

Bangladesh

Status Index (Democracy: 6.55 / Market economy: 5.46)		6.01	Management Index		4.73
HDI	0.520		Population	136.6 Mio.	
GDP p. c. (\$, PPP)	1,770		Population growth¹	2.2%	
Unemployment rate	n/a		Women in Parliament	2.0%	
UN-Education Index	0.45		Poverty²	36.0%	
			Gini-Index	31.8	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).					

A. Executive summary

The process of democratic and economic transformation in Bangladesh is facing new challenges. Economically, the government has to cope with the consequences of the phasing out of the Multi-Fiber Agreement (MFA) in January 2005. This will result in the shutdown of textile factories and an increase of unemployment mostly among female workers. The government has to look for new income opportunities to continue the process of impressive economic growth of previous years. Politically, democratic consolidation is also confronted with new developments. On the positive side, the change of government in 2001, with the help of the National Caretaker Government (NCG), underlined again the institutional stability of the democratic system. In contrast to this, politically motivated violence has increased and the law and order situation has degraded. Radical Islamic groups have extended their activities and started an agitation to declare the Ahmadiyya sect as “un-Islamic” in 2003. In August 2004 the opposition leader escaped a bomb attack and in January 2005 the former finance minister of the opposition was killed at a political rally. The government has reacted with operations of special security forces against the decline of law and order that resulted in human rights violations.

Because of the lack of information it is not clear to what extent these Islamic groups are only a mere local phenomenon or pose a threat on the national level. Moreover, corruption charges against the judiciary and the criminalization of politics have shattered the people’s confidence in the achievements of the democratic system.

The polarization of the main parties, the ruling Bangladesh Nationalist Party (BNP) and the main opposition party, the Awami League (AL), and the personal rivalries between Prime Minister Khaleda Zia and opposition leader Sheik Hasina have obstructed all political progress.

B. History and characteristics of transformation

After India's military intervention in the civil war in East Pakistan, Bangladesh became an independent state in 1972. In the beginning, Prime Minister Mujibur Rahman and the ruling AL followed the political and economic model of India. Domestically, Bangladesh relied on a strong public sector and promoted a policy of nationalization to rebuild the war-ravaged country. The AL, which had been the main force for independence, became the dominant party. The foreign policy of the new state focused on close political and economic relations with India and the Soviet Union.

The military coup in August 1975 and the assassination of Mujibur Rahman resulted in a radical shift both at domestic and international levels. The military government under General Zia ur Rahman promoted Bangladesh's relations with the industrialized nations of the West and with the People's Republic of China. The new regime opened the economy for foreign investment and promoted an export-oriented policy in the 1980s. With the creation of the BNP, General Zia ur Rahman established his own political platform. The BNP became the main competitor to the AL. The AL had promoted a secular nationalist ideology similar to the Indian model. The AL propagated a Bengali nationalism that emphasized the common historical and cultural background of the Bengalis, including the mainly Hindu Bengalis in the neighboring Indian state of West Bengal. In contrast to this, the BNP emphasized a separate Bangladeshi identity and promoted a religious concept of nationalism that emphasized the differences with the Bengali speaking community in India. In 1977, Islam was incorporated for the first time into the previously secular constitution. In 1988, another constitutional amendment established Islam as the state religion in Bangladesh.

Despite the military rule, the political situation remained unstable. After the war of independence the army was highly politicized. After Zia ur Rahman established the military regime there were more than twenty coup attempts against his rule. In May 1981 he was killed in Chittagong. The transition to civilian rule failed and in March 1982 General Ershad took over the government. With the creation of the Jatiya Party (JP) in January 1986 Ershad also created a separate party for his political ambitions. He was able to play off the BNP and the AL and benefited from the personal rivalries between Hasina (AL) and Zia (BNP). During his rule the role of the military in public institutions was strengthened. The demonstrations of the student organizations of the AL and the BNP forced Ershad to step down on December 6, 1990. This paved the way for a democratic transition. The elections of February 1991 brought the BNP under the leadership of Zia back to power. After the rigged elections in spring 1996, the elections in June the same year saw a victory for the AL. The next election of

October 2001 brought another change of government back to the BNP and its coalition partners. Religious parties have been a constant factor in the political system. Their political influence rose in 2001 when the Jamaat-i-Islam (JI) became a key political ally in the new BNP coalition.

Although Bangladesh has had steady economic growth rates since the 1980s, the country's overall development has fallen short of expectations. National and international development programs have been difficult to implement and have registered few developmental successes because of the high population growth in the 1980s, widespread corruption and patronage, and misallocation of resources.

C. Assessment

1. Democracy

1.1. Stateness

Governments in Bangladesh still face great problems in exercising the legitimate use of force. Widespread corruption and the availability of small and light weapons have caused a deterioration of the law and order situation in recent years. The political confrontation became more violent as illustrated by the failed attack on opposition leader Hasina in August 2004. Media reports seem to indicate growing activities of militant Islamic groups and local mafia groups.

Despite the weakness of law enforcement authorities, Bangladesh has a good foundation for nation building. Compared to its neighbors in South and Southeast Asia the country has a high religious and linguistic homogeneity after its "double" independence in 1947 and 1971. Conflicts between the non-Muslim minorities in the Chittagong Hill Tracts (CHT) and Muslim settlers were settled with a peace accord in December 1997.

Islamic traditions do not acknowledge the formal separation between state and religion. Therefore, Western concepts of secularization cannot be applied. Islam in Bengal has always been influenced by local Sufi traditions. Bangladesh's first independent constitution was secular. It was only during the military rule after 1975 that Islam was included into the constitution. Islamic law (Shariah) has not been introduced.

Widespread development problems, corruption and patronage damage the capacity of the administrative system to deliver public goods.

1.2. Political participation

There is universal suffrage and the right to campaign for elected office. The general elections of 1991, June 1996, and 2001 were assessed as “free and fair”. The national Election Commission ensures that elections are run correctly. Problems arise primarily with regard to voter registration and impersonation. Here administrative shortcomings and attempts of political manipulation go hand in hand. Voter turnout in Bangladesh reaches more than 70%.

Effective power to govern exists to a limited degree. However, corruption, patronage, and an insufficient monopoly on the use of force all limit the government’s ability to exercise this power. Numerous non-governmental organizations (NGOs) have been established in response to the inability of state agencies to achieve long-term developmental goals. Governments have tried several times to curtail the international support and funding of local NGOs. There is freedom of the press and freedom of assembly.

1.3. Rule of law

Officially, Bangladesh has a separation of powers so that the judiciary is independent from the legislative and executive. The Supreme Court is considered to be independent. However, problems exist in the lower courts. They are perceived to be chronically backlogged and the people have very little confidence in the police.

Corruption is pervasive, and the country is on top of international NGOs that monitor corruption. Civil liberties are set forth in the constitution, but they are scarcely protected with consistency. In the cities, as well as in some rural areas, radical Islamic groups have a strong influence. Their protests against the writings of Taslima Nasreen, which attracted international attention, illustrated their capacity to mobilize religious sentiments.

1.4. Stability of democratic institutions

The various political changes since 1991 have underlined Bangladesh’s institutional stability. The introduction of a National Caretaker Government (NCG) in 1996 has

helped to facilitate the transfer of power. The NCG is an interim government that temporarily takes over governing the country after the Parliament is dissolved. Its purpose is to prevent abuse of state resources during election campaigns.

Almost all of the major parties like the AL, BNP and JP support the country's democratic institutions. Unfortunately governments tend to use state resources for partisan reasons. On the other hand, the opposition often took its political protest to the streets. This has paralyzed the political institutions and has slowed down economic development. The political behavior of the main parties AL and BNP both in government and opposition has not been helpful to promote the acceptance of democracy among the people.

Bangladesh is one of the few cases where the military withdrew voluntarily from the political scene after ruling the country between 1975 and 1990. Growing engagement in United Nations peace-keeping missions is regarded as an important action that helped to reduce the political influence of the armed forces. The separatist movements of ethnic groups in the CHT have also lost momentum since the 1997 peace accord.

1.5. Political and social integration

The party system is shaped by the competition between the AL and the BNP. Personal factors dominate whereas the programmatic differences between the major parties are relatively small. Two women, who harbor an intense rivalry and a strong personal dislike for each other, head the AL and the BNP. Opposition leader Hasina (AL) is the daughter of the nation's founder Mujibur Rahman who was killed in the military coup in 1975. Zia, the current prime minister, is the widow of Zia ur Rahman who founded the BNP and was assassinated in 1981. The personal animosity between the two politicians has repeatedly blocked the political process. The JP, which was formed by General Ershad, is another political platform with a solid position in Bangladesh's party landscape. The JI represents the religious sections of the society and has a solid but limited support base.

Labor unions are highly fragmented as a result of political infighting and personal rivalries. The large export-oriented companies, which have managed to place a series of limitations on union activities, are opposed by a large number of small and medium-sized enterprises with little union organization.

High voter turnout suggests that the population's support for democracy is high. The large number of NGOs indicates that social self-organization is also high. In addition

to numerous local initiatives, there are also institutions such as the Grameen Bank, which has a solid national and international reputation and has been used as a model for successful poverty-fighting programs in other countries. However, while NGOs are numerous and relatively successful, various Bangladeshi governments have repeatedly tried to more tightly control the activities and international ties of NGOs.

2. Market economy

2.1. Level of socioeconomic development

Bangladesh remains one of the world's poorest countries in the world. HDI figures suggest that freedom of choice is only possible for a small minority of the people. Widespread poverty and high rates of illiteracy exclude large sections of the population from the development process. Women and minorities are especially affected from this. Bangladesh is a major recipient of official development assistance. Despite the existing problems there are success stories for instance that the country reached self-sufficiency in nutrition and became one of the major exporters for textiles.

2.2. Organization of the market and competition

The first market-based economic reforms were introduced in the middle of the 1970s after the military coup. Since then Bangladesh has pursued an export-oriented policy. Jute and textiles have been the main export items. Textiles became a key export after the establishment of export zones and various tax incentives for foreign companies. The MFA gave Bangladesh special quotas for textile exports to industrialized nations. As part of the liberalization process, import controls and tariffs have been reduced and import licensing requirements eliminated. The phasing out of the MFA at the end of 2004 poses a far-reaching challenge for the country. Studies estimate that Bangladesh will not gain from the growing liberalization but will lose shares in the world market to countries like China.

State control of the economy, which had been tight in the past, has been relaxed. The banking sector remains largely under state control. The reform of this sector has a top priority because the banks are suffering from corruption, non-performing loans, overstaffing, and political influence. Since the 1980s, the number of foreign banks has risen, but they are located almost exclusively in the cities. The Grameen Bank and local savings societies play an important role in rural areas and often enjoy better loan repayment rates than the state-run banks.

2.3. Currency and price stability

The official rate of inflation was reported at 4.4% for the fiscal year 2003 to 2004. This represents an increase over 2002-2003 when inflation was only 2.8%. The budget deficit was 4.2% of the GDP in 2003-2004. This marked an improvement against 4.6% in 2002-2003. The country's dependence on the international donor community has helped the government to pursue the policy of macroeconomic reforms.

2.4. Private property

The right to own property is safeguarded. However, problems arise especially in the rural areas. Corruption and the local dominance of large land owners make it difficult for peasants to assert their property rights. The privatization of state companies is progressing slowly. The close ties between the political parties and the unions are delaying necessary reforms.

2.5. Welfare regime

State welfare systems are virtually non-existent. For the most part, providing support in the case of illness, unemployment and old age falls within the realm of the family. The chronically poor state of public finances will prevent the creation of large-scale social welfare systems. To date, numerous programs have been launched to fight poverty without far-reaching success.

Despite the fact that the political process is dominated by two female politicians, equality of opportunity is still far off for the majority of women in Bangladesh. Successes have been achieved in the political field, where women have a reserved number of seats in Parliament. In 1997, administrative reforms gave women a quota of three seats in every Union Parishad, the lowest elected tier of local government. In 1998, the AL adopted the Upazila Parishad Act, granting special representation in these bodies to traditionally disadvantaged groups, including women. In addition, women are guaranteed 10% of all civil service posts. Women are also allowed to join the armed forces.

2.6. Economic performance

Between 2000 and 2004, the annual GDP growth rate was between 5.7% and 5.9%, except for 2002. The government was able to expand the tax base so that tax revenues increased from 7.7% of the GDP in period from 2001 to 2002 to 9.0% of the GDP in 2004 to 2005. The debt service ratio rose from 5.9% from 1998 to 1999 to 7.5% in 2001. Official unemployment figures are not reliable because they do not reflect the large section of the population in the informal sector of the economy. In addition, the country's economic development remains vulnerable to natural and environmental factors. Extreme conditions, such as the lack of a needed monsoon or harmful floods like those of 1998 could jeopardize success.

2.7. Sustainability

In the face of widespread poverty, environmental concerns play a subordinate role. The government is trying to control settlement of the coastal regions in an effort to improve flood protection in those areas. The country's infrastructure is riddled with deficiencies that continue to hamper development. The literacy rate is only 41% and is even lower among women. Public expenditure in education increased from 1.5% in 1990 to 2.3% in 2001. The combined gross enrollment ratio for primary, secondary and tertiary schools was 54% in 2001 to 2002 period. UNDP education index was 0.45 for Bangladesh in 2002. Despite advancements from the 1990s the figures are still not sufficient to start a sustainable development process. Expenditure for public health was 1.6% of GDP in 2001. Most health care facilities are located in the municipal areas whereas health provision in the rural areas is still insufficient.

3. Management

3.1. Level of difficulty

There are still great obstacles to political and economic transformation. Positive factors include the low level of ethnic fragmentation. Bangladesh's population is very homogeneous with respect to language and religion, and minority conflicts such as those in the CHT have been settled successfully. Another positive factor is the result of the activities by NGOs to improve the situation of disadvantaged groups and women, particularly in rural areas. They have helped create sources of income through a series of development projects and savings societies. The installation of the NCG has also helped to improve institutional stability. The influence of powerful veto groups like the armed forces could successfully be reduced. This should help to

promote the process of democratic consolidation.

Although these positive developments continue, they are overshadowed by various negative constraints. With a per capita GDP (at PPP) of around \$1,700, Bangladesh is still one of the world's poorest countries. The labor force is still not well educated and economic development still suffers under the lack of adequate infrastructure. Because of the personal rivalries between the two leading politicians the political system is highly polarized.

State control has promoted the politicization of the economy and public life. The instrumentalization of political interests also has a negative impact on economic development. Pervasive corruption can be identified as another major challenge. The considerable inflow of external capital has given rise to new structures of patronage and corruption, which have sparked a discussion about possibly curbing foreign development assistance and focusing on fortifying the country's own efforts. Politicization and corruption undermine the rule of law so that constitutional rights cannot be guaranteed by the state. The weakness of the state and the availability of small arms have increased the use of violence in political controversies.

The opposition blocks the political process using politically motivated strikes and walkouts. At the same time these strategies endanger economic development and harm the investment climate for foreign companies. The economy's vulnerability to weather conditions, whether to drought or devastating floods, creates an additional natural hurdle in the development process.

Profile of the Political System

Regime type:	Democracy	Constraints to executive authority:	1
System of government:	Parliamentary	Electoral system disproportionality:	21.3
		Latest parliamentary election:	01.10.2001
		Effective number of parties:	1.8
Head of State:	<i>Iajuddin Ahmed</i>	Cabinet duration:	10/01-present
Head of Government:	<i>Khaleda Zia</i>	Parties in government:	3
Type of government:	<i>coalition majority</i>		
		Number of ministries:	53
		Number of ministers:	25

Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\frac{1}{2} \sum (v_i - p_i)^2$; v_i is the share of votes gained by party i ; p_i is the share of parliamentary mandates controlled by party i . Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i . Number of ministries/ ministers denotes the situation on 1 January 2005.

3.2. Steering capability

There is a general agreement among the political actors that the process of economic and political reform should be continued. Since the introduction of market-based economic reforms, Bangladesh has accomplished a number of goals. For example, it is now almost entirely self-sufficient in nutrition. Yet there are numerous obstacles preventing the country's high growth rates from bringing about long-term improvements in living conditions. In addition, long-term goals are repeatedly sacrificed for short-term political calculation. Liberalizing reforms that have been announced by the government can only be carried out sporadically and without consistency due to the resistance put up by the opposition, bureaucratic red tape or the unions. Corruption and the high incidence of politically motivated violence limit the reliability of expectations placed in the actors.

External pressure from the international donor community maintains the country's reliability in achieving goals. The high level of dependence on foreign aid has triggered a discussion in Bangladesh about the long-term benefits of official development assistance.

Despite the long-term commitments by the political leadership, short-term interests dominate the permanent power struggle between the government and opposition. Organizational and learning capabilities of the government and the opposition are limited. The deficiencies in the different areas of development are well known for many years. But no government in power has been able to make significant improvements. The resistance of the bureaucracy and the unions against economic liberalization can only be overcome very slowly.

The process of political transformation is shaped by the severe political polarization and personal animosity between the two major party leaders. Control of government power ensures influence over political structures and rent-seeking opportunities.

3.3. Resource efficiency

Overstaffed state-owned enterprises, the high costs of politically motivated strikes and walkouts, and widespread corruption prevent the effective use of resources. The availability of public services like health care and education is insufficient. For the most part, public services are available only in the cities.

Given that economic reform will bring new loopholes for patronage and rent-seeking opportunities, the major political parties will continue the course of liberalization.

However, it is not clear how internal problems such as corruption and increasing violence can be checked. Although there is public debate about the deplorable state of affairs, concrete reform efforts too often get caught between the millstones of partisan politics.

Advances were made in decentralization during the period under study. The Upazila Parishad Act of 1998 not only granted these administrative units more independence; it also ensured direct representation of disadvantaged groups such as workers, peasants, and women in the corresponding bodies.

3.4. Consensus-building

Despite severe political polarization, there is fundamental agreement among the key actors that the process of democratic and economic reform should continue. Bangladesh's high dependency on outside aid also helps to keep the country's key actors mindful of this agreement.

The various governments have mostly just exacerbated existing conflicts, for example, through politically motivated crackdowns on corruption. The unfortunate consequence of this has been both of the big parties resorting to violence and disregard for the Parliament when in opposition. The military has shown no more political ambitions during the period under study.

The process of coming to terms with the past, such as the behavior of politicians during the civil war in 1971 or the murder of Mujibur Rahman and his family in 1975, remains an important domestic issue. In 1998, the alleged assassins were convicted, but a final sentence has not yet been passed. Neither an independent review nor a national process of reconciliation has begun.

The question of cultural identity remains a contentious issue in the domestic debate between the AL and the BNP. The question of Bengali or Bangladeshi identity is closely linked with the role of religion in state and society. Moreover both parties follow a different approach how relations with India should be shaped.

3.5. International cooperation

The positive achievements in economic reform would hardly have been possible without the increased cooperation with external development organizations such as the World Bank, Asian Development Bank, and development aid organizations from

industrialized nations. Insufficient resources, natural disasters like the floods of 1998 and political fragmentation have limited the effectiveness of external reform efforts.

Bangladesh's relations with its biggest neighbor, India, became strained again after the BNP came to power in 2001. Both countries accuse each other to harbor militant groups that operate in the other state. India has announced to send back illegal immigrants to Bangladesh.

The discovery of natural gas in the Bay of Bengal, and subsequent exploration by U.S. companies, has sparked off a domestic debate in how much gas should be exported to India or ought to remain in the country. The new BNP government has intensified relations with the People's Republic of China.

Bangladesh played a leading role in the formation of the South Asian Association for Regional Cooperation (SAARC) in the early 1980s. However, tensions between India and Pakistan have so far prevented any considerable economic momentum from developing for the countries of the region.

4. Trend of development

4.1. Democratic development

Negative tendencies outweigh positive developments like the smooth transfer of power after the electoral victory of the BNP in 2001. The law and order situation has deteriorated since then. Increasing activities of militant Islamic groups and the growing tendency of criminalization of politics pose a threat for both civil liberties and democratic consolidation.

The country's constitutional institutions and mechanisms for changes of government can be rated as stable. The participation in civil society remains strong. As religious parties have participated in the government since 2001, the activities of orthodox Islamic groups have increased. The level of democratic consolidation has remained essentially unchanged.

4.2. Market economy development

Overall economic development improved considerably during the period of study. GDP growth between 2000 and 2004 was consistently above 5% except for 2002. This steady growth is remarkable, as the devastating floods of 1998 are estimated to

have caused damage equaling 6% of the country's GDP. However, the institutional framework has not improved in an adequate manner. Economic policy shortcomings remain and the political process and the rivalry between the two major parties have slowed down economic reforms. The HDI indicates that the country's overall level of development improved slightly during the period under study.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004*
Growth of GDP in %	5.9	5.3	4.4	5.3	5.7
Export growth in %	29.7	7.7	-1.8	15.8	n.a.
Import growth in %	15.6	6.7	-1.6	20.8	n.a.
Inflation in % (CPI)	1.9	1.9	2.8	4.4	4.7
Investment in % of GDP	n.a.	23.1	23.1	23.2	24.3
Tax Revenue in % of GDP	n.a.	7.7 (2001/02)	8.3 (2002/03)	8.7 (2003/04)	9.0 (2004/05)
Unemployment in %	n.a.	n.a.	n.a.	n.a.	n.a.
Budget deficit in % of GDP	n.a.	5,0	4,6	4,2	4,8
Current account balance in billion \$	-1,098 (2000/01)	0,157 (2001/02)	0,176 (2002/03)	0,176 (2003/04)	n.a.

Source: ADB: *Asian Development Outlook, 2004*; IMF: *International Financial Statistics Online, 2004*; IMF: *Bangladesh - Letter of Intent, Memorandum of Economic and Financial Policies, 2004*; Bangladesh Bank 2004.

* Estimates

D. Strategic perspective

Bangladesh's conditions for democratic transformation remain critical. During the period of review, little has changed with regard to the country's major problems like the legal system, infrastructure, health care, and education. The stark polarization of the political process remained unchanged and the law and order situation has further deteriorated. The government's attempts to improve the situation seem once again to be primarily targeted against political opponents. The opposition is also unwilling to follow parliamentary rules. This has led again to a situation in which protests are taken to the streets and political and economic life is hampered by demonstrations and strikes.

The conditions for democratic transformation therefore seem to have worsened during the period under study. The institutional and material efficiency of the government still leaves room for improvement. The reputation of the judiciary is hampered by corruption cases, and the law and order situation in rural areas is insufficient.

The transition toward a market economy offers a better picture. The country was able to overcome the heavy damages caused by the flooding in 1998. Liberalization has helped to create positive economic growth rates. This positive scenario is overshadowed by the still high levels of poverty and political opposition to privatization. Moreover, the government did not seem to be well prepared for the phasing out of the MFA at the beginning of 2005.

The management capabilities of political leaders still seem to be insufficient. Major parties are entangled in their power struggle, so that urgent political decisions are delayed. This situation has created new discontent among the people and has helped to broaden the base of religious parties.

Bangladesh still faces considerable obstacles to continuing its process of political and economic reform. The creation of a democratic system can be viewed as a success in itself. The main challenge seems to be that the political parties have to prove the system's ability to deliver public goods in order to strengthen its credibility. Too often, constitutional guaranteed rights like human rights and the rule of law cannot be properly enforced by the authorities. The proliferation of small firearms has reached alarming proportions and is jeopardizing the state's monopoly on the use of force.

The most serious problem is political polarization. As long as the two political leaders shape the country's political life, there seems to be little hope of rapprochement between the two parties. Thus, the system of parliamentary checks and balances will not work properly thereby harming the reputation of democracy.

The key task for making reform progress will be to overcome the political polarization through well-ordered political processes. In addition, corruption and increasing political violence must be combated with effective and politically neutral institutions. As long as the political process is shaped by the personal rivalry between the two leading politicians, reform efforts will be thwarted.