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NEW STRATEGIES FOR INTERNATIONAL ASSISTANCE

Centre for Policy Dialogue

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The Centre for Policy Dialogue (CPD)*, established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include ***The Independent Review of Bangladesh's Development (IRBD), Governance and Development****,* ***Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System*** *and* ***Leadership Programme for the Youth****. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.*

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue on ***New Strategies for International Assistance*** *with Professor Jeffrey Sachs, Director, Harvard Institute of International Development, on January 15, 2000. The dialogue was held at Hotel Sonargaon, Dhaka.*

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Dialogue on

NEW STRATEGIES FOR INTERNATIONAL ASSISTANCE

i) The Dialogue

The Centre for Policy Dialogue (CPD), as part of its dialogue programme, organised a dialogue on ***New Strategies For International Assistance*** *with Professor Jeffrey Sachs***,** Director, Harvard Institute for International Development (HIID), USA on January 5th, 2000 at Hotel Sonargaon, Dhaka. Professor Rehman Sobhan, Chairman, CPD moderated the dialogue. The dialogue, attended by Dr. S.A. Malek, Political Advisor to the Honourable Prime Minister, Government of Bangladesh, Mr. Saifur Rahman, MP, former Minister of Finance, Government of Bangladesh and Dr. A. Moyeen Khan MP, former Minister of State for Planning, Government of Bangladesh, was also participated by a cross section of top level policy makers, politicians, academics, experts, business leaders and leaders of various civil society groups. (List of the participants is annexed). This dialogue report presents a summary of the keynote presentation made by Professor Sachs and briefly captures the main points of the interactive discussion and exchanges which followed Professor Sach's presentation.

ii) Initiating the Dialogue

Professor Sobhan initiated the dialogue by drawing attention of the dialogue participants to Professor Jeffrey Sachs' enormous distinction and global recognition as an expert on global economic issues. Professor Rehman Sobhan kicked off the dialogue saying that the present interactive engagement would benefit the participants by allowing them to have an indepth discussion on a number of key issues which he expected Professor Sachs to share with dialogue participants through his initial presentation. Recognising wide ranging professional interests of Professor Sachs, Professor Sobhan requested him to engage with the participants on whole range of issues relating to economic reforms. In this connection Professor Sobhan recalled that Professor Sach had been a key player in designing many reform agendas and on his own right advised a number of economies in transition in the area of economic reform. Noting that the agendas of economic reform had been far from robust in their outcomes, Professor Sobhan requested Professor Sachs to share his views about the design and implementation of the reform agenda.

Professor Sobhan posed a number of questions to Professor Sachs and invited him to respond to those. He asked whether Professor Sachs viewed the state of the paradigm of 1980s, which was the core of the reform model and which was still there, given the visible malfunction of that paradigm had really delivered its promised outcomes. Where it delivered some good results as distinct from where it had not, what in fact might have been some of the critical factors explaining this differentiated performance? Was the malfunctioning of the system originated due to flaws in the design of reforms? Whether the flaws in the reform process originated because of omission or because of commission or both ? Given the reform experience, what should be the significant points of departure as new reform agendas are defined? What elements needs to be incorporated into the contemporary reform design? What are the policy interventions and the institutional rearrangements which should be brought into the new architecture which would be appropriate for a country such as Bangladesh as it enters into the new century? Lastly and relatedly, what was the role of the international agencies? Had they facilitated the reform process or had they, to some extent, become impediments to the reform process? How effective had the multilateral agencies been in actually promoting the domestic ownership over the reform design or was it in fact right that the discussion of ownership was largely rhetorical and business tended to continue as usual?

iii) Initial Presentation by Professor Jeffrey Sachs

In light of experiences with reform carried out over the last twenty years, Professor Sachs defined the nature of the reform process in broad terms as national economies hooking up with global markets in a more effective fashion. “If I had to define in one sentence what the reform agenda has been, I think it has been the process of integrating developing countries whose economies for one reason or another were outside the world’s mainstream market system to hook up to that market system. Some countries which were following a period of import substituting policies or domestic led development strategies the shift has been towards an export led growth," he added.

Four Reasons for Mixed Outcome of Reforms

In response to Professor Sobhan's comment that the reforms have not delivered all that was promised, Professor Sachs conceded that this was 'certainly true.' "For many many reasons the world is not uniformly prosperous and happy right now, the economies were highly differentiated – some countries are doing well and others are doing very badly. In some country there are perceptions that these reforms are extremely well and in others, there is a sense that the reforms did not work." Professor Sachs mentioned upfront that in many countries it was felt that reforms did not work because in effect reforms were not made. Accordingly, his way of beginning a serious analysis of these outcomes was actually to have a rigorous look at what countries said they were doing and what actually happened on the ground. From Professor Sachs's classification, there were cases where governments really tried to make reform but outcomes were mixed for one reason or another.

In his view there were several reasons - but mainly four – for mixed outcomes from the reform process. *Firs*t, many countries went into these reform processes at a time when they were financially bankrupt as a consequence of 'terrible' policies which were pursued for a long time. Economic bankruptcy had pushed them to initiate reform process. He noted that once a government was bankrupt there was almost no way out for it. "We do not do a very good job of overcoming state bankruptcy in the world. So what happens is that you fall under IMF care for twenty years and that has a very mixed record. But the big problem is that once you are broke it is very hard to get out of trouble," Professor Sachs developed. Therefore, Professor Sachs views that one of the reasons why reforms did not work in a lot of places was because the country's government went bankrupt and they remained bankrupt. Professor Sachs criticised the international community for failing to translate the rhetorics about debt relief into action "They (bankrupt countries) were not able to get their debt released, because we do not have a realistic system of debt relief. We talk a lot about it, but it does not happen. So that's one category of reforms go wrong," he observed.

Professor Sachs took refuge to his well-known thesis about *economic geography* to explain the *second* reason for mixed outcomes of the reforms. "Another category of what goes wrong is that there are many parts of the world that are sufficiently isolated geographically or under so much demographic stress or under so much military conflict that the problems are not basically economic reforms; these lie elsewhere," he stressed. According to him there were many areas in the world where market reforms by themselves were not going to provide much of a solution to the intensity of problems arising out of geographic or demographic stress. "You can do market reforms, but not much good happens afterwards. So, I think this has to be acknowledged," he opined. Professor Sachs said that a major portion of the tropical world faced problems of disease or demographic stress or conflict or physical isolation in the form of landlockedness so that a strong emphasis needed to be placed on those geographical factors as being important reasons for the lack of decisive progress of those countries in terms of economic growth.

A *third* dimension that often went wrong, which Professor Sachs had seen in his capacity as policy adviser to various reforming governments, was that there was no domestic political consensus for carrying out the reform agendas. In this connection, he cited the example of Russia in failing to bring consensus behind the reform process. "What others call reform process was in reality a period of a great instability in polices, and this was what happened in Russia where the Russians could not agree on anything or on any particular direction that the economy should go and in the meantime vested groups were stealing everything they could," Professor Sachs thought. He added that there was a lot of corruption in the system as a result. Elaborating on the Russian case, Professor Sachs said that the 'only real' point of consensus in Russia seemed to be to try to 'get in to the government and steal.' Other than that the Russians failed to agree on any course of action. One lesson from Russian experience was that lack of social consensus on the basic direction of policies was a critical constraint to successful implementation of economic reforms agenda.

The *fourth* and more ‘ironic’ cause behind the problems faced in the reform process had been, according to Professor Sachs, ‘the failure of success’ in light of experiences in Mexico in 1994 and subsequently in East Asia in 1997. Elaborating, he said that when countries began becoming successful through reforms, international and domestic bankers tended get so excited that they embarked on a policy of wanton over-lending and over-borrowing, creating credit booms which were eventually followed by credit busts. “So markets do not work very well often, especially in cases of highly volatile international capital flows and this has been a flaw in the reform design, for sure,” – noted Professor Sachs. According to Professor Sachs, liberalisation of short term capital flows was a 'very bad' idea when there were big problems of regulations in the banking sector because international lenders are 'very naïve' about emerging markets, and were under the impression that they would get bailed out no matter what happened. Domestic bankers had almost unlimited capacity to create troubles for their economies by over-borrowing and over-investing and that was what happened. He then went on to emphasise the importance of proper regulation of the financial market; otherwise the markets would create trouble, he apprehended. For Professor Sachs, absence of appropriate regulatory management was one of the main reasons why market reforms failed in many countries.

Four Lessons from Experiences with the Economic Reform

What were the results of all the economic reforms? Professor Sachs asked. Before responding to that question, Professor Sachs categorically stated his 'one hundred percent unequivocal' belief that being an open economy connected to the world market was vastly to be preferred to any kind of closed economic strategy. "I think the latter option was simply an impossible alternative. So I have no doubts that market opening and international integration is the basic strategy to follow," he added. Professor Sachs, however, summarised the lessons to be drawn from the reform experience which suggest that policy makers ought to take into consideration a number of factors before embarking on a reform process. *First*, if the country was financially bankrupt it was going to be 'hell of a time' to get out of the trouble and IMF would not be very helpful to get the country out of such troubles. The problems could last years together. *Second,* if there existed no internal consensus, the country could get stuck for long time without progress. *Third*, if the country faced significant problems of geographic isolation or environmental stress, market reforms might not be able to save the country because the physical or environmental problems could be too overwhelming. And *fourthly,* unregulated financial market could never be trusted since these create tremendous amount of havoc to the economy. So, he went on to caution that a country ought to be very careful since markets for financial assets were very different form markets for commodities. "The commodities markets should be liberalised relatively quickly and the financial markets should be liberalised very carefully and prudently with a lot of continuing regulations'.

Role of International Organisations

Dwelling on this particular issue Professor Sachs stated that he was not 'thrilled' with the performance of international institutions. Referring to the IMF, he said that when countries went bankrupt, the IMF would postpone debt repayment and would bring the country under yet another loan programme. "But, what you really need was debt cancellation rather than having yet another IMF loan". Therefore, Professor Sachs regarded the IMF bail-out package as almost a *one way trap* and opined that the evidence of the failures of the debt reduction operations were indicative of what had gone wrong with a lot of IMF programmes.

Secondly, Professor Sachs noticed that neither the IMF nor the World Bank had been taking a realistic view of the international business. "We understand that economic reforms involve bringing foreign investors to make real investment in a country and that means tax holidays, EPZs and all sorts of things that you do not find in text books," he said. Elaborating his point Professor Sachs added, "The Fund and the Bank abides by the text books often, and the result is that you do not get business and you get a reform checklist." He pointed out that there was a big difference between making a checklist of reforms and getting in investment and the real business sector moving. As a result he was not very much excited about substances of some of the recommendations put forwarded by the twins because he did not find those realistically business oriented enough.

Thirdly, Professor Sachs opined that official institutions did not have very realistic approach to help problems of the countries which were in *geographical stress*, either because of their physical isolation due to landlockedness or because of their extremely high disease burden or some other similar problem. He reemphasised his point by putting bluntly that next 1000 IMF missions were not going to produce malaria vaccine and malaria vaccines were going to be lot more helpful than these missions. He, therefore, inferred that the international community often was putting its emphasis on wrong areas.

Professor Sachs chastised the World Bank for its insignificant contribution to agricultural research, and advocated for increased support for facing scientific research. "What is needed is more scientific research covering problems facing the tropical countries in the form of low agricultural productivity, low capacity in disease management and control, lack of environmental protection and susceptibility to climate change. These are really scientific problems and not economic reform problems." Professor Sachs was very unhappy that in recent years the donors and national governments were not interested in supporting science as they were in supporting economic reform agendas. He thought it was a shortcoming which particularly applied to the World Bank which offered billions of dollars in loans but granted only 30 million dollars a year to support agricultural research centres. According to Professor Sachs, this was a striking misunderstanding about the real issue of development. The World Bank's contribution to the Consultative Group for International Agricultural Research (CGIAR) was only 30 million dollars a year out of a portfolio of 28 billion dollars of annual lending programme. "This to me just shows how ridiculous we are in understannding the real issues of development in a lot of countries. So I do not give high marks there," Professor Sachs commented.

As regards the World Trade Organisation, Professor Sachs thought that the organisation was too much biased towards rich countries. Commenting on the breakdown in Seattle, he said that events in Seattle in effect showed that the developing countries were saying no to the pressure from USA and elsewhere on issues such as labour standards, environmental standards. This happened at a time when the US did not want to hear anything about problems of its anti-dumping, abusive practices and policies pursued by developed countries or the lack of progress in opening up the garments sectors more widely. Professor Sachs commented that the WTO was yet to fulfil its mission of being developmentally oriented.

iv) Discussion

Liberalisation, Growth and Structural Change: Cross-Country Experiences

Initiating the floor discussion following Professor Sachs presentation, dialogue moderator, Professor Sobhan commented that most of countries in the Asia, Africa and Latin America had actually liberalised very aggressively. He asked whether Professor Sachs thought that the reforms brought in significant growth and structural change in the economy as a consequence of liberalisation; he enquired whether, as a conseqeunces of such policies, a process of deindustrialisation had not set in quite a large number of those countries. Professor Sachs again turned to his *geography* argument in responding to these questions. According to Professor Sachs, countries which liberalised, not just imports but also foreign investment regimes had seen some quite striking progress. The Western Hemisphere, Mexico, Central America and the Caribbean countries had a tremendous structural change in the last five years as result of increasing integration with the US economy. He thought that the outcomes had been 'very very successful'. Mexico used to be primary commodity exporter, basically an oil exporter – at present overwhelmingly a sophisticated manufacturing exporter which was selling automobiles, electronics and information technologies, garments and textiles and many other products to the US market. This was a direct result of establishing the free trade area (NAFTA). Professor Sachs expressed his optimism about Mexico's future as it was undergoing structural changes of the 'right kind'. Turning to his experiences in the Central America, where he has been working for the last three years, he pointed out that the war-torn economies, which once used to be called *banana republic,* were now exporters of manufactured commodities. There were significant economic growth in many countries of the region as a result of import liberalisation, e.g. in Dominican Republic there was a quite significant growth after years of decline, he opined.

In the European context, he cited the example of Poland, a country close to the European Union, which had been growing about six per cent per year for the last eight years on the basis of market reforms. Czech Republic, Hungary, Slovenia, the Baltic States, Morocco, Egypt, Tunisia etc. were countries which were doing quite well as a result of import liberalisation. From Professor Sachs' viewpoint, the same was 'true' for the East Asian region as well. The financial crisis of 1997 which engulfed this region was, not a trade crisis, but a 'crisis of short term borrowing'. In this connection he noted with optimism about East Asia's rate of recovery from the crisis. Korea achieved 9 per cent growth in 1999 and it was coming up, he informed.

Professor Sachs mentioned that Bangladesh also sieged the opportunity of opening up an and the growth rate of the country has gone up at least a percentage point per year on average as a result of liberalisation. Taking part in the discussion over this observation Dr. Q. K. Ahmad, Chairman, Bangladesh Unnayan Parishad disagreed with Professor Sachs' conclusion. He said that it was 'not true' to say that Bangladesh's growth rate had gone up by one per cent due to liberalisation. The growth rates have been about 4.7 per cent or 4.8 per cent in the seventies, in the eighties, and also in the nineties, if one takes the decade as a whole. Over the last five years, the growth rate had been 5.2 per cent and prior to this it was 4.2 per cent, Dr Ahmad noted. The one percentage point rise in GDP growth rate was due only to agriculture since agriculture had grown at 4.4 per cent on an average over the past few years and "if one adds one-third of that growth (agriculture's contribution to GDP was about 32%), one gets one per cent", Dr. Ahmad emphasised.

Bringing up the issue of 'creation of the RMG' sector, Professor Sachs noted that the sector had positive significance for the country. He, however, was of the view that this sector was the only major export-oriented sector which came up so far, and this was a big problem. Nevertheless, he noted that this was a good example of what liberalisation could actually accomplish. Pointing to the other parts of the sub-continent, Professor Sachs informed out that India had an underlying growth rate of at least 6 per cent per year and projected that India could achieve a growth rate of 8 per cent based on trade liberalisation. New sectors were making inroads, specially the boom in the IT sector, which was going to be their dominant export sector in a very short period of time. Probably the most successful growth story in the last twenty five years was China which had been pursuing an export-led strategy over the last two decades. China experienced an export boom resulting in a rise of Chinese annual exports from 20 billion in 1980s to 180 billion dollars in 1999. By opening up her coastal regions, China ushered in one of the greatest economic booms in modern history and "by no chance they could have done this without trade liberalisation," emphasised Professor Sachs.

Although these were evidence of many success stories, Professor Sachs conceded that there were also important failures for one reason or another. Professor Sachs diagnosed the Sub- Saharan Africa's failure as something originating in its basic commodity dependence. "It is not a matter of deindustrialisation so much, as lack of change in macroeconomic structure because foreign direct investment was almost absent in the region," he added. Professor Sachs drew attention to a number of reasons behind this; however, the main difficulties were war, physical geography, and disease.

He attributed Russia's failure to corruption and mismanagement and commented that the scale of such malfunctioning had been so widespread that had constrained Russia’s ability to achieve the kind of results that Poland had achieved. He said that Russia also faced geographical problems; by and large it had a very little coast, except in the Far East i.e. European Russian. He added that Russia enjoyed much less benefit from foreign direct investment, as the country was much farther from the European market.

To Professor Sachs South America was another mixed picture – 'more bad than good actually’. Professor Sachs was of the opinion that the Latin American countries had done a lot of liberalisation, but had not really been able to get away with from traditional commodity dependence. He saw a lot of reasons for that, but specifically would like to put exchange rate policy and macro-instability as part of the 'story, albeit not the whole part'. Peru, Ecuador, Venezuela, Argentina, and Colombia remained too heavily dependent on primary commodities and had not been able to make breakthroughs into a more diversified, broad based economy.

Privatisation: Strategic Interest, Not a Political Game

Professor Sachs took on the issue of privatisation by making some general observations and analysed privatisation in a ‘functional’ way. He stated that he would try to keep his distance from *economic religion* and stay with *economic practice*. According to Professor Sachs, infrastructure was the key sector which needed attention from the perspective of privatisation. Major sectors such as power, telecommunications and port were very important for the economy of a country since their efficient functioning, to a great extent, determine competitiveness of rest of the sectors like manufacturing and services sectors. Internationally oriented sectors were especially dependent on the performance of the infrastructure sector. To him, problems were generally associated with state monopolies e.g. in telecommunications, one ending up with no phones, high costs and so forth. Professor Sachs considered telecommunications to be a strategic issue for the economy since there could be no modern economy without modern telecommunications any more. He elaborated on the importance of telecommunications for the purpose of raising competitive strength with the illustration of the RMG sector which was a humble industry from technological point of view. "You can no longer have a sophisticated garments industry without an adequate information technology base. I want to stress that, if you want to out-compete Morocco, Tunisia or Poland or Mexico or Honduras or Dominican Republic or other countries, you have to overcome a lot of distance. This would require strong information technology base, meaning a telecommunication sector that works well." Professor Sachs did not want to consider privatisation of telecommunications as a political game. According to him, it was a core part of the circulation system of an economy and for that privatisation was ‘absolutely necessary’.

Referring to the Chittagong port, Professor Sachs opined that on the basis of experience gathered from his two-day stay in Bangladesh and through reading of the newspapers he would venture to say that "something is wrong with the efficiency of the port". Terming the port as the country's lifeline to the world, Professor Sachs was of the view that the port should not be part of a political game, although they generally were. He thought that getting the port under private concession was strategic because it would not be logical to expect politicians to run ports since they had their own disinterest in antagonising vested and powerful interest groups.

Professor Sachs said that politicians were not elected to lay-off people rather their job was to protect jobs; their job was not to make firms competitive either. He thought that markets were there to do the job and the task of restructuring the firms was too painful for the politicians to execute.

The politicians were also not doing a 'great job' in the banking sector of the country either by directing the loans. "Politicians would be very wise to say do not let us anywhere near the bank, you know it's not our great business," Professor Sachs said. In this connection he referred to a Minister of Planning -turned- President of Bolivia who said to him "thank God I cannot manage the weather. ... it would be terrible if I could really control the weather : the farmers would be at my door everyday for rain and people in the cities would be demanding sunshine from me. But this way I could say I have no power over this."

Taking the floor, Dr. S.A. Malek, Political Advisor to the Prime Minister of Bangladesh commented that he could not fully agree with Professor Sachs' remarks about politicians. " I am sorry for Professor Sachs scathing remarks about the politicians. I want to remind him that the political will of a country determines the pattern of development of a country. The direction towards development comes from politicians. I hope he would reflect on this in future," Dr. Malek said.

The Real Problem is Insufficient Creation of Jobs

In response to a question by Dr. Nasreen Khundker, Department of Economics, University of Dhaka on the issue of shedding of workers in public enterprises owing to privatisation, Professor Sachs opined that the real problem was not shedding of workers, but insufficient creation of jobs in a country. Detailing out the issue, he said, “job change was not the real problem, the real problem was that when you shed jobs in an economy that does not create jobs.” Focusing more on job creation, he said that the biggest single problem that he saw as an obstacle to job creation was very little foreign investment in the country. Bangladesh, a country of 127 million people, was taking in less than half a billion dollars of foreign investment a year. "This is striking and this is what I would focus on because that is why tens of hundreds of jobs were not being created in the country. So, I would ask a very specific question: Where are all the foreign investors?" To him, it was very critical to look at factors which explained lesser amounts of foreign investment in Bangladesh, specially in such sectors as ports and telephones which did not work very well.

Not an Agriculture-led Strategy

Dr. K.A.S. Murshid, Research Director, BIDS asked about the role of agriculture in the context of an export-led growth strategy that Professor Sachs had advocated. He was of the view that agriculture did not receive the kind of importance that it should have received in the strategy. The sector was specially critical in terms of providing employment. Professor Sachs, however, said that Bangladesh would not be able to achieve its development objective if 57 per cent of a growing population was still engaged in agriculture. Bangladesh is the most densely populated country in the world barring two city states and there is an urgency for improving agricultural productivity and increased investment in agricultural research. The future of Bangladesh, according to Professor Sachs, must lie in a deep structural transformation towards urbanisation to manufacturing and services. With incredibly high man to land ratio, the country faced a formidable challenge of deagriculturalisation, not by attacking the agriculture sector but by making viable other sectors and raising the productivity in agriculture through science and technology. This would result in a declining population in agriculture, more land per agricultural worker and higher productivity outside of agriculture, he pointed out. To him, agricultural strategy was critical, but he would not support an agriculture-led growth strategy even though bulk of the population currently resided in the rural areas. "I would say science, technology, agriculture, education and health in the countryside would combine to build viable non agricultural sectors," he added. He opined that rapid rise in agricultural productivity and increasing the viability of the non agricultural sectors were the twin passes that was going to push the country forward. High profitability in non agricultural sector, together with high agricultural productivity would sharply diminished proportion of population in agriculture, the professor postulated.

Trade-off not between Subsidy to Agriculture and Misuse of Public Finances

Dr. A Moyeen Khan, MP thought that agriculture remained the mainstay of the Bangladesh economy as 37 per cent of the GDP came from agriculture and 67 per cent of the population depended on agriculture or agriculture-related activities for their livelihood. He also noted that the donors prescribed withdrawal of all kinds of subsidies to agriculture whilst exactly the opposite was being practised in the U.S.A. and countries of European Union. He as a representative of the common people did not understand the reasons behind this differential approach. Setting the record right Dr Asaduzzaman, Research Director, BIDS noted that according to the WTO provisions a country could under certain circumstances provide for certain subsidies, such as input subsidies in agriculture, equivalent to a maximum of 10 per cent of total value of the agricultural product. He noted that subsidies given to agriculture in Bangladesh was roughly one to two per cent of the country’s total value of the agricultural produce precisely because of the dictates of the World Bank over the last fifteen years. He observed that this had led to unfair competition.

Professor Sachs said that the Bangladesh data showed a very high degree of underinvestment in primary health care and education, even though massive efforts were being made in this area. He pondered as to what should really be the best use of the scarce dollar of a financially strapped country such as Bangladesh and financially strapped government such as the GOB. To him providing input subsidy to agriculture was a pretty ad-hoc sort of approach to economic development as against targeted finance for primary health facilities which he thought to be a much better and appropriate allocation of scarce resources. To him subsidy was not an attractive policy.

Professor Sobhan at this point noted that the main beneficiaries of agricultural subsidies were marginal and small farmers in Bangladesh. Desubsidisation, thus, in effect hurt the disadvantaged sections of the productive population. Touching on the issue of what was the optimum use of scarce resources of a financially strapped country such as Bangladesh, Professor Sobhan said that half the public budget was either stolen, or misused by way of nonproductive and nondevelopmental expenditure. "So trade-offs are not between healthcare and education on the one hand and subsidisation on the other; rather the actual trade-off was between gross misuse and malfunctioning of the public finances amongst the various sectors of the economy," Prof. Sobhan noted.

Government Investment: Raising the Quality

On the question of government investment, Professor Sachs thought that the government should not spend another single penny on telecommunication. Not that there should not be any investment in telecommunication, but it was the private sector which was best situated to come forward to make the required investment given the right signals, he added. According to him, the government should put high priority to investments in health facility, research in medicine and agriculture, and roads in rural areas where no one else was going to invest. However, it was not prudent in his view that the government should invest in areas such as port facilities or the airport or telecommunications or power or other sectors where private investment, foreign as well as domestic, would do the job more efficiently, if the regulatory environment was in place. Referring to a discussion about power/gas sector loan from the World Bank, he asked as to why the government would ever make investment in that sector given that the country could get billions of dollars worth of private investment which was the easiest way to go.

According to Professor Sachs the government should not be spending money simultaneously on other things when it did not have money to spend more than a few dollars per person per year on primary health. He recommended that the government should spend 10 or 20 or 30 dollars per person per year on primary health at a minimum. "If you add 10 dollars per person, you are talking about an extra 1.2 billion dollars a year. That's where I would struggle to find out the government resources by way of cutting back investment in all these other areas in order that I might be able to make the social spendings possible," he elaborated. Professor Sachs was not against investing in other areas, but to him, government was not in the best place to invest in areas such as telecommunication, gas and power.

Equity: Enabling People to Fulfil Their Destinies

Dr. Q. K Ahmad commented that Professor Sachs did not talk about equity. "If you say equity is not relevant I will hear it, but will not accept it. Equity has extreme importance in the discourse on market liberalisation. In the final analysis this boils down to the question of sustainability, " he opined.

Responding, Professor Sachs said that he did not mention the exact word, but he must have spoken more than fifty times about the importance of increased health expenditure and enhanced access to universal education, especially access to literacy in the countryside. For him expanded outlay of healthcare and augmented access to universal education were absolute core of the equity agenda. To him equity refered to enabling people in the society to fulfill their destinies as healthy, literate full functioning individuals who were able to live up to their full potential. Income transfers did not mean much compared to having access to education services and health care, Professor Sachs recommended that public spending in health should be raised from the current level of 3.50 dollars per person. Undernourished and underweight children would have life time disadvantage, he observed.

Going Global: 'The' Strategy

Professor Sachs pointed out that market reforms were not beginning or end of the development strategy. For a country of 127 million people, most of whom were living in countryside, which were in immense need of social and educational services, the demands were indeed pressing. "It is not unrealistic to think that percentage point difference of growth over the last five years was not beginning or end of the story of development here in Bangladesh, but I think they added to something tangible," said Professor Sachs. He was of the view that there was a very concrete link between export orientation and the realisation of growth potential.

Referring to international disparities and doubts associated with globalisation as raised by the participants, Professor Sachs called upon Bangladesh to develop new competitive export sectors, beyond the RMG, in order, to earn foreign exchange. Despite unfairness of the global market place, which were many and despite the fact that there were lots of hypocrisies in the US policies and policies of some other developed countries, the Professor opined that the emerging opportunities should not be missed. That would require significant improvements in the infrastructure in ports, in telecommunication, reliability of power generation, expansion of EPZs, a good tax incentive programme, improved incentive regimes to attract foreign investment. "Without this it would be very unrealistic to see all of the development strategy functioning effectively," he said. Bangladesh would need to import tens of billions of dollars of technology and machinery and capital goods in future and would need to find a way to pay for that. "This would require a business oriented and outward oriented development programme," said Professor Sachs, stressing that articulating such programmes requires a high degree of pragmatism. "You need a strategy that is global and export oriented, trying to win markets abroad and achieve real competitiveness at the domestic front underwritten by a recognition that many countries in the rest of the world were doing the same thing," he said.

Transparency and Accountability as Prerequisites for Reform

Dr. Kamal Hossain, former Foreign Minister of Government of Bangladesh and one of the leading lawyers of the country thought that in the absence of appropriate structure of rule of law in transitional economies, lack of transparency and accountability in the system and in view of the rampant misuse of space created by policy of liberalisation, the situation was in fact making things worse rather better off because of burgeoning corruption, crony capitalism, political patronage and bureaucratic arbitrariness. Responding to this obervation, Professor Sachs remarked that to him an honest transparent process was of highest priority. Referring to his personal experience, he recalled that he had been in places where people were saying that the more important issue was to privatise rather than to go legally. He disagreed with such approach and thought that legal basis and transparency were of highest priority to him. In absence of this the new social and economic structure would be totally delegitimised. He observed that there was a lot of evidence that the rule of law was not only just good for the society, but was also a direct input to economic development.

Common People Do Not Understand Reforms

According to Dr. A. Moyeen Khan, MP and former Minister of State for Planning, most reforms which often came as prescriptions from Bank and Fund, more often than not were not quite well understood by the stakeholders in developing countries. Dr. Khan referred to the example of Mexico and opined that at the end of the day it was widely perceived that the reforms did not work quite well. Referring to his experience in implementing certain reforms in Bangladesh, the former State Minister for Planning commented that the common people on the street did not understand these reforms. "They did not realise what would be the outcome of these reforms. They were not convinced about the benefits of these reforms," he said, adding, "Consequently we were not able to execute these reforms." The former State Minister said under such circumstances when governments implemented the agenda, it failed to succeed and bring tangible results.

Donor's Double Standards

Making an observation on donors' double standards, Dr. A Moyeen Khan mentioned that the government made an attempt to curb the influence of the trade unions in production sectors as per the standard prescriptions of donors. "Now what surprises me is that very recently the pressure is coming from the US to allow trade unions to function in our EPZs. How do you explain it?" he asked. He was sensitive to the workers' rights. However, he wanted to know why the US which had earlier advocated that the trade unions must not be given a free hand in the production sector, was now suddenly putting pressure on GOB to allow union activities. He wondered whether the recent move by the US a disguised attempt to neutralise the achievements of the country in such areas as the export of RMG to the USA. Responding to this comment, Professor Sachs thought that such pressures from the US was overtly protectionist and as such should be contested.

Rethinking the Received Wisdom

Designating himself as one of the exponents of the free market economy, albeit not of the unbridled kind, Mr. Saifur Rahman, MP and former Minster of Finance called for a rethinking of the wisdom pertaining to the free market economy. Pointing to the importance of the quality of polity and institutions, Mr. Rahman gave example of Russia where free market economy did not work because of weakness of civil and political institutions. No matter how much enthusiastic one was about Russia and how much resources was channelled to Russia in absence of transparency and accountability, reforms were bound to fail. He added that crony capitalism and mafia had surfaced and thrived in Russia due to lack of appropriate institutions.

Mr. Saifur Rahman saw IMF and the World Bank as being dictated by the G-7 countries through their dominance in the IMF Interim Committee and the World Bank Development Committee. Making his point as to why rethinking was essential, Rahman referred to the IMF and Bank Board of Governors meeting at Spain in 1994, which was chaired by him, where the Finance Minister of Mexico was allowed two hours to speak before the Board since he was doing an 'excellent' job. Fifteen days later, the *peso* collapsed as Brazil soon followed. IMF came forward to rescue the rich banks of the

West, not the country which suffered, and the same route was taken in East Asia, Mr. Saifur Rahman observed.

The former Finance Minister advised that the Brettonwoods Institutions should rethink about the role of the state. He cited the example of East Asia to illustrate his point, noting that East Asia had a protected market and that the state had played a critical role, though there was no doubt that these countries had free market institutions.

Mr. Rahman advocated for bringing the issue of equity into the agenda. "If we do not have pro-poor pro-employment and pro-development policies, we will not be able to sustain our economies. Good results come only from good institutions, good governance and good politics," Mr. Rahman concluded.

Mr. Yousuf Abdulalh Harun, a former President of Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) opined that international trade and financial market did not give weight to morality, rather it tended to punish systemic vulnerability of a country. He felt that there was a growing need to develop new global institutions to cope with the process of globalisation. He did not think either the IMF or the World Bank to be the right institutions for this.

Concluding the dialogue Professor Rehman Sobhan thanked Professor Sachs for his stimulating presence and the participants for their active participation in the dialogue.

Annex A

List of Participants

(*In alphabetical order)*

Mr. Abu A. Abdullah	Director General, BIDS
Professor Muzaffer Ahmad	IBA, Dhaka University
Dr. Q.K. Ahmad	Chairman, Bangladesh Unnayan Parishad
Professor Salahuddin Ahmed	Chairman, Department of Economics, NSU
Mr. S.M. Akram	Member of Parliament
Dr. Towfiq Ali	Additional Secretary, Ministry of Foreign Affairs
Dr. M. Asaduzzaman	Research Director, BIDS
Dr. Debapriya Bhattacharya	Executive Director, CPD
Dr. Mohammed Farashuddin	Governor, Bangladesh Bank
Mr. Yusuf Abdullah Haroon	Chairman, South East Bank
Mr. Ronald Hicks	Resident Representative, IMF
Mr. Jakir Hossain	Research Associate, CPD
Dr. Kamal Hossain	President, Gono Fourm
Dr. Muinul Islam	Director General, BIBM
Mr. A.M. Abdul Jabbar	Joint Secretary, Ministry of Finance, GOB
Mr. Syed Ali Kabir	Former Deputy Governor, Bangladesh Bank
Mr. Sayed Kamaluddin	Editor, Far Eastern Economic Review
Dr. Akbar Ali Khan	Secretary, Ministry of Finance, GOB
Dr. A. Moyeen Khan	Member of Parliament and former State Minister for Planning, GOB
Ms. Paula M. Kazi	Research Associate, CPD
Dr. Nasreen Khundker	Associate Professor, University of Dhaka
Dr. S.A. Malek	Political Advisor to the Prime Minister, GOB
Mr. Arif Al Mamun	Research Associate, CPD
Mr. Rashed Khan Menon	Secretary General, Workers' Party
Mr. K.A.S. Murshid	Research Director, BIDS

Professor Mustafizur Rahman	Research Director, CPD
Mr. M. Saifur Rahman	Member of Parliament and former Finance Minister, GOB
Professor Jeffery Sachs	Director, HIID, USA
Professor Rehman Sobhan	Chairman, CPD
Mr. M. Syeduzzaman	Former Finance Minister, GOB
Mr. Rashed A.M. Titumir	Assistant Professor, Bangladesh Open University
Mr. Jan-Axel Voss	Deputy Head of Mission, Embassy of the Federal Republic of Germany

Journalists

Mr. Farid Ahmed	The Independent
Mr. Inam Ahmed	The Daily Star
Mr. Zulfikar Ali	The Mukthakanta
Ms. Jahnnabi Das	The Bangladesh Obverserver
Ms. Sayed Islam	The Bhorer Kagoj
Mr. Nurul Hasan Khan	The Daily Dinkal
Mr. Sajjad Alam Khan	The Daily Desh Bangla
Mr. Sawkat Hossain Masum	The Daily Ittefaq
Mr. Monjur Mahmud	The Daily Star
Mr. Ashiqur Rahman	The Daily Arthaneeti
Mr. Mizanur Rahman	The New Nation
Mr. Ajit Sarker	BSS