Population Policy

In the theoretical discussion on development strategy under chapter II, we mentioned that both sound body and sound mind of population are important preconditions for stimulating growth and development. Almost all developing countries represent high rate of infant mortality and low life expectancy. The people everywhere suffer health problems owing to the insufficient health facilities including access to physicians, hospitals, clinics and medicine. In order to promote good health for its people, the government of Bangladesh has adopted certain health policies.

A separate ministry named the Ministry of Health and Family Welfare (MOHFW) has been set up to deal with the health and population matters. About twenty five years ago, Bangladesh officially rendered commitment to “Health for All by the Year 2000” program sponsored and propagated globally by the WHO/UNICEF. The national health objective has been structured within the broad meanings and activities of this program. The government announced that as a minimum, all people in the country should have at least such a level of health that they are

capable of working productively and of participating actively in the social life of the community in which they live.”¹⁰⁸

The MOHFW has undertaken an integrated program on health and population through the Health and Population Sector Strategy (HPSS). The strategy of Health and Population Sector Program (HPSP) in the line of HPSS was adopted in July 1998 for a period of five years and since then, major changes have occurred in the health strategy of the country. An expanded immunization program against six major killer diseases, namely, tuberculosis, diphtheria, polio, whooping cough, and measles was undertaken for implementation during the Fourth Five Year Plan and since then it has been continuing quite often every year.

An extensive multi-tiered public healthcare infrastructure has been existed throughout the country. This includes the district government hospitals, thana health complexes, primary health care centers, union level out-patient services and family planning centers. Apart from the government facilities, private hospitals and clinics exist at least in all the districts. There were 1273 hospitals in 2000 with 43443 beds, out of which 660 hospitals were run by the government and the rest were managed by the non-government sectors. During the same time, registered physicians were 32278 and the registered nurses were 18135.¹⁰⁹ Adequate general provision of modern health care in Bangladesh is handicapped by the shortage of resources, personnel and facilities. Clearly, the number of hospitals, physicians and nurses is too low compared to the huge population of the country. More than 32278 patients had to vie for one bed in the hospitals during the year 2000 and more than 4521 persons could be treated by one physician.¹¹⁰

Agriculture and Rural Development Strategy

Rural development in the context of the developing countries is considered as the most important part of overall development.

108. Planning Commission, *Fourth Five Year Plan, 1990-95*, Ministry of Planning, Government of Bangladesh, Dhaka, 1990.

109. Bangladesh Bureau of Statistics, *Statistical Pocketbook of Bangladesh 2001*, Ministry of Planning, Government of Bangladesh, Dhaka, December 2002, p. 353

110. *ibid.*

Tanzania's President Julius marked that a policy of rural development is in fact a policy of national development.¹¹¹ Among the seven indicators of rural development, five are related to agriculture and rural income¹¹² and thus rural development largely depends on agricultural growth. As Bangladesh is a predominantly agricultural country, its development without appropriate attention to agro-sector is practically impossible.

The Bangladesh strategy of rural development and agriculture owes much to the Cooperative Movement of early 1900, the Rural Reconstruction Program of pre-1947, V-AID of 1950s, and the Comilla Approach of 1960s. The major thrust of Bangladesh strategy has been on poverty alleviation through agricultural development. The Swanirvar Movement of 1970s aimed at building a self-reliant country.

Immediately after the independence, the Government of Bangladesh set up national Integrated Rural Development Program (IRDP) with the task to extending the Comilla program of 1960s. In the early eighties, the IRDP was transformed into the Bangladesh Rural Development Board (BRDB), which started a Rural Poor Program (RPP) in 1983. Its programs included Rural Works Program (RWP), Thana Training and Development Center (TTDC), Thana Irrigation Program (TIP), and a Two-tier Cooperative System (TCS). The BRDB is a comprehensive, multidimensional and unique rural development strategy that supervises rural credit, provide training, introduce agro-markets for agricultural products and supply agro-inputs.

All post-independence governments in different regimes emphasized rural development through promotion of agriculture. Sheikh Mujib's 'Swanirvar Movement'; Ziaur Rahman's 'Gram Sarker', 'Canal Digging' and 'Shobuj Biplob'; General Ershad's 'Patho Kali Trust', 'Guccho Gram', 'City Palli' and 'Agricultural

111. Haque, W., et al., "Towards a Theory of Rural Development" in *Development Dialogue: Uppsala*, Dag Hammarskjöld Foundation, Sweden, 1977, P. 14.

112. Silva, A. M., "Role of Rural Organization in Rural Development: A National Survey of Sri Lanka (1950-75)" in Inayatullah (ed.), *Rural Organization and Rural Development: Asian Experience*, APDAC Publication, 1978. pp. 45-111.

Bank'; Khaleda Zia's 'Dal Bhat' and 'Food for All' and Sheikh Hasina's 'Adarsha Gram', 'One Home, One Farm' and 'Employment Bank' are the notable examples of the government strategies for the agricultural and rural development initiatives.

The Government of Bangladesh developed credit and training programs in order to advance income-generating activities. To that end, the Palli Karma Sahayak Foundation (PKSF) was established in 1990. It is an apex financing institution to assist promising small and medium NGOs in expanding their micro credit programs. The government encourages the greater involvement of voluntary and non-government agencies in this area. Different credit institutions have been developed through public initiatives, although the formal financial sectors like NCBs and specialized banks have large rural credit programs.

Political Aspects

Compared to the countries in East and Southeast Asia, Bangladesh has been in a backward situation in terms of the improvement of its politico-cultural development indicators. After more than two decades of its independence, the country started the democratic procedure. In the state of the fragile democracy, the congenial environment for the growth and development of the principal components of good governance such as a clear political ideology, free press, independent judiciary, decentralized administration, freedom and justice, transparency and accountability, participatory decision-making and strong cultural values could not be created.

Political Ideology

In terms of political ideology, Bangladesh has not yet determined a clear, concise and concrete political philosophy. In the hurriedly made first constitution, socialism and secularism were incorporated that created confusion and mistrust among the mainstream population of Bangladesh. Certain internal and external factors led them to prefer socialist and secular policies that were alien in nature and explicitly in contradiction with the fabric of socio-cultural values and religious beliefs of the majority of the country's population.

First, the long struggle against the misrule and exploitation of the Pakistani government that used Islamic religion as an instrument to survive in power, contributed a lack of credibility among the new leaders about the relevance and implications of the ideological premises of Islam for Bangladesh. Thus Islam, the foundation of Pakistan was replaced by Secularism and Socialism as the foundation of Bangladesh-the eastern part of the erstwhile Pakistan.

Second, two triumphant ideologies- Socialism and Secularism-appeared as the powerful and popular political doctrines in most of the newly independent countries in the 1960s and 1970s. People especially, the revolutionary youngsters of these countries found in Socialism and Secularism the answer to most of the issues with regard to freedom, security and development. The left-leaning political parties and student leaders who were positioned in the high ranks of the new country played a dominant role to shape the development strategy on the basis of these political philosophies. The policy foundation of Bangladesh was also built up with strong influence of the political ideology of the neighboring country India which was closely associated in the independence war.

However, in the face of mass dissatisfaction against the secular and socialist political trends, the new government in the post August 1975 period brought a constitutional amendment that introduced Islamization which was followed by the declaration of Islam as the 'state-religion' during the Ershad era. The subsequent governments also kept the amendment intact and brought no change and modification in the meaning and extent of Islamization. Critics argue that despite the constitutional amendment, the system was not restructured based on the Islamic ideology. The political, social and legal systems should have been transformed from secular political principles towards an Islamic political framework. Unfortunately, the amendments brought no substantial change in the real life situation and as a result Bangladesh remained the same as was in the era of socialism and secularism during 1971-1974.¹¹³

113. Amin, M. R. "Constitutional Amendments of Bangladesh: Its Implications", *The Bangladesh Observer*, Observer Bhaban, Dhaka, February 9, 2000.

Democracy and Participation

With the emergence of the new country in 1971, it was expected by each and every corner that the country would exercise democracy in its courses of action. To that end, democracy was incorporated as one of the four basic principles of the new state in its first constitution of 1972. Unfortunately, the post-independence government could not follow democratic norms.

In 1975, Zia came in the limelight of Bangladesh politics and introduced multi-party democracy, which was abolished by the post-independence government. All subsequent regimes and governments from Ershad to Khaleda to Hasina to Khaleda Zia respected democracy. It is interesting that General Ershad, although rose to power and ruled the country in a non-democratic way, but he never spoke in the public in favor of non-democracy. Rather he repeatedly uttered rhetoric regarding the image and implications of democracy and introduced himself and his ruling system as democratic.

Many scholars view that with the formation of the Parliamentary form of government in 1991, the actual period of democracy started in Bangladesh. Ahmad¹¹⁴ noted that “following the parliamentary form of government in 1991, Bangladesh is almost completing its first democratic tenure”. The then leader of the ruling BNP party- Khaleda Zia- made an amendment and introduced parliamentary form of government. Thus the amendment during Khaleda Zia exists as a milestone in the history of democracy of Bangladesh.

Based on the 1991 constitutional amendment, the 1996 parliament election was held when the second democratic stage came into being in Bangladesh. During this time the immediate past Prime Minister Sheikh Hasina became as the leader of the country. The third parliament election was held in October 2001 and the present Prime Minister Khaleda Zia came to power in a democratically election process. Thus since the early 1990s, both government and opposition have been claiming to forward their

114. Ahmad, S., “*Sustainable Democracy in Bangladesh: Problems and Prospects*”, paper presented at BISS Young Scholar seminar on Bangladesh: Search for Sustainable Development, August 16, 1995.

activities in order to uphold and survive the hard-earned democracy of Bangladesh.

Governance and Administration

As said before, the major elements of good governance are in the formative stage of development in Bangladesh. Despite constraints, civil society and democratic institutions have been very active to make democracy flourishing in the country with full spree. In the political system of Bangladesh, multi-party democracy, parliament, judiciary and various interest groups have been playing a vital role in institutionalizing the democracy of Bangladesh. The pioneer of democracy- the civil society- encompasses a vast array of organizations- economic, cultural, educational, developmental and the like.

The structural functional composition of the executive, judicial and legislative branches of Bangladesh government is very important to study the Bangladesh democracy. Although structurally and operationally separate from each other, there has been a great debate with regard to the separation of power. In order to ensure people's participation in the decision-making process, devolution of power is important. Regarding the decentralization of administration, the article 9 of the constitution provides that the state shall encourage local government institution.¹¹⁵ The four-tier local government system existing in Bangladesh is supposed to play the dominant role to strengthen local government and administration.

Accountability is the most essential feature to nurture and strengthen good governance. It implies the relationships between the public servants and elected public representatives; and between politicians and people. Different formal mechanisms such as administrative, financial, judicial and legislative are in operation in Bangladesh to maintain accountability. The Bangladesh Sangsad (Parliament) is the apex political institution and the highest body to which the public servants and the politicians are held accountable.

115. Amin, M. R. "The State of Decentralization in Bangladesh", *Bangladesh Observer*, op. cit., July 2, 2000.

Conclusion

The above discussion provided with an overview of the development strategy of Bangladesh. The spirit of Socialism- the political ideology of the newly emerged country- shaped the overall development strategies in the initial years after the independence. In order to promote economic growth and social development, a number of programs from the import substitution to the export-oriented growth strategy were undertaken, but nothing could contribute significantly to the development of Bangladesh. Rapid nationalization and foreign aid- the two important means of the implementation of the IS strategy did not register any sign of progress in the country's economic growth that led to the policy shift in the late 1970s.

The revised strategy took initiatives to give a new stimulus to the economy through the multifarious reforms. Although this transformation in the country's policy framework brought considerable improvements in the economic and social development indicators compared to the previous years, it failed in many respects to fulfill the long-term goals of development. Under the circumstances, the development strategy of Bangladesh needs a major overhauling, which will be discussed in the next chapters. As this study suggests the adaptability of the Malaysian development model for Bangladesh, a brief discussion on the Malaysia policies will be made, which will be followed by experimenting the emulation of the Malaysian development experience.

CHAPTER IV

DEVELOPMENT STRATEGIES OF MALAYSIA

Introduction

Development strategies of Malaysia focused on the multifaceted development issues that include economic, social, political and cultural aspects. After the ethnic riots of May 1969, the New Economic Policy (NEP) was announced with the twin goals of reducing poverty and restructuring society. After two decades of the new policy, it was observed that most of the development targets set in the NEP were achieved. Racial disparity in terms of economic and social gains was removed through a prudent social harmonization policy and a unique national unity and solidarity was maintained based on strong and unified social fabrics. Poverty was reduced to the significant level and an unprecedented economic growth and development was attained that led Malaysia transform itself from the labor-intensive agrarian structure to the capital-intensive industrial economy. The present chapter will examine the socio-economic and politico-cultural perspectives of the Malaysian development strategies.

Economic Aspects

Based on the capital accumulated from the primary industries, Malaysia gradually moved to a slow and steady path of industrialization. In its phased transition from an import substituting to a modest to the large-scale and heavy industrialization process, the domestic capital as well as foreign direct investment played the most prominent role. Its emphasis on export-orientation, industrial diversification and, above all, an efficient macroeconomic strategy provided with significant economic growth and development.

Utilization of Domestic Resources

The Malaysian development strategy made appropriate use of the country's domestic resources. It did not blindly emulate the development strategies followed by the developed nations. The secret of its economic success greatly lies in the efficient exploitation of its natural gifts. The mineral, agricultural and forest resources have contributed tremendously to strengthen its powerful economic base. The mineral deposits like tin and petroleum, agricultural products like rubber, oil palm, cocoa, and pepper and tropical hardwoods from rain forests were considered as the triple-engine of its development in post-independence Malaysia. Along with this triple engine of growth, a modest industrialization was also inaugurated in the initial years that have been regarded as the foundation of Malaysia's economic miracle.

Apart from these natural resource-based primary industries, the avenues for non-resource-based secondary industries were also open. The assembling of electronics and electrical sectors and other manufacturing industries were growing at a rapid speed. The strategy was designed to make use of its comparative advantage of cheap labor in assembling the imported inputs without involving huge investment. The non-resource-based industries provided with two things- foreign exchange earnings and new employment opportunities. The experience of these twin sets of import substituting industries laid the foundation of the later development of Malaysia's diversified industrialization in the late 1980s and 1990s.

Phased Transition towards Liberalization and Industrialization

The development targets set in the first Outstanding Perspective Plan (OPP) along the NEP guidelines emphasized on the phased transition towards liberalization and industrialization. The initial focus of socio-economic policy involving mainly rural and agricultural sectors increased income, employment and educational opportunities. The policy shift from the rural and agricultural to manufacturing, industrial and service sectors created the golden chapter of diversification in its external orientation. With the arrival of the new century, 'Vision 2020' was

declared which emphasized on information technology and knowledge economy.

In terms of industrialization, Malaysia did not hastily adopt any measure that was beyond its capacity. All along its journey of phased transition, it tried to ensure success in its initiatives. There are four major stages of its industrialization. The first step of import substitution during 1957-1970 focused on the protection of domestic industries that produced mainly consumer goods and on successful completion of this stage, its attention was given on the second step of the export-led industrialization during 1970-1980. The third stage focused on the second round import substituting industrialization involving heavy industries. In the final stage, Malaysia concentrated on the second round of the export-oriented growth strategy.

The phased strategy helped the policy makers to identify issues and challenges and to correct strategies accordingly. The goals of the twin prongs of the NEP's Outstanding Perspective Plan were more or less fulfilled. For example, the NEP target of declining the Peninsular Malaysia's poverty incidence from 49 per cent in 1970 to 16 percent in 1990 was fulfilled. At the end of the NEP term, the incidence of poverty dramatically declined to 17 per cent. The objective of national unity by creating a balanced society through maintenance of demographic and ethnic shares in economic life was also achieved.¹¹⁶ World Bank evaluates that Malaysia achieved one of the most remarkable growth records in modern history. Its real average per capita income increased 2.5 times during the 1973-1995 periods and its poverty rate decreased from slightly over half the population to 7.8 per cent. The Bank remarked that nobody would live below the poverty line of \$2 international dollars a day by 2003, if the ongoing reduction rate would continue.¹¹⁷

The National Development Policy replaced the NEP in the 1990s with the adoption of the Sixth Malaysian Policy (1991-95)

116. Jomo, K. S. and Gomez, E. T. "The Malaysian Development Dilemma", in Khan, M. H. and Jomo, K. S., *Rents, Rent-Seeking and Economic Development*, Cambridge University Press, Cambridge, 2000, pp. 287-293.

117. World Bank, *Poverty and Malaysia*, Online available, <http://www.worldbank.org/eapsocial/countries/malay/pov1.htm>, March 26, 2004

without any deviation from NEP's basic contents and aims. By 1990, the OPP and NEP completed twenty-year term with significant achievements when Malaysian economy experienced splendid economic performance, growing at 5.8 per cent during 1957-70¹¹⁸ and averaging at 7.8 per cent between 1971-80.¹¹⁹ For the period 1992-97, real GDP hovered between 7.8 per cent (1992) and 9.5 per cent (1995).¹²⁰ The GDP growth rate reached 7.5 per cent in 1997 and despite a negative growth rate (-7.5 per cent) in the crisis year of 1998, it rose to 5.4 per cent in 1999.¹²¹ With the onset of the new century, the growth rate exceeded 8 per cent.¹²² During With the Seventh Malaysian Plan (1996-2000) and Vision 2020, Malaysia entered the new century with an aim of becoming a fully developed nation by 2020. Its ambitious plan of entry into the world class knowledge economy and sophisticated technology was expressed in the voice of the immediate past Prime Minister Mahathir Mohamad while he was launching Cyberjaya new city:

"We are now standing at the site of the cybercity, a city that would bring us to the next generation and beyond....not just a place where companies involved in information and multimedia technology can operate in, but one in which creativity and innovation can thrive"¹²³

Industrial Diversification Strategies

Export-oriented industrialization has been on the top of the development agenda of Malaysia all through its development history starting from the labor-intensive primary industries to manufacturing to capital-intensive industries. By the mid 1980s,

118. Jomo K. S. , *Growth and Structural Change in the Malaysian Economy*. The Macmillan Press Ltd., London, 1990.

119. *Fourth Malaysia Plan*, Government of Malaysia, Kuala Lumpur.

120. Ministry of Finance, *Economic Report 1997/98*, Government of Malaysia, Kuala Lumpur.

121. Asian Development Bank, *Asian Development outlook 2000*, ADB, Manila, 2000.

122. *Background Note: Malaysia*, Bureau of East Asian and Pacific Affairs, November 2003, Online available, <http://www.state.gov/r/pa/ei/bgn/2777.htm>, March 25, 2004.

123. *Welcome to Cyberjaya*, Online available, <http://www.cyberjaya-msc.com/>, March 30, 2004

the tide of diversification in outward-looking industrialization that stirred up the entire region also reflected in Malaysia's development strategy. With the passage of the First Industrial Master Plan (IMP, 1986-1995), it entered into a new era of technology-oriented diversified industrialization.

In 1986, the Promotion of Investment Act was promulgated that encouraged private and foreign manufacturing investments in the technologically sophisticated and export-oriented industries. The IMP chalked out detailed programs and guidelines for massive industrialization with foreign direct investments that resulted in the marked increase of exports and imports. Wide diversification occurred in Malaysia from the early 1980s through the mid-1990s also provided with sustained economic growth that averaged almost 8 per cent annually.¹²⁴ The unprecedented growth was the direct repercussion of multifarious exports following the diversified industrialization process. Malaysia is one of the world's largest exporters of semiconductor devices, electrical goods, and appliances, and the government has ambitious plans to make Malaysia a leading producer and developer of high-tech products, including software. Other export commodities include electronic equipment, petroleum and liquefied natural gas, wood and wood products, palm oil, rubber, textiles, and chemicals.

The US, Japan and most of the East Asian countries have the export and import relationships with Malaysia. Its export partners are the US (21 per cent), Singapore (17.4 per cent), Japan (10.9 per cent), China (6.5 per cent), Hong Kong (5 per cent), and Thailand (4 per cent); and the import partners are Japan (16.9 per cent), Singapore (15.9 per cent), US (15.5 per cent), China (7.3 per cent), South Korea (5 per cent), and Taiwan (4.7 per cent).¹²⁵

FDI and Non-Aid Strategies

Malaysian development model seems to have falsified the notion of some development literatures that recommend foreign aid for promoting growth and development. Despite the implications of

124. Background Note: Malaysia, *op. cit.*

125. Basic Factbook, <http://www.cia.gov/cia/publications/factbook/geos/my.html>, March 26, 2005.

foreign aid for the development of some recipient countries, most of them have suffered with 'aid-burden' and 'aid-weariness'. Although Malaysia made use of international borrowing for financing the periodic deficits, external debt was never a problem for it.¹²⁶ In addition, the expansion of foreign direct investment contributed much to set up multifarious industries following diversification.

From the very beginning, the government emphasized foreign direct investment in order to strengthen the country's nascent industrial and manufacturing base. It has chosen to rely more on foreign investment than taking the advantage of foreign aid or importing technology for domestic firms. The unique feature of its foreign investment has been that much of the capital inflow came in the form of direct investment in order to finance export-oriented industrialization and repayment of debt. The United States and Japan have been the two major investment and trading partners of Malaysia. Both foreign and domestic investments played a significant role in improving industry and manufacturing.

Export-Oriented Growth Strategy

One of the driving forces behind Malaysia's economic development has been its export-oriented growth strategy. Despite the changes and modification in the patterns, priority and composition of exports, its export-led growth strategy has always been set on the top of the development agenda. In the initial phase of its 'triple engine growth' and import-substituting industrialization, its natural resources contributed directly to export-led economic growth. During the 1960s, natural resource based primary industries contributed around 44 per cent of the country's GDP, whereas the government service sectors and manufacturing industries shared 44 percent and 12 per cent respectively.¹²⁷

With the passage of time, major changes occurred in the sectoral contribution of its GDP where the share of primary industries declined and the share of secondary industries turned to

126. Lucas and Verry, *op. cit.*, pp. 311-312.

127. Jomo, K.S. *Growth and Structural Change in the Malaysian Economy*, *op. cit.*

a rapid take-off. Thus the GDP participation of primary industries came down gradually to 37 per cent in 1970, 33 per cent in 1980, 19 per cent in 1990 and 12 per cent in 1997, whereas during the same period, the share of the secondary industries (including manufacturing and high-tech industries) increased to 17 per cent, 25 per cent, 27 per cent and 35 per cent respectively.¹²⁸

The expansion of export-growth and the export-earnings also saved Malaysia from series of economic shocks. Its economy rebounded from a sharp recession in 1998 when real GDP contracted by 7.4 per cent and it grew 6.1 per cent in 1999 and a strong 8.3 per cent in 2000, led by rapid growth in exports.¹²⁹ The worst recession which was created by global economic downturn and the slump in the Information Technology (IT) sector in 2001 resulted in the GDP decline to only 0.5 per cent, but the shock was also managed by the substantial fiscal stimulus package and export growth. Economic growth resumed in 2002 with a 4.1 per cent increase and it was expected that it would grow at 4.5 per cent in 2003.¹³⁰

National Vision Policy

In April 2001, the government released a new plan named the National Vision Policy in order to guide development during the period 2001-10. To increase education budget and to refocus the economy toward higher-technology production are the most notable among its objectives. This policy is quite in line with its knowledge-based economic policy that aims to develop high-tech products including software. We will deal with this sometime later in this section. As mentioned earlier that through the adoption of Vision 2020, the government encouraged modernization and private sector industrialization in order to achieve full-fledged development.

Prudent Macroeconomic Management

Recognizing the fact that economic stability is a precondition for growth, Malaysian policy makers, from the very beginning, have

128. Ministry of Finance, *Economic Report 1997/98*, Government of Malaysia, Kuala Lumpur.

129. Background Note: Malaysia, *op. cit.*

130. *ibid.*

attempted to maintain economic stability despite all internal and external constraints. The government could overcome serious economic problems several times by dint of its efficient fiscal and monetary policies as well as prudent exchange rate management. The conservative macroeconomic strategy helped Malaysia to keep a low inflation and resolve serious economic shocks.

The first set of strategies was related to the vulnerability of international trade that the country had to face in its pursuance to openness to foreign trade. Fiscal overshooting was used to overcome its vulnerability to terms of trade that contributed deep recession all along the 1970s and 1980s. The move also destabilized economy by creating periodic fiscal deficits. The policy makers then adopted a prudent exchange rate and tight (contraction) monetary policy that successfully maintained low inflation throughout this period. Another economic shock arose with the declining US economy in late 2000 that resulted in the reduction of Malaysian exports. As a consequence, economic growth reduced to 0.4 per cent in 2001. In order to resolve this problem, the government introduced two fiscal stimulus packages in 2001 equal to US\$ 1.9 billion that contributed to an increased economic growth of 4.1 per cent in 2002.¹³¹

Social Aspects

The development strategy of Malaysia encompasses a very wide array of social development issues that include social harmonization, education and training, healthy population and rural elevation. Recognizing the fact that education plays multiple roles in shaping the economy, upholding national identity and increasing productivity, the policy makers have emphasized on the work-oriented and human resource-based education system.

Social Harmonization Policy

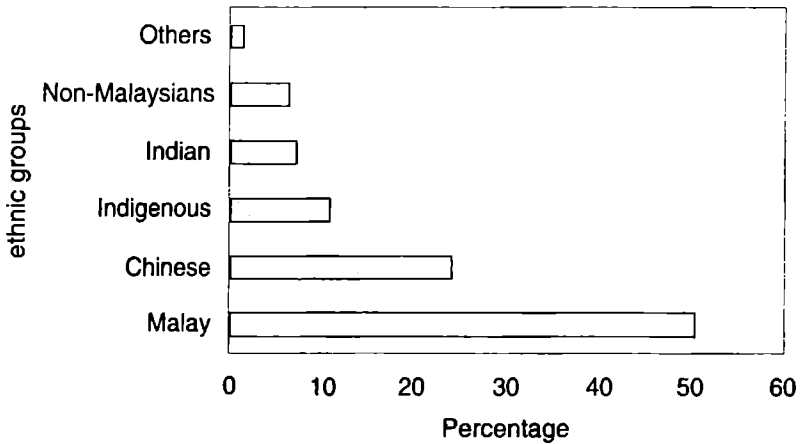
Racially and ethnically Malaysia is a plural society with diverse socio-cultural, religious, philosophical and historical values and traditions. Three main ethnic groups- Bumiputra Malays, Chinese and Indians constitute the Malaysian population. Besides, other

131. *ibid.*

indigenous groups and non-Malaysians live in the country. The development strategy considered social unity and stability through ethnic cohesion and racial solidarity as a basic prerequisite for promoting growth and development.

Figure 2 demonstrates the heterogeneous structure of different ethnic groups living in Malaysia. Out of total population, the Malays are more than 50 percent while the Chinese occupy 24.1 percent, Indians 7.1 percent, non-Malaysians 6.3 percent and others 1.3 percent. These people have the allegiance to different religious and cultural beliefs and rituals that include Islam, Buddhism, Confucianism, Taoism, Christianity, Hinduism, Sikhism, and Baha'i faith. In terms of language, Malaysia also represents a heterogeneous social structure. Main languages are Malay, Cantonese, Hokkien, Mandarin Chinese, English, Tamil, and other forms of communication used by the indigenous people.¹³²

Figure 2: Ethnic Group Percentage of Malaysian Population.



Source: Bureau of East Asian and Pacific Affairs, *Background Note: Malaysia*, November 2003

One of the challenging tasks for the decision makers of Malaysia has been to bring homogeneity via heterogeneity so that a national unity can be achieved. The economic policy framers

132. *Background Note: Malaysia, op. cit.*

considered restructuring social fabrics as one of the two principal targets of the NEP. The twin-thrusts of the NEP (1971-90)-poverty eradication and restructuring society- aimed to remove the identification of race with economic function and thereby to restructure the society through an inter-ethnic parity in occupation and corporate wealth ownership.

People-Centered Balanced Development Strategy

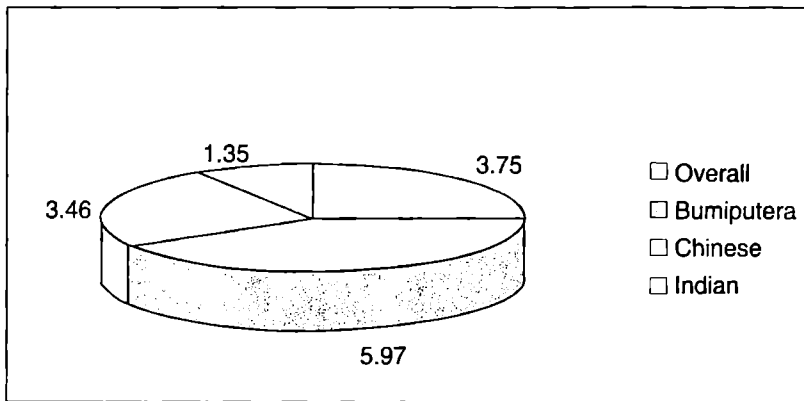
From the very beginning of the development process, Malaysia emphasized on the people-centered balanced development strategy. As a result of the “divide and rule” policy of the British colonialism, the Malays were economically backward despite the fact that they constituted more than 50 per cent of total population. The policy makers perceived that the overall national development would be difficult without pulling the poor Malays back into the forefront of the country’s economic system and thus, they tried to improve their position without undermining the economic attainments of other ethnic groups. As an effort to upgrade their economic situation a number of regulations, quotas, scholarships and other privileges were extended that contributed significantly to improve their economic status and finally to promote a strong national economy within a very short time.

Eliminating economic disparity and contributing to equal distribution of resources was a major target of the development strategy at the very outset of the Malaysian modernization. When the new economic policy was formulated, the average per capita income of Bumiputra household was substantially lower than that of Chinese or Indians. The inequality mainly existed between the urban and rural areas and between ethnic groups. Although the inequality was much higher at the beginning of the NEP, it began to narrow in subsequent years especially from the 1990s, it dropped substantially. In 1970, the overall annual per capita income was 744 Ringgits on an average whereas in 1987, it rose to 2761 Ringgits. In 1970, the average annual per capita income for the Malays, Chinese and Indians was 492 Ringgits, 1032 Ringgits and 948 Ringgits respectively;¹³³ but in 1987, it reached at 2246

133. Anand, S., *Inequality and Poverty in Malaysia*. Oxford University Press, New York, 1983.

Ringgits, 3715 Ringgits, and 2640 Ringgits.¹³⁴ According to the Eighth Malaysian Plan, during 1995, monthly average household incomes for the Malays, Chinese and Indians were 1604 Ringgits, 2890 Ringgits and 2140 Ringgits respectively, whereas in 1999, the figures increased to 1984 Ringgits, 3456 Ringgits and 2702 Ringgits.¹³⁵ Figure 3 demonstrates the annual growth per cent of average per capita income of the three groups and indicates how the new policy addressed the removal of income inequality. The figure clearly shows the impressive achievement of income equality during the NEP tenure.

Figure 3: Annual Growth Per Cent



Source: Lucas and Verry, *Restructuring the Malaysian Economy: Development and Human Resources*, Macmillan, London, 1999, p. 6.

According to it, during the period from 1970 to the late 1980s, overall average per capita household income rose at 3.75 per cent per year. Out of this figure, the annual average per capita income of the Bumiputera Malays rose to 5.97 per cent whereas the Chinese and Indian average rose to 3.46 and 1.35 per cent respectively. During 1995-99, the average annual growth rate for the Malays, Chinese and Indians were 5.5 per cent, 4.6 per cent

134. Department of Statistics, *Household Income Survey 1987*, Department of Statistics, Government of Malaysia, 1987.

135. *Eighth Malaysian Plan (2001-2005)*, the Government of Malaysia, Kuala Lumpur.

and 6 per cent respectively.¹³⁶ Despite this rise in income of Malays during this period, their average per capita income was still below that of Chinese and Indians.

To measure the magnitude and extent of economic inequality of Malaysia is beyond the purview of the present work. Many researches have been conducted by using Gini coefficient to look at the overall income inequality picture and found that the Gini coefficient for Malaysia as a whole declined from 0.501 in 1970 to 0.446 in 1990. Inter-ethnic economic imbalance was also fairly maintained.¹³⁷ Another research found that there was a slight increase in inequality for the period 1990 to 1995 with Gini coefficient increasing from .446 in 1990 to 0.464 in 1995.¹³⁸ According to World Bank, the reason of this rise in income inequality might be the poverty concentration in the three states of Terengganu, Kelantan and Sabah where poverty rates are 33 percent, 27 percent, and 18.5 percent respectively.¹³⁹ However, the Bank observes that the increase in growth resulted in the massive reduction of poverty of Malaysia that in consequence, diminished income inequality. In fact, Malaysia is one of the few countries in East Asia where inequality fell over the past few decades.

In order to gather information on income distribution and poverty incidence, Department of Statistics (DOS) of the Malaysian Government conducts the periodic Household Income Survey (HIS).¹⁴⁰ The survey results help the government to monitor the income and poverty situations and formulate policy thereby.¹⁴¹ The data collected from the survey as well as the survey results have been useful for organizing various development plans and formulating income policies.

136. *ibid.*

137. Yusof, Z.A., "Income Distribution in Malaysia", in Barlow, C. (ed.) *Modern Malaysia in the Global Economy: Political and Social Change into the 21st Century*. Edward Elgar, UK, 2001, pp. 74-79.

138. Department of Statistics, *Overview of the Household Income Survey in Malaysia*, Department of Statistics, Government of Malaysia, December 1996.

139. World Bank, *Poverty and Malaysia*, World Bank, Online available, <http://www.worldbank.org/eapsocial/countries/malay/pov1.htm>, March 27, 2004

140. *Household Income Survey*, December 1996, *op. cit.*

141. *ibid.*

Rural-Focused Strategy

From the early days of independence up to the Fifth Malaysian Plan (1986-90) period, the government's development priority continued to focus on the rural areas. Recognizing the significance of the involvement of the majority of the people who live in rural areas, the government adopted many affirmative plans for socio-economic development of the rural. Since education is the main pillar of development of a community, the government adopted measures to build up an educated rural society. Full-fledged residential schools were set up in order to provide the eleven-year-old rural children with a five-year education program so that they can join work or enroll in higher educational institutions.

The government also took plans to enhance rural economic development through increasing rural income and agricultural productivity. The first phase of development activities and the early industrialization process were run along the line of creating rural based agro-industries. The land development scheme, agro-based industries, and special incentives for cultivation and plantation programs gave birth to a new life among the rural people. Economic diversification measures were also adopted in order to decrease heavy dependence on tin and rubber. Rural infrastructural facilities like roads, schools, hospitals, and irrigation projects were created in order to maintain a continuous development environment.

Health Policy

A healthy nation is another precondition for economic development. All necessary steps were taken by the policy makers to ensure smooth maintenance of citizens' health and nutrition. The objective of the health policy was to improve social development indicators by decreasing infant mortality and increasing life expectancy. According to WDI, infant mortality rate in 1980 was 3.1 per cent which decreased to 1.6 per cent in 1990, 0.79 per cent in 2000 and 0.8 per cent in 2001. Life expectancy of both male and female also increased from 66.87 years in 1980 to 70.51 years in 1990, 72.54 years in 2000, 72.69

years in 2001 and 72.79 years in 2002.¹⁴² The policy of improving doctor-people ratio had a strong impact on general health development. In 1980, doctor-people ratio was 1:3846, whereas in the early nineties it turned to 1:2560 and again in the late nineties, the ratio became 1:2222.¹⁴³

Many studies suggest that the sound health of the Malaysian citizens as well as other social development indices contributed as the strong positive factors for the country's significant economic growth and development. The World Bank remarks that "the progress in poverty reduction measured in income terms is mirrored by improvements in social indicators. Malaysia's achievements in increasing life expectancy and diminishing infant mortality are particularly impressive, especially considering Malaysia's relatively low public expenditure on health."¹⁴⁴

Infrastructural Development

Infrastructural set-up was also given importance in the long-term social and rural development schemes of Malaysia. From the dawn of its development journey, the policy makers concentrated to build up roads, highways, railways, modern telecommunications, international airports, and well-equipped seaports. Besides, industrial parks, free zones (FZs) and other specialized parks have been considered immensely important for its industrialization programs.

The policy makers perceive that without necessary infrastructural facilities, a conducive environment for investors can not be created. So, they sanctioned huge amount of money for infrastructural development. All parts of the country are linked with high ways and expressways. The railways that traverse the east and west coasts of Peninsular Malaysia also serve as the important network for communication. Paved roads are now available almost everywhere in the rural Malaysia. International airports and seaports have been built up with all modern equipments.

About 200 industrial parks provided with roads, electricity, water supplies, and telecommunications are scattered throughout

142. World Bank, *World Development Indicators*, Washington D. C. , 2003. .

143. *Seventh Malaysian Policy*. Government of Malaysia, Kuala Lumpur.

144. The World Bank, op.cit.

the country. In order to facilitate export activities, export processing zones (FZs) have been created where customs rules are relaxed and the companies are allowed to import raw materials and manufacturing inputs without any duty. In addition to the industrial parks, many specialized parks have also been constructed to meet the needs of specific industries.

Education and Training

The review of the development scenario of the East Asian countries including Malaysia suggests that the rapid increase in enrolment at the primary and secondary levels as well as job training are the major determinants of their economic growth and development. Since the 1960s, there has been a sharp improvement in human capital in Malaysia.

Development-Oriented Education Policy

One of the fundamental characteristics of the Malaysian development model is to build up an educated workforce who can identify the issues and challenges of development, take initiatives accordingly and adapt the new technologies. The Second Malaysia Plan of 1971 set the overall and long term objectives of education that guide all national development plans. The objectives as set in the plan are as listed below:

1. To promote the education system for national integration and unity;
2. To strengthen education and training programs to fulfill the manpower needs;
3. To build up a progressive society equipped with science and technology-oriented education;
4. To increase the capacity of research and development (R&D), planning and implementation of education policies.

Clearly, these objectives indicate that the basic foundation of the education is to build up a qualified human force that can meet the demand of time and space and can play an important role in enhancing the country's growth and development. The principal attention was given to basic education including the primary and secondary levels. In order to strengthen the foundation of education, Malaysia has almost ensured universal enrolment at the

first level of its education system. Out of all students enrolled in the primary and secondary levels by 2002, the attendance rates were 98 per cent and 82 per cent respectively. The literacy rate during this time was 94 per cent.¹⁴⁵

After the successful attainment in its primary and secondary education programs, the attention was given on higher education. In 1998, around 52 per cent of the federal government expenditure for social services was given to education sector.¹⁴⁶ In order to produce knowledge economy, the government paid special attention to science and technology-oriented education. 'Vision 2000' set the target that the science-arts student ratio would be 60:40.

The higher education policies as well as growing public interests in higher education predict a highly educated Malaysia by 2020. The number of universities as well as student enrolment has markedly increased in last three decades. During the 1960s, there was only one university with only 2835 students. Now, there are eleven public universities, a number of private universities and many private colleges. The student enrolment in eleven public universities has reached to 150000 and in the private colleges, the figure stood at 100000.¹⁴⁷

Industrial Training Policy

Along with formal education, professional and industrial training was also emphasized. In the Third Malaysian Plan, specific measures were taken in this respect so that the younger generation could be provided with necessary skills and technical knowledge for shouldering the gigantic task of development. As Malaysia moved from labor-intensive to capital-intensive industrialization process, its strategy renewed the importance of new technology and training.

145. *Education of Malaysia*, Online available, <http://www.state.gov/r/pa/ei/bgn/2777.htm>, March 27, 2004.

146. *Economic Report 1997/1998*, Ministry of Finance, Government of Malaysia.

147. Mahdzan, A. and Fauziah, N., *Higher Education and Socioeconomic Development in Malaysia: A Human Resource Development Perspective*, Online available, <http://www.mahdzan.com/papers/hkpaper99/>, March 28, 2004.

The Industrial Master Plan (IMP) of 1985 envisaged comprehensive policies with regard to efficiency and skill development. Unlike the old-fashioned strategy of manpower selection, the new policy under the IMP emphasized on skill formation based on sectoral growth projections and fixed input proportions.¹⁴⁸ The IMP plays the significant role in designing, and shaping the structure of manpower development in the manufacturing industries. The training program continuously follows a unique 'state of the art' in making the training system more 'employer-driven'. A close liaison has been built up between the training institutions and employers. Training centers have been set up in some remote areas in order to encourage the labor of distant locations to build up their skills and efficiency.

Human Resource Strategy for Development

One of the fundamental tasks in framing development policies of Malaysia has been to construct a human resource led development strategy, which is based on such a general education scheme that offers skills required by the industries. Prior to launching the Sixth Plan covering the period 1991-1995, the Economic Planning Unit (EPU) of the Malaysian Prime Minister's office undertook a project with the UNDP funding in order to examine the implications of education and training for development and chalked out a detailed scheme for preparing a Human Resources Development Plan (HRDP).

The review of the Malaysian education system demonstrates that it has established the base of skill-oriented education and training that helped to achieve national comparative advantage towards industries. The gradual skill development of its people through education has accumulated human resources with high skill levels providing competitive advantage in skill intensive industries. As the country advanced towards massive industrialization, it emphasized on technologies that require skilled workers to adapt, operate and maintain them. The electronics industry is a case in point.

148. *Industrial Master Plan*, Vol. III, Part 5, Ministry of Finance, Government of Malaysia, 1985.

During the initial years of the New economic Policy, the electronics industry was relatively labor-intensive that required relatively low literacy. With the span of time, it was transformed into technology-intensity that required high literacy and skills. In the 1970s, a minimum of 4-6 year education sufficed to be qualified for a job, whereas in late 1980s, 11 year was the minimum and now the demand is for electro-mechanical, computer, and automation or precision engineers.¹⁴⁹

The Look East Policy

The immediate past Prime Minister Datuk Seri Dr. Mahathir Mohamad announced the “Look East” policy in December 1981, which officially came into existence in 1982, during the 5th Joint Annual Conference of Malaysia-Japan Economic Association (MAJECA) and Japan-Malaysia Economic Association (JAMECA). The policy aimed at introducing the Japanese work ethics and managerial systems in order to improve the economic performance and productivity of Malaysia. It was argued that the policy, by combining Malaysia’s resource based industrialization with Japanese technology and capital, might contribute importantly to the country’s growth and development.¹⁵⁰

Although the initial announcement was targeted to imitate the Japanese system, the policy adopted a broad strategy of adapting the economic development strategies of other East Asian countries including South Korea, Taiwan and Singapore in order to emulate what are considered exemplary eastern work ethics, morale, values and management quality and skills.¹⁵¹ However, there have been controversies and misunderstandings among the policy makers of both countries regarding the impact of this policy on the economy of Malaysia that led some scholars to be skeptical about this.¹⁵² Despite the debate, the “Look East” policy has made a

149. Lucas and Verry, p. 289

150. Lim, Hua-Sing, , *Japan’s Role in Asia: Mutual Development or Ruthless Competition*, Eastern Universities Press, Singapore, 2003, p. 1.

151. Record of Discussion of the *Thirteenth Malaysia-Japan Annual Meeting of the Look East Policy 1998*, Unit Dasar Pandang ke Timur, Bahagian Latihan, JPA, Kuala Lumpur, 1998.

152. Khadijah, M.K., *Whither the Look East Policy*, Penerbit Universiti Kebangsaan, Malaysia. 2003.

significant contribution in the Malaysian development and thus remained an important part of its national policy.

However, this policy encourages sending young Malaysians to the Japanese, Korean and East Asian universities to study their systems and achieve industrial and on-the job training. In its effort to promote the transfer of skills, work ethics and discipline from Eastern countries into Malaysia, the Malaysian government initiated five types of programs such as the academic students program, the technical students program, the in-plant trainees program, senior and middle level executive program and institutional linkages in higher learning, research and development.

Political Aspects

The indicators of political development have been in a desirable level in the history of the politics of Malaysia during the last forty years. The criteria of good governance such as democracy, popular representative government, people's participation in the decision-making process, a set of well-articulated political principles and political ideology and leadership quality have fairly been available in the country.

Parliamentary Democracy

Malaysia represents federal parliamentary democracy with a Constitutional Monarchy headed by the Paramount King (Yang di-Pertuan Agong) and a bicameral Parliament. The King is the head of the state while the Prime Minister serves as the head of the government. There are thirteen states and three administrative territories, each state having an assembly and a government under the Chief Minister. The Sultans (hereditary rulers) of the nine states and the appointed Governors of remaining four states are responsible to run and rule the states.

Multiparty Democracy and Political Stability

The unique feature of the Malaysian politics is that it has been a predominantly multiparty democracy. Since independence in 1957, the country has always been ruled by the coalition

government in which the political power and influence has been shared by a number of political parties and thus, its political system, instead of creating a one-party dictatorship provided a multi-party democratic rule.

Immediately after independence, the United Malays National Organization (UMNO) formed a coalition with other parties and started ruling the country. Despite a series of political crises in the first several years of the country's history including Indonesia's efforts to control Malaysia, Philippine's claims to Sabah, Singapore's secession from the federation in 1965 and, above all, the racial riots of May 1969, the country has experienced political stability and from the 1970s.

In 1973, UMNO restructured the ruling coalition in a more democratic, representative and participatory process. The ruling authority was now transformed from an alliance of communally based parties to a broader coalition named the Barisan Nasional (National Front), which was composed of 14 parties. In addition, there are a number of parties that operate in Malaysian politics, such as Democratic Action Party (DAP), Parti Islam se Malaysia (PAS), Parti Bersatu Sabah (PBS), Parti KeADILan and so on. More than thirty registered political parties have constructed the foundation of a democratic political process in the country.

Islamization in the Malaysian Politics

The political process and the build-up of the political institutions are the outcome of a historical mechanism that began with the framework of action through the inter-group bargaining at independence from the British rule in 1957. The coalition of ethnic parties led by the Malays began operating in the setting of political institutions conferred on the country at that time. From the beginning of its efforts to consolidate a political system and establish a stable political culture, Malaysia gave attention to determining its political ideology.

Strictly speaking, the country has the secular exposure if it is judged from the judicial point of view. The Malaysian legal system is based upon English common law, although the traditional Islamic law is still applied to Muslims in respect of personal and family life as well as inherited property issues.

Moreover, its law is continuously developing by adopting other influences from around the world.

Despite the secular legal system and judicial procedure, Malaysia has undergone a significant transformation towards Islamization. In fact the process of Islamization has been the phenomenon right from the beginning and the constitution has maintained some specific provisions that safeguards Islamic ideology as the political principle of the country. Constitutionally, Malaysia has been Islamic state where all citizens equally enjoy the rights and privileges of observing their own religious values and retain own racial identities. The states have been assigned responsibility to enforce and promote religion and accordingly, each Sultan should play his role as the protector of Islam. The constitution of 1957 firmly incorporates Islam within the state structure while recognizing freedom to other religions. All the Sultans are Muslims and as the Paramount King is selected by the Sultans, it is implied constitutionally that the King must be a Muslim and he must be the protector of Islam.

The Role of Leadership and Good Governance

As explained in the theoretical discussion in the second chapter, the role of the leaders is very important to explain a country's development. The commitment, sincerity, educational qualification and political farsightedness of the Malaysian leaders since the 1970s, especially the efficient leadership and sound academic background of people like Tunko Abdul Rahman, Abdul Razak, Hussein Onn, Mahathir Mohamad, Anwar Ibrahim contributed a lot to the maintenance of political stability, efficient administration and good governance that enhanced the development activities of the country.

Conclusion

Malaysia did not jump up slavishly imitating development techniques of the developed countries. Stepping towards the zigzag avenues of development, it has always adopted well-formulated strategies that better suited its socio-economic and human resource contexts. The most important priority was given on social harmonization through a balanced development

approach; on capital accumulation through large-scale domestic industrialization; and on human capital through work-oriented and science-based education.

The above discussion made it clear that the slow and steady turn to openness and liberalization, well-calculated and phased transition to industrialization and export-oriented growth strategy, social harmonization process, education development planning, a sound health policy and, above all, a good governance with a stable and multiparty democracy along with the incorporation of the main stream people's belief in the political system served as the foundation of the economic development of Malaysia.

In its diversified industrial policy, emphasis was given on capital-intensive and technology-oriented industries while the significance of indigenous and infant industries was not overlooked. In its phase-wise development planning, the domestic industries including rural based agro-industries, food and beverage industries, tin and rubber industries, and other mineral processing industries were given importance in the early years. The subsequent developments of electronics and electrical manufacturing, and high-tech industries could be possible with the capital, which was generated through these domestic industries.

CHAPTER V

OVERHAULING BANGLADESH DEVELOPMENT STRATEGIES: LESSONS FROM MALAYSIA

Introduction

In chapter three, we identified various issues and challenges that Bangladesh has been facing in enhancing its growth and development since independence. In the very beginning, this research suggested that a prudent development strategy for Bangladesh can be formulated by emulating the development model of Malaysia, which has experienced one of the world's fastest economic growths in the 1970s, 1980s and 1990s. This study contends that Bangladesh can find, in the Malaysian development strategy, an effective solution to a number of problems facing its development programs in the past years. In view of many common characteristics of both countries in terms of their history, culture, religion and foreign policy outlook, the Malaysian example can be applied to Bangladesh as a viable development strategy.

However, the proposed emulation strategy contains both problems and prospects. This chapter attempts to give particular attention to the issues and challenges of Bangladesh development strategy and examine the adaptability of the Malaysian model for Bangladesh in its effort to construct a set of appropriate policy guidelines. Although the concentration is on the Malaysian model, the examples of other countries in the region will also be checked to provide a holistic view within the broad dimension of the emulation of the Malaysian strategy.

Economic Aspects

On the economic front, the development strategies of Bangladesh have evolved through inward-oriented Import Substituting

Industrialization (IS) in the 1970s to an outward-oriented export-led growth dimension in the 1980s and 1990s. Immediately after independence, the principles of socialism and nationalization dominated the war-ravaged country's development discourse. During this period, large-scale foreign assistance was prescribed for national reconstruction and rehabilitation as well as for the implementation of development programs. In the late 1970s and 1980s, the inward-oriented strategy was replaced by an outward looking export-orientation with a prime focus on privatization and trade liberalization. National development strategies have been revised and fine-tuned due to domestic necessities and external pressures, mainly from the donors. However, despite these transformations and modifications in the policies, the goals of Bangladesh's development strategies have remained largely unrealized. This section attempts to evaluate these strategies and suggest a possible way-out by emulating the Malaysian model.

Import Substituting Industrialization

In chapter three, we highlighted some issues relating to import substituting industrialization of Bangladesh. We did not question the significance of import substitution up to a certain stage of a country's development. Some scholars are of the opinion that the export-orientation and import substitution should not be considered as mutually exclusive- rather they can be complementary.¹⁵³ They note that almost all export-oriented countries in Southeast Asia except Hong Kong have expanded export expansion based on the IS strategy. Bangladesh could follow the twin pillars of this Southeast Asian trade strategy, provided that its policies are planned cleverly and executed appropriately. Some scholars even prefer an integrated strategy combining both approaches in line with the Korean experience.¹⁵⁴ These views are perhaps similar to Krugman's new trade theory, which advocates a temporary state control for strengthening the foundations of domestic industries and facilitating export

153. Nath, N. C., "Industrialization Strategies in Developing Countries: An Analytical Review", *Unnayan Samikhya*, p-6, 1987.

154. Grieve and Huq, "Editors' Introduction", in Grieve and Huq (eds.), *op. cit.*, pp. 2-3.

environment.¹⁵⁵ In-depth studies are badly needed to examine whether these export expansion and import substitution strategies can be considered for Bangladesh.

In fact, the IS strategy can best be legitimized for the defense of the infant industry argument during the 'learning by doing' period. Government intervention, strict regulation and nurturing SOEs are some major steps in that direction. A careful look at the Malaysian strategy may indicate that during the initial years, it did not neglect such approaches. It is evident from the previous discussion that the development strategy of Malaysia did not proceed to heavy industrialization without building a strong base of export-oriented domestic industries. The initial focus of the IS strategy was given on strengthening the natural resource-based indigenous industries as well as extending the growing assembling and manufacturing industries.

These early industries served as the source of the twin economic goals- foreign exchange earnings and new employment opportunities, which in consequence generated huge capital accumulation and laid the foundation for the subsequent development of Malaysia's diversified industrialization in the late 1980s and 1990s. Along with the protection of domestic industry, Malaysia equally emphasized both SOEs and private sectors. The SOEs were increased from only 10 in 1957 to 22 in 1960, 109 in 1970, 655 in 1980 and 1014 in 1985.¹⁵⁶ As mentioned earlier, special attention was given to facilitate the growth of private enterprises.

From the late 1960s, the public sector began to flourish with the enactment of the Investment Incentives Act in 1968. Foreign companies were encouraged to increase Bumiputra equity participation and employment. Many industries were established with private investment. However, from the early 1980s, the government intervention seemed to take a different turn that constrained foreign investment. However, the government soon realized the issue and revised its policy. The government initiative

155. Krugman, P. R., "Introduction: New Thinking about Trade Policy", in Krugman, P. R., (ed.), *Strategic Trade policy and the New International Economics*, MIT Press, Cambridge, 1986.

156. Jomo and Gomez, *op. cit.*, 2000, p. 288.

of building heavy industry and transforming infant industries into capital-intensive industries during this time was a manifestation of its keen interest in promoting industrialization through privatization.

In order to defend domestic industries, promote SOEs and strengthen private enterprises, the Malaysian government adopted the strategy of state intervention in running both public and certain private enterprises. The government policy was characterized by increased state intervention during the 1970-1985 period, when both public and SOEs were created. In view of the state interventionist policy in the mid 1980s, the so-called second round of import substitution faced severe criticisms. The dissatisfaction of both public and private sectors, especially the emerging Bumiputra businessmen, about the government intervention was expressed at a conference of 1987. This brought a shift in the government policy of industrialization and certain measures were taken in order to attract private and foreign investments in manufacturing and technologically sophisticated industries.

Yet the government policy has always been cautious and conservative in terms of regulation and management. The Capital Issues Committee of 1968 was established to monitor and regulate the growth of capital market. Similarly, the Foreign Investment Committee was designed to supervise foreign investment and ensure its conformity with the NEP guidelines.¹⁵⁷ Even today, business organizations are critical of these government regulations in terms of registration and licensing for new industries that sometime deter foreign investment.¹⁵⁸

As with the Malaysian approach, the combination of import substitution and liberalization strategies may be a viable option for Bangladesh in order to save its domestic industries from collapse. The internal markets of Bangladesh are flooded with the foreign consumer and capital goods. In order to fulfill the domestic demand for consumer products, Bangladesh can experiment with

157. *ibid.*, p. 289.

158. Malaysian Economy, Online available, <http://www.geocities.com/maestro:ik/MalaysiaEconomySW.htm>, April 2, 2004.

building up such import substitution industries. In this context, the example of India's development strategy can also be cited. India, for a long time, abandoned using foreign cars, shaving razors and other necessary products, a policy which helped the country achieve successful and rapid industrialization.

Foreign Aid and Investment

The economy of Bangladesh is generally based on an aid-dependent structure. Foreign aid has been justified in order to overcome its two critical gaps- the domestic savings-investment gap and the export-import gap. Almost all development plans have been overwhelmingly dependent on external assistance. The first five year plan was based on 77 per cent of foreign aid, the 1978-1980 two-year plan was 64 per cent foreign aid based and the second five year plan (1980-1985) expected to cover 54.23 per cent of expenses from foreign assistance.¹⁵⁹ The development budget of 2000-2001 planned to finance 43 per cent of the total Annual Development Plan (ADP) expenditures through external assistance.¹⁶⁰ Despite receiving huge amounts of external assistance since independence, Bangladesh has been unable to succeed in promoting the desired level of economic development. Continuous debates have been going on among academics as well as policy makers regarding the implications of foreign aid for Bangladesh's development.

The central controversy revolves around the question whether the role of aid should be considered catalytic or catastrophic in achieving national economic self-sufficiency. A large group of scholars, whose arguments are based on the Marxist-Leninist theoretical framework, contend that aid has been an instrument of exploitation in Bangladesh. They view the aid-packages by the World Bank, IMF and other aid agencies as tools for preserving the world capitalist system.¹⁶¹ In the context of Bangladesh, this

159. Rahman, M., *The Japanese Strategy: Japan's Development Strategy as a Lesson or Threat to Global Economic Order*, University Press Ltd., Dhaka, 1996. p. 147.

160. Rahman, "Foreign Aid", *op. cit.*, pp. 230-233

161. Sobhan, R., *The Crisis of External Dependence*. University Press Ltd., Dhaka, 1982.

precarious sort of aid-outcome is manifested in the aid conditionality. For example, aid targeted to the agro-sectors sometimes comes with donor interference in the domestic policies, including pricing, distribution and management. The aid packages for technical assistance, on many occasions, play a counter-productive role by undermining domestic capacity, distorting the skills market and eroding ownership over domestic policy.

Despite the constraints associated with aid, developing countries including Bangladesh cannot implement economic plans without external assistance owing to their capital shortage and the world economic structure. Aid can be beneficial if the recipient countries can utilize it properly. Many development plans in Bangladesh, including those related to socio-economic infrastructure, industrialization, and agriculture have been implemented with foreign donations. In reality, the postwar reconstruction and rehabilitation of Bangladesh could not be successful without massive amounts of external aid.

Although Bangladesh cannot avoid an aid-dependent policy, it can maximize the utilities of aid through an appropriate aid-implementation strategy. Malaysia was very conservative and selective about foreign aid and investment at the very outset of its development journey. Its foreign aid was used mainly to finance the periodic deficits and pay debts. Malaysia preferred foreign funding that used to come in the form of direct investment, rather than aid. Japan has also been an example of a fast growing country that depended less on foreign assistance. However, Bangladesh cannot follow these examples so safely in view of a number of internal, external and historical factors related to its growth and development. Yet, it can revise and fine-tune its aid-strategy and set priorities to utilize the aid, thanks to the declining tendency of its dependence on aid for development projects during the 1990s.¹⁶² While Bangladesh was heavily dependent on foreign aid in the first two decades after independence, the volume of actual aid disbursement showed a steady decline from the 1990s.¹⁶³ The total aid commitment to Bangladesh from 1972 up

162. Rahman, "Foreign Aid", *op. cit.* .

163. Khan, A. R. and Amin, M. R. "Social Development in Bangladesh: State of Poverty Alleviation", *Social Science Review*, vol. XIV, no. 2, Dhaka University, Dhaka. 1997. p. 200.

to June 1999 was US\$ 42.54 billion and the aid disbursed was US\$ 270.8 million in 1972, US\$ 901.3 million in 1977, US\$ 1.27 billion in 1985, US\$ 1.81 billion in 1990 and US\$ 1.5 billion in 1999. Out of total commitment of US\$ 42.54 billion, total disbursement was US\$ 34.76 billion.¹⁶⁴ Despite this decrease in actual aid disbursement, the share of foreign aid to finance the ADP expenditure increased from 43 per cent during the 2000-2001 budget to 51 per cent during the 2003-2004 budget.¹⁶⁵

Trade Liberalization and Export Strategy

With the policy shift from import substituting industrialization to an export-growth strategy, Bangladesh experienced considerable improvements in promoting economic growth. Despite all the positive contributions of these export-oriented policies, a number of issues have been raised in recent times with regard to the country's export-orientation and trade liberalization. In this section, we will focus briefly on these problems and try to examine whether Bangladesh can overcome those challenges through an emulation of the liberalization and export strategy of Malaysia. Prior to testing the Malaysian model, it is worthwhile to have a brief look at the issues.

Insecure Export Growth

As was discussed in the preceding chapter, the beginning of liberalization was accompanied by lively expectations of economic growth. However, in reality, liberalization produced a mixed impact on the economy. On the one hand it increased exports significantly, but on the other hand, it did not ensure a continued future flow of the export growth. Most notably, the objective of economic emancipation through diversified industrialization was not fulfilled.

A number of studies, including documents published by the Bangladesh government, suggest that despite rapid export growth, the prospects for future performance seem to be insecure because

164. Rahman, "Foreign Aid", *op. cit.*

165. Planning Commission, *Annual Development Program (2003-2004)*, ministry of Planning, Government of Bangladesh, Dhaka, 2003, p. ii.

of both internal and external constraints.¹⁶⁶ The Bangladesh government's Poverty Reducing Strategy Paper (PRSP, 2002) has noted a fluctuating and slow pace of manufacturing growth and industrial sickness in the past owing to the increased imports of some competing products, lower foreign direct investment (FDI), industrial finance deficiencies, a slow privatization process and problems of fiscal and exchange rate policies.¹⁶⁷

Export Structure: Lack of Capital Intensive Production

Export-led trade theory suggests that the transformation of a country's exports from traditional items to non-traditional ones leads it to develop capital-intensive production opportunities.¹⁶⁸ As discussed in the second chapter, one common point for all developed and developing countries is that they all initiated export development on traditional types of commodities, based on their comparative advantages. Almost all Asian countries that have followed export-led strategies, possessed a traditional pattern of economy dominated by agriculture and their exports consisted mainly of traditional commodities. Due to their surplus labor, they enjoyed a comparative advantage in labor-intensive manufacturing goods, and thus they could develop these products. With the pace of development, their production pattern shifted from labor-intensive to capital-intensive production line.

However, this conventional wisdom of trade theory does not fit in well with the Bangladesh export structure. Despite the export shift from traditional to non-traditional goods and despite increased exports of non-traditional products, the country's capital-intensive exports have not flourished. Figure 4 explains the export structure of Bangladesh by traditional and non-traditional products. It shows that Bangladesh's exports have shifted significantly from traditional to non-traditional goods. In the period 1990-91, the share of traditional items out of total exports

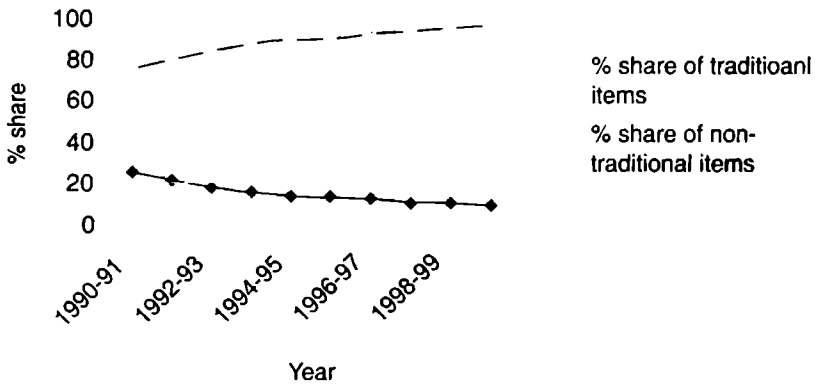
166. *Developing a Policy Agenda for Bangladesh*, *op. cit.*, pp. 61-63.

167. *Poverty Reduction Strategy Paper*, Government of Bangladesh, Dhaka, 2002, pp. 70-71.

168. Rahman, M. A., *Export and Economic Development of Bangladesh*, Bangladesh Young Economists' Association, Dhaka, 1993, pp. 133-135.

was 25.15 per cent and the share of non-traditional items was 74.85 per cent. Ten years later, the share of traditional items massively declined to 6.12 per cent and that of non-traditional products rose to 93.88 per cent.

Figure 4: Export by Traditional and non-Traditional Items



Data Source: *Export Statistics 1999-2000*, Export Promotion Bureau, Bangladesh.

The increased export of non-traditional products did not provide capital-intensive production opportunities for a number of reasons. First, with the expansion of the non-traditional exports, traditional export sectors have been facing serious difficulties. Second, the production of non-traditional items has absorbed a significant portion of export earnings. For example, one non-traditional item of Bangladesh is garments production. This has absorbed three-fourths of the export earnings for importation of inputs like needles, cotton, and buttons and so on. The third reason is related to inconsistent and inefficient policy shifts. Without sufficiently strengthening the traditional commodity-based exports, Bangladesh has jumped to non-traditional sector exports.

Lack of Technology and Predominance of Consumer Goods

The importance of education and technology is well known for promoting a country's export growth and export sophistication. The type of export products of a country reveals the quality, standard and structure of its education system. As can be seen in

Table 2, the principal export items of Bangladesh include prawns, shrimps, tea, spices, raw hides, skins, raw jute, jute products, leather, leather goods, ready-made garments, and handicrafts. Almost all these export items are either consumer goods or materials for such goods. Exports of capital goods or materials for manufacturing them are less than 1 per cent of total exports. The table compares the export items over the 1996-2000 period. It shows that the total exports of consumer goods produced by private, government, semi-government and nationalized industries have been increasing every year, whereas the exports of capital goods of those industries have been decreasing substantially.

Table 2: Export items

Year	Consumer goods	Capital goods
1996-97	150579	2493
1997-98	210863	1578
1998-99	225245	870
1999-2000	228443	1725

Source: BBS, *Foreign Trade Statistics*.

Despite huge potential and a surplus labor force, Bangladesh lacks production capability of capital goods mainly for two reasons. The first and most important is the lack of skill and education of the labor force. The second is the lack of technology. This is in fact the result of the first problem, because once people are educated, they can innovate technologies.

Japanese exports are highly capital-intensive because of Japan's committed, educated and hard-working people and sophisticated technology. The founder of the Nissan Company, Y. Aikawa, graduated from an Engineering University and went to work in an American casting company as a laborer. He disguised his identity and educational status until he had mastered the technical know how of the specific functions of a sophisticated automobile industry. Later, he came back to Japan and established his own company.¹⁶⁹ The educated labor of East and Southeast

169. Rahman, M. *The Japanese Strategy*, University Press Ltd., Dhaka, 1996, p. 40

Asian countries, including that of Malaysia, Singapore and Thailand built up their capital-intensive export industries.

Neglected Domestic Industries

Despite the fact that the export sector of Bangladesh is largely dominated by consumer goods produced mainly by domestic industries, these have long remained neglected. Although, these industries contribute significantly to the export promotion of the country, they are still labor-intensive system. The performance of the small and cottage industry sectors needs to be given special attention because of their labor-intensive character, their focus on catering for the demand of low and medium income consumers and their capacity for import substitution.

The Emulation of the Malaysian Export Strategy

We will now discuss the question of whether the Malaysian experience can provide lessons for the liberalization policy of Bangladesh. An overview of the Malaysian strategy will show that the government took all measures necessary to protect and strengthen domestic industries, giving attention on both primary and secondary sectors. Both Malaysia and Bangladesh the countries possess distinctive features of comparative advantages in terms of natural gifts and human resources. While Malaysia enjoys huge mineral and agricultural resources and has actively utilized them to help foster domestic industries, Bangladesh has failed to make appropriate use of its vast human resources, agricultural and maritime products. The Adamjee Mill, the largest jute mill in Asia, has been closed and the enormous export potentials inherent in jute, universally known as “the golden fiber of Bangladesh”, have been thrown to the winds.

In the previous chapter, we mentioned how prudently Malaysia has followed the tactics of domestic industry protection, phased transition towards liberalization and dual focused industrialization. It did not hurry in its effort to pursue reform measures. It was evident to its policy makers that without huge capital accumulation and the creation of a congenial atmosphere, liberalization might not bring the desired results. Malaysia's

strategy thus focused on capital generation through its own resource-based industries, and then gradually moved to manufacturing and capital-intensive industries.

In case of Bangladesh, such calculations were not seriously considered. In chapter three, we explained how Bangladesh's initial plans of import substitution, aid strategy and nationalization ended in failure. Before successfully completing the implementation of the IS strategy, the country hurriedly switched to trade liberalization, without creating a suitable environment for competing in international trade. Bangladesh can promote economic growth based on a prudent transformation of primary industries to secondary industries. The key to success lies in nurturing domestic industries by making them export-oriented, by equipping them with the necessary inputs and by upgrading them from extreme labor-intensity to modest capital intensity. Five industries-readymade garments, fish and seafood, leather tanning and leather goods, fertilizer and pharmaceutical industries accounted for more than four-fifths of the industrial sectoral growth in the 1980s.¹⁷⁰ Most of them are import-substituting industries. Out of these industries, the garment, frozen food and leather sectors performed better because of their export-orientation. On the contrary, industries such as pharmaceuticals, soaps and detergent, fertilizers and synthetics have failed to show robust growth in recent years because of denial of export-access. The labor-intensive small and cottage industries like electrical apparatus, plastic toys, metal ware, tin plate and ready made garments have also registered a robust performance.¹⁷¹

Since huge numbers of people are involved in the production and consumption of the products of these small-scale industries, they can be a powerful source of capital accumulation that will, in the long run, stimulate the savings and investment that are the number one requirement to succeed in industrialization. These small industries have potential similar to that of the electronics and manufacturing industries of Malaysia during the late 1960s and 1970s. The strategy is very simple and easily achievable. The manufacturing geniuses scattered in the Zinjira, Sadarghat, Mirpur

170. Developing a Policy Agenda for Bangladesh, *op. cit.*, pp. 57-58.

171. *ibid*, p. 58.

and Mohammadpur areas of the capital city Dhaka and illegally involved in imitating the electronics goods and machinery produced in Japan, Taiwan, Singapore and Malaysia, may be targeted as appropriate human resources with potential industrial capabilities. These people may be rehabilitated in an industrial city, given appropriate training and supplied with equipment. I am confident that in that way, Bangladesh can even serve as a manufacturing ground for advanced Japanese electronic products and can show substantial growth in the electronics manufacturing sector in less than ten years or so.

Structural Adjustment

Structural adjustment programs have failed to provide the expected results. Despite the export increase, capital-intensive production capacity has not been built up, SOEs are almost on the verge of collapse, the management of national commercial banks (NCBs) has been fractured, the industrialization process has been thwarted and, above all, domestic small industries and manufacturing potentials have not been strengthened. All these developments have thrown the future of economic development of Bangladesh into greater uncertainty.

There have been several studies to assess the performances of the adjustment programs, most of which identified these as inefficient strategies. Among these works, four important studies (Rahman; Mujeri, Shahabuddin and Ahmed; Sobhan; and Bhattacharya) conducted in the early stages of these reforms can be mentioned. These studies produced similar findings. The authors were highly critical of the achievements of the programs and raised questions about the design, sequencing and pacing of the adjustment measures. However, each of them evaluated the programs from a particular viewpoint. Rahman evaluated the macroeconomic performance¹⁷² whereas Mujeri, Shahabuddin and Ahmed concentrated on the poverty, employment and

172. Rahman, S .H., "Structural Adjustment and Macroeconomic Performance in Bangladesh in the 1980s", *The Bangladesh Development Studies*, vol. XX (2 &3), 1992.

distributional aspects of adjustment.¹⁷³ Sobhan evaluated the policy aspects and suggested a major rethinking and revision of policy agenda.¹⁷⁴ Bhattacharya assessed the adjustment programs from the 'target v. actual' perspective and found that the three major target figures of adjustment programs- GDP growth rate, investment and national savings were below the targets.¹⁷⁵

The tariff reduction following the adjustment policy has been criticized. The most serious problem that resulted from tariff reduction is that it seems to have affected import substitute industries by placing them up against stiff competition,¹⁷⁶ although Bangladesh's average tariff rates are somewhat higher than those of many South East Asian and Latin American countries.¹⁷⁷ Transparency International observes that the adjustment programs have not been successful in the case of Bangladesh because of widespread corruption. Moreover, tax and tariff rationalization, as suggested by the adjustment formula, were neither predictable nor non-discriminatory.¹⁷⁸ The industrialists present in a group discussion organized by SAPRI mentioned that the reduction of tariff rates and withdrawal of quantitative restrictions did not contribute positively to the economy of Bangladesh owing the World Bank's "divisive policy". They raised the issue of the biased duty structure in favor of finished imported goods and the adversarial rate against the import of raw materials. They remarked that the Bank failed to maintain the same tariff level in the developed countries.¹⁷⁹

173. Mujeri, M. K., Shahabuddin, Q. and Ahmed, S., "Structural Adjustments and Equity: A Framework for Analysis of Macro-Micro Transmission Mechanism in Bangladesh", in CIRDP, *Monitoring Adjustment and Poverty in Bangladesh: Report on the Framework Project*, Dhaka, 1993.

174. Sobhan, R., "From Theology to Empiricism: Reappraising Bangladesh's Experience with Economic Reforms", *The Journal of Political Economy*, Vol. 12(2), 1993.

175. Bhattacharya, D., 'Bangladesh's Experience with the Structural Adjustment and Enhanced Structural Adjustment Facilities', in Grieve and Huq, (eds.), *Bangladesh Strategies for Development*, University Press Ltd., Dhaka, 1995, pp. 63-69.

176. Developing a Policy Agenda for Bangladesh, *op. cit.*, p. 60.

177. *ibid.*

178. Ahmad, M. "Governance, Structural Adjustment and the State of Corruption in Bangladesh", Transparency International Document, *op. cit.*

179. SAPRI, *op. cit.*

We may now turn to the Malaysian experience with adjustment strategies. Like many other developing countries, Malaysia adopted adjustment policies in the mid 1980s. In the beginning, the policy was introduced as a temporary response to Malaysia's debt problems of the early 1980s and to the recession of the mid 1980s. Liberalization was gradually incorporated to the capital markets, foreign investment and financial regimes. In the second Outline Perspective Plan (OPP 2) during 1991-2000, these strategies were reiterated in Malaysia's overall development planning. Yet Malaysia was able to maintain a safe distance from being affected by the vices of liberalization. As mentioned in the previous chapters, the Malaysian government maintained extensive intervention in the areas of financial regulations, trade relations and domestic industry protection.¹⁸⁰ Despite the tariff reforms, state-supported heavy industries such as iron and metals, automobiles and cement still maintain high tariffs. Although the average rates of protection have undergone dramatic changes, government policy is highly focused on differentiated tariff schedules.¹⁸¹

It is evident from the Malaysian strategy that the country moved towards stabilization only after it reached a certain stage of its economic development and, despite its allegiance to adjustment strategies, it continued government intervention. It is not safe to introduce liberalization and openness without creating the required ability to face the complex competition in the arena of international trade. Without creating a congenial atmosphere, any move towards openness and liberalization may destroy a country's existing industrial set-ups and discourage potential entrepreneurial geniuses from facing global competition through open trade in the market economy framework. This frustrating scenario may also result in uneven competition and contribute to the closure of many public enterprises and collapse of indigenous

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180. Shari, I. "Economic Growth and Social Development in Malaysia, 1971-98: Does the State Still Matter in an Era of Economic Globalization?", in Andersson, M. and Gunnarsson, C. (eds.), *Development and Structural Change in Asia Pacific: Globalizing Miracles or End of a Model?*, Routledge Curzon, London and New York, 2003, pp.108-123.
181. Rasiah, R. *Foreign Capital and Industrialization in Malaysia*, Macmillan and St. Martins Press, London and New York, 1995.

industries. The absence of certain preconditions might have prevented Bangladesh's trade liberalization from fulfilling its promises. A sound industrial base, strong financial capability and institutions, management skills, socio-economic infrastructures and necessary technologies should have been established prior to introducing the liberalization program.

Macroeconomic Management

Economic stability is a major requirement of economic growth and through a prudent macroeconomic management, economic stability can be achieved. An efficient macroeconomic policy can contribute significantly to promote economic growth, investment and savings. As we discussed in chapter three, a viable macroeconomic foundation could not be established soon after the liberation war in the 1970s. This led to the weak monetary and fiscal policies. From the late 1980s and early 1990s, considerable improvements were made in the macroeconomic scenario. Interest rate deregulation, innovative banking technologies, an enlarged central bank role and management-skills creation were the main features of the monetary policy reforms. The introduction of VAT and tax expansion on domestic sectors was the major contributions in the fiscal policy.

The nature of the macroeconomic policy efficiency can be revealed by measuring the overall growth, savings and investment of Bangladesh.

Overall Growth Performance

Bangladesh has registered a considerably improved growth performance in recent years. The average growth rate in the 1990s reached 4.88 per cent whereas the average figure in the previous decade was 3.84 per cent.¹⁸² Although policy makers and economists hardly agree as to what have been the growth rates of Bangladesh for any particular period of time, the growth was by all accounts less than the target of 5 per cent. The World Bank sources put the five yearly average growth rates at much below 4 -

182. Developing a Policy Agenda, *op. cit.*, p. 2.

3.1 per cent during 1980-1984 and 3.4 per cent during 1985-1989.¹⁸³ It stagnated at around 4 per cent in the 1990s, which according to some sources was lower than rates prevailing in the 1980s.¹⁸⁴ The GDP growth rate demonstrates a little rise in the second half of the 1990s. During 1995-2000, the average GDP growth rate rose to 5.2 per cent. Despite a slight increase (5.27 per cent) during 2000-2001, it decreased to 4.8 per cent during 2001-2002 period.¹⁸⁵

Independent measurement of GDP giving due weight to rising input costs in the country suggests that the growth rates have been 3.4% for 1992-1993, 3.2% for 1993-1994 and 3.1% for 1994-1995.¹⁸⁶ Thus the overall growth rate of the economy has not shown any upturn in even 15 years after trade liberalization and adjustment measures.¹⁸⁷ The incessant natural disasters, low investment and some other internal and external factors were responsible for that.¹⁸⁸

After a brief upward-oriented GDP growth tendency in the second half of the 1990s, the overall growth rate of the economy again declined during the 2001/2002 period because of macroeconomic imbalances and external factors.¹⁸⁹ The macroeconomic problems occurred due to the slowdown of the export-oriented manufacturing sector, high fiscal deficit, increased domestic borrowing, falling foreign exchange reserves and inappropriate structural reforms. In addition, the situation was aggravated by the global economic shocks following the 'Nine-Eleven' events of 2001.

183. *ibid.*

184. Center for Policy Dialogue, *Independent Review of Bangladesh's Development*, CPD, Dhaka, April 1995, p. 5.

185. *Statistical Pocketbook of Bangladesh 2001*, Bangladesh Bureau of Statistics, Ministry of Planning, Dhaka, December 2002, p. 273.

186. Center for Policy Dialogue, *op.cit.* p. 6.

187. Khan, A. R. and Hossain, M. *The strategy of Development in Bangladesh*, Macmillan, London, 1989, pp. 19-23.

188. World Bank, *Bangladesh: Recent Economic Developments and Priority Reform Agenda for Rapid Growth*, Washington D.C., March 16, 1995, p. 1.

189. External Relations Department, *Bangladesh: A National Strategy for Economic Growth and Poverty Reduction*, Ministry of Finance, Government of Bangladesh, p. 25.

Investment and Savings

In his study, Bhattacharya found that in the terminal year of the adjustment policy, during the period 1992-1993 the investment and national savings as percentage of GDP was 12.1 per cent and 6.8 per cent respectively vis-à-vis their targets of 13.7 per cent and 9.2 per cent. In his 'before and after' and 'with and without program' analyses, he compared the averages of the variables registered during the SAF/ESAF periods (1986/87-1992/93) with those of the seven preceding years (1979/80-1986/87). The figures showed that between these two periods the investment rate as percentage of GDP fell, while the domestic savings rate, GDP and per capita GDP growth rates stagnated.¹⁹⁰

However, both savings and investment rates increased throughout the 1990s and in the years 2000-2002. On an average, the rate of both gross-national savings and private and public investment during 1995-2000 was 22 per cent and the figure reached around 23 per cent during 2000-2001 and 2001-2002 periods.¹⁹¹

Tax Reform and Budget Deficit

The improved fiscal situation following the policy changes did not last for a long time and the budget deficit increased to 7.8 per cent and 6 per cent respectively during the 1998-1999 and 1999-2000 periods.¹⁹² Internal factors like floods and natural calamities and various external factors might have damaged the fiscal structure of Bangladesh. The people in general and the small businessmen in particular have been afraid of VAT. Income Return Notices recently issued by the government have created much concern among the rural citizens. Some analysts have remarked that tax liberalization in the import sector and tax expansion in the domestic production sectors might weaken the competitiveness of domestic enterprises.¹⁹³

In view of the above constraints with regard to macroeconomic policy, certain aspects of Malaysia's and other East Asian countries'

190. Bhattacharya, D., *op. cit.*

191. Statistical Pocketbook of Bangladesh, *op. cit.*, p. 274.

192. *ibid.*, p.123.

193. *The Daily Inqilab, op. cit.*, February 9, 2004.

macroeconomic practices can be studied to gain some knowledge about how to efficiently run Bangladesh's macroeconomic policy. Malaysia and other countries in the region adopted investment-oriented policies in the formative stages of their development. They fixed high tariffs on imports of luxury goods, which decreased consumption of these products and increased investment. Malaysia could overcome several economic shocks by employing its activist macroeconomic policy. Despite short-run consequences, the main task ahead for Bangladesh is to expand the existing tax-net and to improve the tax administration.

Monetary policy needs to emphasize strengthening both public and private financial institutions and banking sectors. Powerful financial institutions might stimulate the supply leading phenomena explained in chapter two. Regarding the World Bank prescription of financial deregulation, Bangladesh needs to make an appropriate cost-benefit analysis. One of the underlying causes of the Asian financial crisis was the 'wrong medicine' of IMF.¹⁹⁴ In "Tigers in Trouble", the scholars argued that the financial deregulation as prescribed by IMF undermined national financial governance, weakened national financial management, and reduced national supervision of financial transactions. This contributed to the collapse of domestic banks and financial institutions in the region.¹⁹⁵ In an article published in New York Times of mid-January 1998, D.E. Sanger remarked:

"A confidential report by the IMF on Indonesia's economic crisis acknowledges that an important element of the IMF's rescue strategy backfired, causing a bank panic that helped set off financial market declines in much of Asia....These closures, far from improving public confidence in the banking system, have instead set off a renewed 'flight to safety'. Over two-thirds of the country's banks were affected, and more than US\$ 2 billion was withdrawn from the banking system."¹⁹⁶

194. Sachs, J., "The Wrong Medicine for Asia", *New York Times*, November 3, 1997.

195. Jomo, K.S. (ed.), *Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia*, Zed Books Ltd., London, 1998.

196. Sanger, D.E., 'IMF Now Admits Tactics in Indonesia Deepened the Crisis', *New York Times*, January 14, 1998.

Despite the pressures from the World Bank, IMF and other donor agencies, Bangladesh needs to demonstrate clever negotiation skills and diplomacy in realizing the stabilization programs without destroying the base of its financial institutions. The strategy to be adopted must require skill in the art of effective diplomacy, sharp negotiation intelligence and shrewd business knowledge.

Social Aspects

In chapter three, we identified various issues and prospects with regard to establishing an educated and healthy society, and creating a congenial social environment for running Bangladesh's development activities. The present section attempts to evaluate the performance in the social aspects of the development of Bangladesh and suggest a revised social development policy on the basis of the Malaysian experience.

The State of Education

Despite robust declarations by different governments concerning their commitment to develop the educational sector, many of the policies and programs have remained unrealized. The efforts so far made in the fight against illiteracy, for example, seem to have ended in failure. As a result, Bangladesh could not get out of the curse of illiteracy and the country remains virtually where it was in the post independence period. The increase in the number of schools, colleges and educational institutes at various education levels, as well as the increases in their student enrolment are widely publicized by the political leaders and government agencies as indicators of significant success in development of the educational sector in Bangladesh. The reality, however, is different.

Table 3 provides very important information on the overall picture of the education of Bangladesh including the numbers of educational institutions, teachers and students, the teacher-student ratios and the government budget allocated for education.

Table 3: Indicators of Education System in Bangladesh

	1997	1998	1999	2000
Primary School (Number)	77685	66235	65610	63658
Secondary School (Number)	na	13419	14069	14640
Madrashah (Number)	6655	6915	7096	7096
Govt. Medical College (Number)	13	13	13	13
Non- govt Medical College (Number)	5	11	11	19
Dental College (Number)	1	2	2	3
Engineering College (Number)	4	4	4	4
Govt University (Number)	11	11	11	11
Non Govt University (Number)	16	17	19	19
Full time Students in University (Govt)				
Total	67282	67807	70145	77865
Male	51091	51388	53425	59055
Female	16191	16419	16660	18810
Student Per Teacher				
Primary	57	70	71	67
Secondary	39	39	40	40
College	33	33	29	28
University	26	24	22	22
Total Government Revenue				
Expenditure on Education (Crore TK)	2297	2689	2976	2209
Total Government Development				
Expenditure on Education (Crore TK)	1551	1543	1737	2064
Total Government Expenditure on Education Revenue & Development (Crore TK)	3848	4232	4713	4273
Per Capita total Public Expenditure				
On Education (Current TK)	310	335	368	329

Source: Bangladesh Bureau of Statistics, *Statistical Pocketbook: Bangladesh 2001*, Planning Ministry, Bangladesh Government, Dhaka, December 2002, p. 337

Primary Education

The number of primary schools and enrolment in primary education has displayed a slow but steady rise in previous years. The number of primary schools increased from 47,241 in 1990 to 59,894 in 1995.¹⁹⁷ The enrolment rate was about 61 per cent in 1985, increasing to 73 per cent in 1991 and 82 per cent in 1997.¹⁹⁸ The total number of students enrolled in 1990 was 12.05 million. This rose to 17.20 million in 1996.¹⁹⁹ Despite the increase in the number of primary schools and in their enrolment during the first half of the 1990s, trends during the second half of the decade gave little ground for optimism. Table 3 shows that the total number of primary schools, which was 77,685 in 1997, gradually declined and by the year 2000, has decreased to 63,658.

According to government documents, the number of teachers and students also decreased from 2,78,992 and 1,96,12,000 in 1999 to 2,59,441 and 1,73,78,000 in 2000 respectively.²⁰⁰ It is important to note that the increased number of schools or enrolment rates may not necessarily reflect actual realities. The drop-out rate, student-teacher ratio and structural facilities need also to be considered. More than 60 per cent of primary students drop out every year and only one out of three students can complete primary education. The teacher-student ratio has also deteriorated in recent years. The table shows that the teacher-student ratio, which was 1:57 in 1997, declined to 1:70 in 1998; 1:71 in 1999 and 1:67 in 2000. That means the number of teachers has not been increasing in proportion of increased student enrolment.

Moreover, the inadequacy of physical facilities, including school buildings, libraries, sports grounds, is a serious problem. Library facilities are absent in almost all the primary schools in

197. Bangladesh: Economic Review, *Number of Primary Schools*, Ministry of Finance, Government of Bangladesh, 1996, p. 74.

198. PMED, *Child Education and literacy Survey*, Government of Bangladesh, 1997.

199. PMED, *Enrolment of Students at Primary Level(1990-1996)*, Primary and mass Education Division, Government of Bangladesh, 1996.

200. Statistical Pocketbook, *op. cit.*, p. 338.

the country. In addition, the enrolment data, on many occasions, does not reflect the real enrolment statistics. The mere listing of names in student registers does not imply that the student actually exists in the class. Names listed in the register are, in many cases, more fictitious than real. The daily attendance, moreover, does not exceed more than 50 per cent of enrolment.²⁰¹ The evaluation of primary education in Bangladesh indicates that the goal of universal primary education is still a long way from realization.

Secondary and Higher Secondary Education

The socio-economic development of a country largely depends on the skills and knowledge of its citizens who graduate from the secondary and higher secondary levels. During this period, a student can learn the meaning of life, acquire a sense of responsibility and a commitment to his/her nation and country, and can understand real challenges and identify measures to face them. A number of development analysts consider the education at these levels as the main plank in an education system and so the developed countries structure their education system at this level in such a way as to provide the students with the opportunity of learning advanced ideas and skills²⁰² Some development experts also argue that education at this stage results in the reduction of income inequalities.²⁰³

201. Saha, S. k., "Education and Skill-Building in Bangladesh", in Grieve and Huq (eds.), *op. cit.*, p. 151.

202. Lewis, A., "Education and Economic Development", *International Social Science Journal*, 1962 in Grieve and Huq, *op. cit.*, pp. 153-154.

203. Psacharopolos, G. and Tilak, J.B.G., *Essays on Poverty, Equity and Growth*, Pergamon Press, World Bank, 1991, cited in. Grieve and Huq, *op. cit.*, pp. 153-154.

Table 4: The Number of Institutions, Teachers and Students

Year	Number of Institutions			Enrolment			Number of Teachers		
	Junior. Secondary	Secondary	Higher Secondary	Junior Secondary	Secondary	Higher Secondary	Junior Secondary	Secondary	Higher Secondary
1990	2311	8137		245380	2748350		18669	104227	
1991	2000	8715		212646	2943473		16989	112627	
1992	1962	9038		284806	3463236		12819	113399	
1993	1905	9190		341975	3809515		12435	114259	
1994	2136	9352		574343	3960459		18417	116760	
1995	2349	9663	603	494692	4620759	193796	15109	124950	10638
1996	2554	9901	733	594510	5021390	226947	18118	136560	12932
1997	3070	10776	901	632211	5492114	253846	19309	137768	15913
1998	3517	10776	1130	740668	5503114	255817	21884	138293	19963
1999	3024	12269	1316	698504	6681212	327414	19885	155712	23819
2000	2846	12614	1422	616094	6620845	347986	17803	156094	24630
2001	2846	12614	1422	620254	6704857	350676	18042	157722	24699

Source : Bangladesh Economic Review 2000 & 2001, Ministry of Finance, Government of Bangladesh.

The data contained in table 4 indicates that the number of students, teachers and institutions at the junior secondary, secondary and higher secondary levels of education has increased during the last decade. However, this increase does not necessarily mean that the objectives of education at these levels have been significantly achieved. The reasons for this are many. First, the fruits of education have not been shared equally by all people in the society. Most of the educational institutions at this stage are private, expensive and located in the urban areas. Students from poor families as well as from the geographical periphery cannot have access to these schools. According to the UNDP Human Development Report, the bottom 20 per cent has access to only 6 per cent of the benefits of secondary education; the top 20 per cent receive 35 per cent of these benefits.²⁰⁴

Second, the quantitative attainment itself is not the only yardstick to measure the rates of success. The dropout rate, as well as the qualitative achievements, need also be considered. In 1999, the drop out rates at the secondary level reached 52.1 percent (57.9 per cent for girls).²⁰⁵ The pass percentage during this stage also revealed a dismal picture. The high rates of failure in both SSC and HSC examinations not only indicate deterioration in the standard of teaching and quality of education but also reflect the deficiency of the educational system as a whole. In the years 1995, 1996 and 1997, the pass percentages of SSC examinations under the five education boards were 72.25, 42.07 and 50.89 respectively, which gradually decreased to 49.85, 56.60 and 41.22 per cent in the following three years, 1998, 1999 and 2000. In the case of HSC examinations administered by these boards, the pass percentages were 45.86, 24.41 and 36.83 in the first three years, which increased somewhat to 45.93, 53.44 and 37.03 in the next three years.²⁰⁶ The repetition rate is quite low and most of the dropouts and failed students usually discontinue studies, becoming loiters and vagabonds and suffering the agonies of unemployment.

204. Developing a Policy Agenda for Bangladesh, *op. cit.*, pp. 94-95.

205. *ibid.*, p. 94.

206. Statistical Pocketbook of Bangladesh 2001, *op. cit.*, pp. 344-345.

Third, even though the above data shows an increase in the number of institutions, teachers and student enrolment, the numbers did not increase in proportion to the increase of population. Moreover, the student enrolment rate in Bangladesh seems to be much lower than that of some neighboring countries.²⁰⁷

Finally, the quality of education has tended to deteriorate day-to-day due to the scarcity of the required facilities, high student teacher ratios, unavailability of qualified teachers, proliferation of private coaching, students' cheating and resort to other unfair means in the examinations and so on. The scarcity of library and laboratory facilities, scientific instruments, and academic buildings is a well known phenomenon. The shortage of qualified teachers is also a root cause of declining education standards. As is seen in table 3 that the student teacher ratio in 1990 was 33:1 and that it rose to 39:1 and 40:1 in the years 1997 and 2000. According to a BANBEIS report, the academic transcripts of all teachers appointed in the secondary schools reveal that 61.24 percent of them hold 3rd division /class qualification in their highest academic program and only 2.5 per cent possess first division/class.²⁰⁸ Many qualified teachers are inclined more to offer private coaching instead of teaching well in the class room sessions and thus the education became extremely coaching-dependent. This has resulted in the collapse of institutional excellence in the secondary education system which is the basic stepping stone of human resource generation and the most important foundation of the nation-building process.

Higher Education

The number of colleges and universities, as well as their number of students and teachers, has been increasing every year. Table 3 shows that the number of medical and dental colleges rose from 18 and 1 in 1997 to 32 and 3 respectively in the year 2000. There are more than 63 universities, out of which 11 are public and more than 50 are private. The number of private universities has

207. UNDP, *Human Development Report*, Oxford University Press, New York, 1993.

208. BANBEIS, *National Education Survey 1999: Final Report*, Ministry of Education, Government of Bangladesh, 2001.

shown a sharp rise in recent years. In 1997, only 16 private universities were registered with the Education Ministry whereas in the year 2000, the number had reached 19, by 2003 it had exceeded 30 and now it is above 50. Many project proposals have been submitted to the UGC for the government approval of running the new universities. Table 3 also shows that the teacher-student ratio in universities in 1997 was 1: 26 whereas in 2000, it was 1: 22. The teacher-student ratio in the higher education system has thus been improving. This means that more teachers are being recruited with the increase of students at the higher institutes.

Despite the increasing number of universities, teachers and students, the higher education sector suffers from many problems. The university teachers as well as the students are highly involved in politics. They spend more time on politics than on studies and research. Political demonstrations are almost an every day occurrence in the campus corridors and dormitories. Factional politics frequently involves students in destructive activities like terrorism, killing and humiliating the opposition. The involvement of university teachers in politics erodes the quality of recruitment, and decreases research opportunities. Politicization makes university teachers unaccountable and bars the recruitment of the most qualified teachers.²⁰⁹

Private universities do not have the ability to recruit full-time teachers. They rely mainly on the part-time faculties hired from the public universities. The astronomical tuition fees are beyond the reach of the majority of the people. Only a few affluent sections of the society can afford private university education.

The Significance of the Malaysian Model in Revising the Education System

The above discussion has made it clear that Bangladesh has achieved considerable improvement in the development of the physical facilities of its education sector. However, although the inputs of education have been developed to a significant level, the outcome has not registered expected results. The literacy rate is a yardstick to measure the educational performance of a nation. Table 5 shows that the literacy rate of the adult population over 15

209 Developing a Policy Agenda, *op. cit.*, p. 96.

was 51 per cent as of 1997. This is much below that of Malaysia and even than other countries in the South and Southeast Asian region. Another important problem emerges when someone begins to calculate the overall goals and achievements of education and considers their implication for development.

Table 5: Education and Literacy rate, 1997, Division (percent)

Indicator	National	Rural	Urban	Barisal	Chita.	Dhaka	Khulna	Rajshahi	Sylhet
Primary School Enrolment Ratio									
Combined	82.0	79.2	95.4	88.0	81.6	80.7	84.8	75.1	72.5
Boys	84.7	82.5	96.0	92.8	84.8	81.6	88.4	78.3	75.0
Girls	77.1	73.6	93.0	80.5	75.3	77.4	78.5	69.6	67.8
Literacy rate of Population 5+									
Both Sexes	45.1	39.1	57.7	54.9	45.9	47.2	49.9	57.3	36.4
Male	48.2	42.4	60.4	55.3	49.3	50.1	53.7	41.2	39.0
Female	39.6	33.7	52.0	51.8	40.1	41.8	43.5	31.3	31.9
Literacy Rate of Population 7+									
Both Sexes	47.3	41.0	59.9	56.3	48.8	49.5	51.5	39.3	39.0
Male	50.6	44.5	63.0	56.9	52.7	52.5	55.3	42.4	41.8
Female	41.5	35.3	53.7	52.9	42.4	43.8	44.9	34.1	34.0
Adult Literacy Rate of Pop. 15+									
Both Sexes	51.0	-	-	66.2	52.0	48.3	54.9	47.4	39.3

Source: Bangladesh Bureau of Statistics, Statistical Pocketbook of Bangladesh, GOB, Dhaka, 2002.

In its educational development planning, Malaysia has been successful to the extent that it has achieved the goals of universal primary education. In chapter four, we discussed in detail about its educational policy and achievements. Its literacy rate rose to more than 90 per cent in recent years. The number of students and educational institutions at the primary, secondary and higher levels has significantly increased.

A study of the Malaysian education model indicates that for development, the significance of a distinctive education model cannot be overemphasized. The education of Malaysia has been modeled on a work-oriented structure. Thus, professionalism and industrial training have always been given priority in all stages of education. Malaysia's policy emphasis on science and technology based education, industrial skills training, R&D focused strategies and, above all, development related human resources policy has made the country's education a great success.

Bangladesh's education system can be revised on the basis of the Malaysian model mentioned above. That needs a major overhauling in terms of the education management, planning and policy implementation. The published report of the Education Commission, led by Professor Moniruzzaman Mia, recommended some revolutionary changes and reforms. However, though the report emphasized the increase of inputs, it failed to focus on a strategy for improving the outputs. It suggested increasing the numbers of students in the Engineering sector by up to 20 per cent, improving teacher-student ratios, increasing the number of educational centers at all levels, restructuring pay-scales, and so on.²¹⁰ The emphasis of the report on the science education is quite in the line of the Malaysian model. More attention should be given to the work-oriented education system so that it would contribute to the skill creation of Bangladesh's citizens. Educational institutions and universities should not be confined to the big cities, these must be established equally in all districts and cities so that the education would not be beyond reach of the population. Table 3 indicates that the government expenditure for education decreased from Tk. 2976 crore in 1999 to Tk. 2209 crore in 2000. In order to improve the quality of education,

210. *The Daily Star, op. cit.*, April 1, 2004.

Bangladesh should allocate significant budget in the educational sector. If the revised policy incorporates the major features of the Malaysian model, the reform measures will greatly benefit the country in achieving its long-term educational objectives.

Political Aspects

Political Ideology, Identity and Values

As noted in chapter three, Bangladesh suffers a serious crisis in terms of political ideology and cultural identity. This frustrates people and throws them into uncertainty, impeding long-run growth and development. One fundamental task is therefore to determine a clear political ideology and national identity, avoiding all sorts of ambiguity in this regard. It is essential to decide whether Bangladesh continues to be a secular country, becomes an Islamic state or remains confused with the mixture of secularism and Islam amidst manifold uncertainties.²¹¹

Bangladesh can learn much from the Malaysian strategy, follow its example in determining political ideology and thus can emerge from its current frustration, confusion and identity crisis.

The Malaysian leaders took a giant step in deciding the political ideology of the country. Despite the fact that the Muslims make up only 50 per cent of the population, Malaysia has initiated rapid Islamization in economics, politics, society and culture. The Bangladesh governments in the post 1975 years have taken some steps in this regard. They have examined the merits and demerits of both secularism and Islam and decided to introduce an Islamization process. Yet, as mentioned before, Islam is not demonstrated in the policy formulation, nor is it executed as a political ideology. In fact, as a political and economic theory, Islam is perfect, universal, viable, durable and accommodative. Islamic ideology aims to ensure freedom, participation, human rights, justice, peace and prosperity, which are also the proclaimed objectives of democracy and capitalism. Thus Islam can be the foundation of the political life and political system of Bangladesh, just as it has become in Malaysian society.

211. Amin, M. R., "Bangladesh Beyond Secularism?", *The Bangladesh Observer*, Dhaka, January 21, 2002..

Values and Socio-Economic Efficiency

In his “Economic and Social Efficiency in Tradition”, Safi A. Khaled has remarked that when everything else fails a proper set of values will save.²¹² As said earlier, religion, values, manners and behavior have far reaching implications for development. Development requires a homogeneous, unified and integrated social structure. Integrity and homogeneity need to be achieved even amidst heterogeneity. Emphasis should be laid on vision, attitude, moral values, religious obligations and knowledge.

Despite the boon of homogeneous social fabrics, Bangladesh society seems to project heterogeneous attitudes and culture. There seems to be a lack of consciousness among the people of Bangladesh about their own cultural and religious values. A large and very prominent group of intellectuals, artists, TV and stage performers act the protagonists of foreign cultures that are explicitly in contradiction with that of the mainstream population. Some of the most renowned writers directly violate the constitution by their derogatory remarks against Islam, which has been incorporated in the constitution as the state religion of Bangladesh. In Malaysia, in contrast, there is wide coverage of Islam in the TV, press and other media. Malaysia’s cinema, drama series and literature have continued to focus on Islamic socio-economic and political principles and their implications for Malaysian society and politics. The Malaysian cultural policy is based on the religious values of the main stream people which created a ‘sense of self respect’ and a ‘spirit of self-awareness’ that consolidated social unity, contributing immensely to the country’s development.

In order to create stimuli and inspiration among the people, the Malaysian cultural strategy can be a lesson for Bangladesh. As mentioned earlier, values, manners and behavior have far reaching implication for development. The values of Confucianism and Buddhism were not abandoned by Japan, Taiwan and South Korea. These countries employed a strategy of integrating traditional values and modernity, which provided them with

212. Khaled, S. A. “Economic and Social Efficiencies in Traditions”, a paper presented at a seminar on *Development Strategy*, organized by BIAM and Southeast University, Dhaka, September 15, 2002.

homogeneity, common purpose, faith and unity. This contributed significantly to the consolidation of their societies on the basis of their religious faith and rich traditional and cultural values. Turkey in contrast, restricted all traditional and religious values, which has made it a politically unstable and economically backward country. The history of Islam offers a striking example. When Muslims were loyal to their religious values and principles, they ascended the throne of power and prosperity. The moment they deviated from their traditions and values, all their achievements were lost, which in consequence, turned them to emerge as a vanquished nation in the present world.

Islamization of Administration

Development of a country largely depends on an efficient administration and management. Accountability is the heart of administrative efficiency. The more an administration is accountable, the more the country is developed. The most important task for Bangladesh is to create an accountable administration. The Malaysian example can be experimented in this regard.

In its development pursuits, Malaysia laid importance on ethical and moral values and the administration was restructured to that direction. The policy makers concluded that moral values that emanate from religious practices are important condition for development. They committed to tightly hold Islam- the state religion and the majority's belief. A massive Islamization in administration, financial and banking sectors as well as in foreign policy behavior was carried out. Since then, spiritual enlightenment through universal moral values in general and Islamic ordains in particular has been considered as the foundation of Malaysia's development strategy.²¹³

The first step of Islamization was taken in the education and knowledge sectors. The restructuring of religious education system, Islamic propagation unit in radio, TV and other media, Islamization of education system, building research centers and organizing seminars brought rapid progress in the Islamization

213. Hussin, M., *Islam and ethnicity in Malay Politics*, Singapore Oxford University Press, Singapore, 1990, pp.136-139

process. After strengthening the Islamic knowledge base, the policy makers concentrated on implementation of Islamic values in political and economic affairs as for achieving the development targets of the country. Right from the NEP, the government introduced a standardized Islamic textbook system and Islamized the teaching of all disciplines including the science courses at all levels of education from the elementary to the higher schools. The Cabinet Review Committee of School Curriculums decided that Islamic Studies for Muslims and moral sciences for non-Muslims would be compulsory. Special budget was declared for the training and research towards Islamization. Emulating Malaysia, Islamization of knowledge and teaching can easily be introduced in Bangladesh.

In 1980, Malaysian economic system was also restructured on Islamic rules and regulations. The business and financial sectors were revised through interest free banking system which had long been considered as impossible, irrelevant and non-compatible to modern financial transactions. A number of Islamic banks and financial institutions were established, morality-based management was geared up, and Islamic teachings of morality and ethics were followed in the inter-personal, business and financial transactions. This brought stimuli, confidence and enthusiasm among all segments of people. Under the auspices of Malaysian government, a seminar on the Concept of Development in Islam was organized and its recommendation to build up an Islamic Resource Group and to restructure the Malaysian economic system based on Islamic development principles was adopted.²¹⁴ In the mid 1980s, the government machinery was Islamized through inculcation of Islamic values in the government and administrative sectors. Although late, a number of private Islamic banks and financial institutions have been established in Bangladesh and these have demonstrated significant contribution in Bangladesh's financial sectors as well as in economic development. The strengthening of Islamic financial institutions under the government auspices calls for immediate action.

214. *ibid.*, pp. 137-139.

Conclusion

From the above discussion, it has become obvious that the required managerial skills and organizational capabilities, widespread corruption, grievances of the masses of the people against an alien socialist ideology, and, above all, lack of appropriate planning and correct policies were the main reasons behind the failure of the post independence development strategies of Bangladesh. The policy reforms in the late 1970s aimed at stimulating the growth and development of the country. The discussion in the foregoing chapters has made it clear that despite some notable achievements, the revised strategies failed to implement the long term development goals of Bangladesh.

Despite huge potential for development including domestic resources, human capital, rich cultural values and fertile lands, Bangladesh could not keep pace with the achievements of other developing countries in the East and Southeast Asian region owing to the inefficiency inherent in its development strategies. Apart from the imprudence of its strategy, the lack of vision and direction, and the absence of desirable consciousness regarding the socio-cultural and religious values and, above all, unplanned implementation technique, inconsistent policy behavior and widespread corruption contributed to the failure of constructing the very foundation based on which Bangladesh could formulate an appropriate strategy for stimulating its economic growth and development.

In such a context, this chapter has attempted to examine the relevance of the Malaysian development strategy for Bangladesh. It has been argued that Bangladesh can emulate Malaysia in order to formulate policies to run its economic, political and social affairs and to that end, the most important and applicable features of the Malaysian development strategies need to be adopted by Bangladesh. Instead of excessive dependence on foreign aid, blind imitation of the developed West and unrestricted economic liberalization, Bangladesh needs to build up domestic industries including agricultural, electronics and other manufacturing enterprises in order to generate capital necessary for export-oriented large-scale industrialization. Its huge population can be transformed into productive human resources. These people can

be educated and trained with appropriate skills and knowledge so that they can work both at home and abroad. Bangladesh, a nation without vision, needs to be enlightened with a deep sense of spiritual, socio-psychological and cultural values and employed with a set of concrete socio-economic and political principles. By emulating Malaysia, Bangladesh can build up a stable politics, a united society, a sound socio-economic infrastructure and, above all, a healthy and congenial environment that are required to achieve sustained economic growth, transparent political system and long-lasting social development.

CHAPTER VI

CONCLUDING REMARKS

Introduction

Development strategies and models vary from country to country based on their socio-economic and politico-cultural perspectives. The development of a country largely depends on the prudence and farsightedness of its development strategies. A country with high potential for development will remain extremely backward in the absence of an appropriate strategy. Almost all the resource-rich countries of the world are now burdened with the curse of poverty largely because of their inability to formulate, adopt and execute correct policies. On the other hand, most of the resource-poor countries have succeeded in accumulating abundant wealth by dint of their effective development strategies. World development history suggests that if a country aspires to develop, but lacks the required strategy, it can adapt and emulate the development strategies of a well-developed country of similar socio-cultural and politico-historical background. This sort of policy adaptability has contributed significantly to the economic growth and productivity of many Southeast Asian countries that have applied the 'Look Japan' policy in framing their development strategies.

This study has attempted to recommend for Bangladesh a viable strategy of emulating the Malaysian development model to survive and sustain its development pursuits. It argues that despite some dissimilarities, both Bangladesh and Malaysia possess a common British colonial history, a broadly similar culture and religious background and a somewhat parable external outlook. Because of this, the Malaysian strategy can be applied, in a broad sense, to Bangladesh. In the previous chapters, we tried to discover how Malaysia- an agrarian and rubber-exporting country of the

1960s- could achieve tremendous economic development by following certain prudent development strategies. We then tried to find whether its strategy can be emulated by a developing country like Bangladesh in order to awaken its hidden potential for development.

The development paradigm specified in this study contends that all the countries in the developing world have the potential for development and that a set of efficient and appropriate strategies relevant to their socio-economic context may speed up their development. Whatever the level of backwardness or undevelopment or underdevelopment of a country, its development is not impossible if an appropriate model is applied in that country's specific context. A country's development depends on committed people, appropriate measures, and efficient leadership. Certain preconditions for development as set forth by economists in order to enhance development of a certain country or region may not necessarily be applicable to each and every country or region. The industrial development of England was promoted with the accumulation of wealth through merchant capitalism, trade, colonial exploitation and piracy. The German industries were built up with the funds borrowed from the flourishing banking system. The Russian economy was founded on tax revenues and imported capital rather than on accumulation of wealth or on the banking system. Latin American countries depend on the savings from their financial institutions.²¹⁵ Rural industries of China developed from the foundries of the rural people where the Township and Village Enterprises (TVEs) have a dominant role.

However, the development model based on the emulation strategy as presented in this work postulates that the Malaysian development experience can be successfully applied to the development context of Bangladesh. In chapter two, we reviewed a set of economic theories that have greatly contributed to the economies of many developed countries and tried to test the extent to which these theories were applied in the Malaysian strategy and to what extent they contributed to the Malaysian

215. Perkins, D.H. et. al. *op. cit.*, pp. 18-26.

economy. Thus the Malaysian development strategy that has been built on the contemporary theories of Development Economics and that has stimulated Malaysia's economy can also be a contributing factor for the growth and development of Bangladesh. Nevertheless, the strategies to emulate the Malaysian model are not without constraints. In the previous chapter, we identified the most important challenges and opportunities for Bangladesh's adaptability of Malaysia's policy.

The abovementioned impediments that constrained the implementation of the development strategies of Bangladesh stem from certain intrinsic and extrinsic factors. The intrinsic factors relate to the inadequacy and inefficiency inherent in the strategies and the extrinsic factors stem from inconsistency in the policy implementation and from external interference. The multi-faceted issues and challenges that Bangladesh has been facing throughout the years have been dealt with in detail in the previous analyses. The broad development perspectives of the country were examined from the holistic development paradigm. The problems of Bangladesh development were identified and measures were recommended so that the country can move towards success in achieving its development objectives by overcoming those challenges.

Apart from this internal situation, a number of external problems need also to be checked to succeed in realizing the proposed strategy. The external elements associated with the extrinsic factors are a broad range of issues that include the colonial legacy of the 'system build-up' in Bangladesh, a Western-dominated international political economy, and, above all, extensive interference from the donors in the policy affairs of the country. The international political economy is dominated by multinational corporations (MNCs), Joseph Stiglitz's 'IMF colonialism' and various trade restrictions that have been instrumental in continuously obstructing the development of the least developed countries (LDCs) including Bangladesh.

In the face of these intrinsic and extrinsic constraints, certain key issues need to be addressed in order to implement the development strategy of Bangladesh.

Self-Reliance, Not Aid-Begging

First, as an aid-recipient country, Bangladesh's development policy is sub-servient to the donors' prescriptions. Bangladesh enjoys a little freedom to plan, undertake and implement development programs. There is a dire need to escape from this miserable situation. Thanks to the present Finance Minister who has expressed strong optimism that Bangladesh is now quite capable of standing on its own without any external assistance.²¹⁶ However, certain measures can be adopted to achieve the goal of self-reliance.

The dependence of development activities on foreign aid needs to be reduced by a very significant level. The history of the aid-dependent development framework suggests that aid obstructs the spirit of 'self-reliance', 'self-help' and 'self-respect'- the three psychological and spiritual stimuli that are the most important prerequisites for development. Foreign aid is nothing but an aristocratic style of alms taking; the aid transaction patterns demonstrate the culture of neocolonized exploitation. Bangladesh's condition can be compared with that of Japan in the late nineteenth century when it did not have strong economy nor any significant resources. Bangladesh can emulate Japan's strategy of deferment of avoidable consumption. Extreme dependence on foreign assistance without strengthening an industrial base will chronicize the dependency syndrome and increase deindustrialization. The policy makers need to realize that although aid seemingly mitigates the immediate problems, it also binds the recipients into a 'structural inter-locking', which means the more they receive aid, the more they become dependent and the more they remain backward. The vision of long-term development of Bangladesh lies in industrialization based on its own resources out of its own savings generated by deferring consumption in line with Japan's deferment policy during its early period of development.

Another way-out is to transfer foreign funding from the 'foreign aid burden' to the 'foreign investment stimulus', thus creating a strong source of capital accumulation. Regarding

216. The Daily Inqilab, May 6, 2004

foreign capital flows, Bangladesh can follow the strategies of Malaysia and China by initiating joint ventures and inviting foreign investment. Until 1997, the Chinese policy focus was on encouraging foreign capital in manufacturing and other industrial sectors. But after 1997, various service sectors began to operate and several foreign banks were allowed to offer services.

Moreover, in order to generate capital, multiple means of resource generation, as mentioned many times in the previous discussion, may be devised. Foreign aid is received mainly to overcome the domestic resources gap and foreign exchange gap. As stated earlier, the scarcity of domestic resources can be reduced by domestic industrialization based on domestic resources and the problem of foreign exchange can be solved significantly by simply making the products of domestic industries export-oriented.

Modest Liberalization, Not Too Much Open

Much has been talked about trade liberalization, tariff rationalization, financial deregulation and adjustment measures. The failure of the Import Substitution policy led Bangladesh to adopt an export-led strategy under the structure of an open economy. Following liberalization, particularly after the SAP and ESAP policies with the IMF and adjustment measures with the World Bank, Bangladesh's policy seems to have been driven by ultra-liberalization and vulgar deregulation without calculating their long-term consequences. The recent IMF and World Bank pressures for making a framework for closing the state-owned enterprises (SOEs) and transferring national commercial banks (NCBs) to the private sectors before the PRGF's (poverty reduction and growth forum) meeting in Dhaka on April 25, 2004 have already created social and political tensions in the country.²¹⁷ It is quite unpredictable what might happen if the privatization of the NCBs and the closure of the SOEs are implemented by the end of this year in accordance with the World Bank plan.

These reform measures are very dangerous in view of the prevailing situation in the country. Instead of privatizing or

217. *The Daily Inqilab*, March 18, 2004.

closing these institutions, their organizational set up can be restructured through private management of public owned enterprises; their management skills may be developed through appropriate training; their financial weaknesses may be removed by taking them in joint ventures; and their institutional capacity may be built up through providing them with the required equipment, inputs, and personnel. We mentioned before how the IMF's formula of financial deregulation led East Asian financial institutions to collapse. In place of taking the risks and uncertainties, the strategies of joint shares, joint stock, leasing and private management can be viable alternatives.

The East Asian miracle economies allowed deregulation and privatization with some sorts of control and regulation. The states had a say in the decision-making, they could enjoy freedom to plan and implement any decision. After the Chinese open door policy, although China emphasized significant inflow of FDI, it retained central control of foreign borrowing, and discouraged portfolio inflows. We mentioned before in chapters 4 and 5 about the nature of Malaysia's guided deregulation and controlled liberalization. In order to pursue such strong policies, Bangladesh needs brilliant diplomatic skills and expertise.

Rural-Focused Development, Not Urban

It is a popularly said that if 68000 villages survive, Bangladesh survives. Most of the people of Bangladesh live in villages and therefore, the rural-based development approach cannot be ignored. Bangladesh can be compared to China, Malaysia, Thailand, and even Japan in terms of their rural-dwelling features of inhabitation before their development took place. Japan has developed the rural areas in such a way that nowadays there is hardly any difference between the urban and the rural in respect of communications, socio-economic infrastructure and other facilities. Malaysia has developed its rural areas by making paved roads, setting up schools, hospitals, markets and building industrial parks. The rural sector is considered as the heart of China's economy. As the fastest growing category of industry and rural industrialization, the TVEs have been developed. There are more than two million TVEs and the number of their employees has

exceeded more than 125 million.²¹⁸ TVEs are controlled and managed by the Township-Village Government (TVG) and the benefits out of the TVEs are shared by the TVG and citizens.

Hundreds of the rural people of Bangladesh rush to the metropolitan areas creating enormous pressures and disrupting the ecology of the city life. Creating job opportunities in the countryside can stop the rural-urban migration. The development of rural infrastructure, including roads, schools, hospitals, factories and electricity calls for immediate action in order to make the rural regions congenial for development activities. The Bangladesh rural life is in quite a primitive state in this highly advanced age of globalization. The rural-focused development, rural-based industrialization, rural industrial parks, industrial city-palli are the only solutions for the development of Bangladesh.

Agro-Industrialization, Not Too Heavy

Economists and policy makers sometimes express great optimism regarding industrialization, blindly imitating the industrialization processes of the developed countries. This prescription may bring dangerous consequences in its train. Bangladesh is a highly populated country with a small geographical area. Industrialization costs a lot in terms of environment and ecology. The industrialization process of Bangladesh needs to be focused on environment-friendly industrial ventures and to that end, agro-industrialization must get the first priority. Malaysia generated the bulk of its capital from the agricultural sectors. The International Airport at Bangkok is flooded with sophisticated agro-products, rural crafts and rural industrial products that demonstrate Thailand's agro-focused developmental scenario. Almost all industrialized countries have a history of agriculture in the initial stage of their development.

The failure of China's heavy industrialization program, the so called 'Great Leap Forward' of the 1960s, indicated the ineffectiveness of ideas imported from the West and revitalized the

218. Starr, J.B., "Understanding China: A Guide to China's Economy, History and Political Structure", in Guo, S., *Post Mao China: From Totalitarianism to Authoritarianism?* Praeger: Westport, Connecticut London, 2000, p. 172.

importance of agriculture, leading Deng Xiaoping and Liu Shaoqi to introduce agricultural reform. They decided to allocate the land and farming tools owned by the villages to the families and farmers, which resulted in increased rural incomes, productivity, and agro-supplies. The Household Responsibility System (HRS) was launched which maintained that the lands owned by villages and People's Communes as well as other production resources such as mountains, small ponds and farming tools were to be allocated to the household. Besides, the elimination of work points and opening markets created incentives among the farmers that resulted in the increased output and productivity. In order to speed up rural industrialization, some effective measures were considered and thus the State Planning Commission set detailed priorities to guarantee the implementation of the light industry strategy. This anchored the journey of China's TVEs-the rural based light industrialization, which has remained the foundation of the Chinese economy.

Under the holistic framework, there is a high potential for agriculture. Agriculture is the NUCLEUS of Bangladesh's economy. Its development largely depends on its agriculture, which should be the inauguration of the arduous journey towards national development. By modernizing and modifying the agricultural sector and by introducing sophisticated agro-industrialization, Bangladesh can generate huge capital for its transformation towards large-scale environment-friendly industrialization. In the formative stage of its development, agro-industrial ventures, agri-based industries and agriculture-oriented industrial activities need to be given the utmost importance.

Despite the capacity of the agricultural lands of Bangladesh to produce 3-4 crops in a year, compared to normally one crop a year in Japan, the land productivity of Bangladesh is less than half that of Japan. The stereotype cultivation procedure, shortage of seeds and fertilizers, unplanned production, lack of infrastructure, scarcity of agro-loans and agro-subsidies, and, above all, anti-farmer pricing and lack of marketing are some of the constraints that impede agricultural development. In order to meet the financial demands of the farmers, the strategies of smooth and interest free loans, agricultural subsidies and other financial

benefits need to be ensured. The present government, which announced on 1 April, 2004, the institution of 'mortgage free' agro-loans, withdrawal of all cases against farmers of bank default and a reduced 8-10 per cent interest rate based agro-loan²¹⁹ seems to be aware of this.

The agricultural sector needs to be modernized through the application of science and technology and, for that, a science-based system and computerized agriculture must be introduced. In universities, different fields need to be opened to enlighten the students regarding agriculture-related knowledge. In addition, extensive agricultural workshops and seminars on upgrading agriculture must be held in the rural areas. Employment opportunities need to be created in this sector, where only illiterate people are now involved. Unless educated youngsters can be involved in this sector, agricultural development cannot be expected. Educated people must take agriculture with pride as a profession and they must find their future in agriculture. Once the youngsters of different science majors throng to the farms armed with scientific and technological knowledge, nothing can obstruct the agricultural development, and, eventually, the national development of Bangladesh.

Work-Oriented Education, Not Traditional

Both private and public education in Bangladesh face challenges of various natures. The government-run formal education in primary, secondary and higher education suffers from mismanagement, inefficiency and lack of vision. Classes are not conducted regularly and students at the universities are not kept busy with advanced exercises, and, as a result, qualified specialists are not produced. Students, and, perhaps, the teachers do not know who they are, what they do and where they go. Apart from this lack of vision, some other problems such as financial constraints lack of appropriate syllabi and curricula and lack of planning have impaired the goals of education.

The first and the foremost thing to do is to create mass awareness regarding education, hard work and global standards of

219. *The Daily Jugantar*, Dhaka, April 1, 2004.

knowledge. From development measurement, factor intensity composition has now been transformed from the labor, resource and capital-intensive industrializations to the R & D-intensive industrialization. In order to keep pace with the modern-day international development, there is no alternative to a science-based education.

In a recently circulated report, the University Grand Commission noted that only 12 per cent of the total budget allocated to public universities is spent on educational purposes while the lion's share is used to meet other expenses.²²⁰ A significant increase in spending on education in the national budget is of the utmost importance. Industrialists can sponsor brilliant students to study in different scientific fields in the renowned universities of the world. The teachers need to be provided with training and teaching methodologies of advanced world standards. NGOs can play an important role in training the teachers and encouraging brilliant students to study both home and abroad. Education and only education is a must for nation-building purposes. If Bangladesh fails to achieve world-class education, it is sure to falter in achieving its economic goals.

Government for Governance, not for Corruption

The values and norms of good governance discussed in chapter three are largely ignored in the context of the fledging democracy of Bangladesh. The opposition in parliament cannot properly play its appropriate role, its opinions are not heard and its views are not reflected in law enactments or policy formulation. Its role is confined to the political demonstrations on the streets. The newspapers, press and media are very often controlled or influenced by the ruling party. Although the separation of powers is one of the hallmarks of a democratic government, this has sometimes become blurred in Bangladesh. Judges are not seen as being free to decide and sometimes make judgments under dictation of the government elite. The law and order situation has markedly deteriorated in recent years. Dreadful news regarding killings, robberies, hijackings and rapes is splashed on the front

220. *The Daily Star*, Dhaka, March 17, 2004.

pages of every day's newspapers. Administrative decentralization cannot bring hope to local people owing to the lack of financial sustainability, fund mobilization, efficient administration, and political will.

The central reason for the collapse of good-governance in Bangladesh is the rampant corruption. Corruption has become a widespread phenomenon in political, administrative and financial sectors of Bangladesh.²²¹ Various forms of crony capitalism²²² (such as economic rent seeking) stand as the main obstacle for encouraging a smooth development environment. The top political leaders, ministers, bureaucrats and even the Supreme Court judges are now alleged to be involved in seeking bribery and other means of corruption.

A spirit of accountability that can save the nation from this moral decay appears to be the most crying demand of the time. Despite the existence of formal means of maintaining accountability, corruption does not seem to have decreased in Bangladesh. What the country needs in the present context is something beyond these formal means. A set of informal means of accountability can play the required role for establishing a corruption-free society and administration. Codes of ethics can guide the people in the public service. Religious values and practices can induce the government servants, as well as politicians, to refrain from wrongdoing and mischief. In this regard, Islam provides the most valuable teachings. According to Islam, the sense of accountability emanates from the spirit of 'Taqwa' (God-fearing). Islam holds that accountability goes to Allah (God), and whatever a person does-whether good and bad- is registered in God's directory, and the person is punished or rewarded according to his/her deeds in this mundane world and hereinafter. Since most people in Bangladesh are believers of Islam, it is convenient, and also in accordance with democratic principles, to implement Islamization in the administrative management of Bangladesh.

221. For details, see the Document of the Transparency International, *op.cit.*

222. For a detailed idea of Crony Capitalism, see Kunio Yoshihara, *The Rise of Ersatz Capitalism in South East Asia*, Oxford University Press, New York and Singapore, 1998.

Conclusion

In light of the above discussion, it can safely be argued that Bangladesh can stimulate its economic growth and development through emulation of the Malaysian development strategy and to that end, certain recommendations may be considered:

The first priority is to build up the domestic and regional resilience capable of ensuring sustainable development in order to catch up with the development tempo of other developing countries that have already achieved some degree of economic prosperity in order to meet the frightening challenges of the future. A participatory political system, economic reforms, a reasonable degree of social equity and spontaneous popular participation in decision making are badly needed to develop this intrinsic vibrancy and resilience. But the imperative in this respect is the transparency and accountability of the political authority as well as the existence of a strong and responsible opposition to ensure checks and balances. Much will depend on the degree of success in institutionalization of the political process. A truly accountable government is a result of the shared contributions of the government itself and the opposition, acting beyond their narrow party interests.

Second, a revolutionary reform needs to take place in order to enlighten the young generation with the most up-to-date and advanced knowledge to meet the demands of the twenty first century. Educational restructuring should concentrate more on such fields as science and technology, economics and development, along with other disciplines. Emphasis should also be placed on establishing multifarious Research and Development (R & D) institutes. It is of the utmost importance to extend the beacon of education in all houses of the country.

Third, an effective and pro-development economic diplomacy²²³ is essential to transform the instincts and attitudes of 'aid-begging' into the vision of 'development-seeking'. The aid-thrust must make room for a trade and investment oriented diplomacy, relieving the country of its chronic aid dependence. In

223. See for details, Amin, M. R. "Economic Diplomacy of Bangladesh: A Post cold War perspective". *op. cit.*

order to adapt to the fast-changing global situations, Bangladesh needs to diversify both inter and intra-regional and international development linkages and promote trade and investment relations with the regional, inter-regional and international partners across the globe.

Finally, it must be recognized that the world economy is still dominated by the West and by the international organizations like World Bank and IMF as well as other donor agencies closely linked to the West. No economic plan or endogenous strategy can be successful without the support or involvement of these exogenous elements of development. Malaysia set an example by using a most brilliant economic diplomacy, linking up with the West to strengthen its economy, and if Bangladesh emulates Malaysia, it can perhaps imitate the Malaysian diplomatic tact and skill. This is perhaps the most challenging task ahead. The road towards development is tortuous, but the prospects may not be bleak, if the necessary correct strategies to be appropriately emulated from Malaysia are adapted wisely in the fast changing world of globalization.

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