

Can Bangladesh Continue to Grow without “Good Governance?”

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**BIDS CRITICAL
CONVERSATIONS**

2017

THE IDEA OF GOOD GOVERNANCE HAS DEVELOPED SOME “MIRACLES”

The good governance idea shifted the perceived domain of the state from primarily providing public goods to taking a more pro-active role in the process of development through enforcing contracts, managing property rights, promoting rule of law and democratic accountability.

The rapid growth of the economy of Bangladesh in the 1990s and onwards made many of us ponder how Bangladesh could grow in such an impressive rate without much noticeable progress in various governance indicators.

This led to the idea of Bangladesh Growth Miracles or Bangladesh Development Paradox.

THREE REASONS FOR RE-VISITING THE ISSUE OF BANGLADESH “GROWTH MIRACLE.”

- First, the Bangladesh case is unique not only because the economy generated high growth but also because it generated a less volatile and sustained growth.
- Second, new evidence on growth pattern in developing countries is now available which shows that “growth miracles” happened in many countries for many reasons, including poor quality of governance.
- Third, we now have theories that can address this “miracle” not in an ad hoc fashion but in an analytical way. Some of these have been applied to explain the growth of the economy of Bangladesh.

EMPIRICS OF GROWTH

- Many countries experienced growth accelerations that are brought about by many factors including change in government, economic reform, and positive external shocks.
- Most growth accelerations are not preceded or accompanied by major changes in economic policies, institutional arrangements, political circumstances, or external conditions..
- The principal fact about growth rates of countries over the medium-run is volatility in the growth rates – with acceleration and deceleration – and hence a lack of persistence.
- Weak institutions can initiate episodes of rapid economic growth but it is less likely to be sustained

POLITICAL ECONOMY OF GROWTH

- The central problem these theories face is to explain growth where formal institutions play a very limited role and personalized transactions dominate economic and political domain.
- The concept of rent is widely used. Rents are returns/incomes/benefits an actor derives from limiting other actors from taking the same benefit (e.g. various licensing).
- At least four approaches have emerged to explain the complex relationship between growth and institutions.

ACEMOGLU AND ROBINSON: INCLUSIVE AND EXTRACTIVE INSTITUTIONS

- Acemoglu and Robinson (2012) considered institutions as “rule of the game” and classified them into inclusive and extractive institutions in the political and economic domains.
- A stable growth is achieved when a country is able to generate inclusive political and economic institutions.
- Growth can be anything when inclusive economic institutions persist with extractive political institutions (Bangladesh Growth Miracle?) or inclusive political institutions persist with exclusive economic institutions.
- A situation of co-existence of extractive political and economic institutions is described as a “poverty trap.”

NORTH, WALLIS, AND WEINGAST: LIMITED ACCESS ORDERS (LAO)

- North, Wallis, and Weingast (2009) consider limited access orders (LAO) or "natural states" where entry to economic and political activities is limited (developing countries) and open-access orders (OAO) where entry is open (developed countries).
- In LAO, actors compete for rents and aim to avoid violence that could be generated by a given allocation of rent.
- The growth of the economy is determined by the extent to which political and economic elites can avoid violence.

MUSHTAQ KHAN “POLITICAL SETTLEMENT “

- Mushtaq Khan's "political settlement is a combination of power and institutions that is mutually compatible and also sustainable in terms of economic and political viability" (Khan 2010).
- Powerful groups operate through informal routes, primarily through patron–client networks, to protect their political power and rights over income flows (Gray 2016).
- Growth of an economy is affected by the nature of political settlements. A misalignment between power relationships and rent distribution will affect growth.

LANT PRITCHETT, KUNAL SEN AND ERIC WERKER: THE DEALS APPROACH

- The deals approach uses concepts such as political settlement, rents space, and the deals space. The rents space is characterized by private sector firms who can be rentiers or powerbrokers, magicians and workhorses.
- Deals can be open (no restriction on making a deal) or closed (there are restrictions). It can also be ordered (deals honoured) or disordered (deals not honoured)..
- The deals approach identifies growth episodes and tries to explain growth for each episode.
- Growth in each episode depends on how the deal and rent spaces are synced to political settlements.
- When deals are open and ordered a growth episode is likely to exhibit high growth, when they are closed and disordered growth may slow down.

QUESTIONS FOR THE PANELISTS

- "Can Bangladesh Continue to Grow without "Good Governance?" by focusing on the factors in the
 - i. **economic domain** that influenced growth in Bangladesh
 - ii. **political domain** that influenced growth in Bangladesh
- They should also try to answer the following question:
 - iii. What political and economic reforms are needed to maintain and surpass the current growth rate that Bangladesh is already now a Lower Middle-Income Economy?