

BTI 2008 | Bangladesh Country Report

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Market Economy	1-10	5.11	# 74 of 125	→
Management Index	1-10	4.14	# 93 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

Population	mn.	141.8	HDI	0.53	GDP p.c.	\$	1,827
Pop. growth ¹	% p.a.	1.9	HDI rank of 177	137	Gini Index		33.4
Life expectancy	years	64	UN Education Index	0.46	Poverty ³	%	84.0
Urban population	%	25.1	Gender equality ²	0.37	Aid per capita	\$	9.4

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The situation in Bangladesh during the review period was marked by a sharp contrast between the positive macroeconomic development and negative political developments. The phasing out of the Multi-Fibre Agreement in 2005 did not damage the country's positive economic development. In 2005, GDP growth was 6.2%, compared to 6.1% in 2004. A growth rate of 6.2% is also estimated for 2006. In contrast to the country's economic success, political developments were characterized by a sharp increase of violence since 2005. Militant attacks by radical Islamic groups, including the August 2005 bombings and the murders of politicians and journalists, were followed by the massive retaliation of security forces, such as the Rapid Action Battalion (RAB). These developments undermined and weakened the human rights situation in the country. The dissolution of parliament in October 2006 and the creation of a national caretaker government further aggravated the political crisis between former Prime Minister Khaleda Zia's ruling Bangladesh National Party (BNP) and the oppositional Awami League (AL) of Sheikh Hasina. On 3 January 2007, after various complaints to the election commission were not adequately addressed, the opposition alliance, led by the AL, announced a boycott of the parliamentary elections that were scheduled for 22 January 2007. The protests escalated into strikes and demonstrations. Neither side was able to find a political solution to the crisis. The international community signaled that it was not willing to accept an election that would not be inclusive. The chief advisor and acting president of the caretaker government, Iajuddin Ahmed, broke the political deadlock when he resigned and handed the government over to Fakhruddin Ahmed. A state of emergency was declared and the parliamentary elections were postponed.

History and Characteristics of Transformation

Bangladesh became an independent state in December 1972 after India's military intervention in the civil war in former East Pakistan. From the beginning, Prime Minister Sheikh Mujibur Rahman and the ruling Awami League (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 itself after having been torn apart by war. The AL, which had been the main advocate of 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 of August 1975 and the assassination of Mujibur Rahman resulted in a radical shift at both the 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 up the economy for foreign investment and announced an export-oriented policy in the 1980s. With the creation of the Bangladesh Nationalist Party (BNP), General Zia ur Rahman established his own political platform. The BNP became the main competitor to the AL. The AL had followed a secular nationalist ideology similar to the Indian model and promoted a Bengali nationalism that emphasized the common historical and cultural background of all Bengalis, including the primarily Hindu Bengalis in the neighboring Indian state of West Bengal. In contrast to the AL's cultural policies, 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 military rule, the political system 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. An attempted 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 party dominated by his political ambitions. He was able to play the BNP and the AL off each other, and benefited from the personal rivalries between Sheikh Hasina (AL) and Khaleda 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 6 December 1990, paving the way for a transition to democracy. The elections of February 1991 brought the BNP back to power under the leadership of Khaleda Zia. After the rigged elections of Spring 1996, the AL emerged victorious in elections held

in June of the same year. The next election of October 2001 brought another change of government, turning power over 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-Islami (JI) party became a key political ally in the new BNP coalition. Although Bangladesh has had steady economic growth 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 several factors, including high population growth in the 1980s, widespread corruption and patronage, and the misallocation of resources.

Transformation Status

I. Democracy

1 | Stateness

Governments in Bangladesh still face great problems in exercising the legitimate use of force. Bangladesh is one of the most corrupt countries in the world. Widespread corruption and the availability of small and light weapons have caused a deterioration of law and order in recent years. This trend has been aggravated by terrorist activities after 2005. On 17 August 2005, 400 small bombs exploded in nearly every district of the country. This attack was attributed to the banned Jama'at-ul-Mujahedeen Bangladesh party (JMB) led by Shayekh Abdur Rahman and Siddiquil Islam (who was known as "Bangla Bhai"). In November 2005, the first suicide attacks against state institutions occurred. They were also attributed to JMB cadres. Such incidents indicate that militant Islamist groups have established a well-organized network throughout the country.

Monopoly on the use of force

Bangladesh has a sound basis for nation-building. Compared to its neighbors in South and Southeast Asia, the country has high religious and linguistic homogeneity due to its "double" independence in 1947 and 1971. Conflicts between the non-Muslim minorities in the Chittagong Hill Tracts (CHT) and Muslim settlers may have been settled with a peace accord in December 1997. A community of more than 200,000 so-called "Biharis" who want to resettle in Pakistan legacy are a legacy of the 1971 war of independence.

State identity

Bangladesh's first constitution in 1972 was secular. After the military coup of 1975, Islam was introduced into the constitution in 1977 and became the state religion with the addition of the eighth amendment in 1988. Popular Islam in Bangladesh is strongly influenced by liberal Sufi traditions. Islamist groups and parties have demanded the introduction of Islamic law (Shari'ah), but there is no significant popular support for such demands. Islamist parties like the Jamaat-e-Islami (JI), which became part of the ruling coalition in 2001, tried to ban liberal Muslim sects like the Ahmadiyyas. The government banned the publications of Ahmadiyyas in 2005, and the high court later revoked this action. Various Islamist groups have agitated against the Ahmadiyya community and attacked a number of their mosques.

No interference of religious dogmas

Bangladesh has a basic administrative infrastructure throughout the country. Its operation is deficient because of a lack of resources, patronage, widespread corruption and a politicized bureaucracy.

Basic
administration

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 regularly with regard to voter registration and impersonation. One of the main conflicts between the BNP-led ruling coalition and the caretaker government headed by President Iajuddin Ahmed (including an alliance of major parties led by the AL) centered on the appearance of several million bogus names on the electoral list. This eventually led to the postponement of the parliamentary elections scheduled for January 2007.

Free and fair
elections

Elected governments have the power to govern in principle. At present, the most important veto powers are Islamic parties that agitate for the introduction of an Islamic state. These groups have only limited popular support but are financially supported from abroad, mainly from the Gulf region. The armed forces were confined to the barracks after the transition towards democracy in 1990 and 1991 and no longer act as a veto player against democratically elected governments. But the political crisis of winter 2006 has provoked fears that the armed forces might take over again. Small, armed minority groups operating in the Chittagong Hill Tracts do not have a significant impact as veto players.

Effective power
to govern

There are no significant de jure constraints on the freedom of association and assembly. When the caretaker government declared a state of emergency January 2007, there were hardly any partisan protests. However, while the constitution provides for freedom of assembly, the government frequently limits this right in practice.

Association /
assembly rights

Freedom of press and opinion is guaranteed under the constitution. The print media is diverse but the broadcast media is mostly under the control of the state and tends to favor government views. During the period of review, violent acts against journalists increased. The government blamed journalists for writing supposedly anti-state reports. Journalists were attacked and harassed by political parties, Islamic groups and criminal gangs. Two journalists were killed in 2006. Crimes perpetrated against journalists and the media were not adequately prosecuted.

Freedom of
expression

3 | Rule of Law

Traditionally, the executive dominates the political institutions. The Supreme Court enjoys a certain degree of independence vis-à-vis the executive. The tendency of opposition parties to boycott parliamentary procedures and take their protests to the street weakens the parliament as a counterbalancing institution.

Separation of powers

The Supreme Court acts independently. At the lower levels, the courts are often faced with political interference and corruption charges. Although the Supreme Court has a certain extent of independence, lower-level courts have to deal with executive interference and corruption. In addition, the government has not enforced the strict separation of the judiciary from the executive, which was stipulated by a 1999 Supreme Court order.

Independent judiciary

The high level of corruption suggests that officeholders tend to exploit their offices for private gains. Anti-corruption trials are mostly used against political adversaries.

Prosecution of office abuse

Because of the increase of violence and terrorist attacks, civil rights protections deteriorated during the period under review. This was also due to the massive reaction of the security forces, especially the RAB, which were implicated in several cases of extrajudicial killings. There were also reports that opposition campaigns were sometimes obstructed.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle. The main obstacles to proper functioning do not arise from institutional friction, but rather from political interference, patronage networks and widespread corruption.

Performance of democratic institutions

The major political parties and civic associations accept democratic institutions as a legitimate political order. The main veto players are radical Islamic groups and parties that want to replace the democratic system with an Islamic state. The army seems to have accepted the leadership of elected governments thus far.

Commitment to democratic institutions

5 | Political and Social Integration

The major political parties, such as Awami League (AL), Bangladesh Nationalist Party (BNP), Jatiya Party (JP) and Jamat-e-Islami (JI), have developed an established party base after the democratic transition of 1990/91. The main parties are sometimes wracked by internal divisions; in December 2006, for instance, a group of parliamentarians broke away from the BNP to form the Liberal Party.

Party system

The main parties are dominated by individual leaders and their families, such as Khaleda Zia (BNP), Sheikh Hasina (AL) and General Ershad (JP). The extensive polarization of Bangladeshi politics can be traced back to the bitter personal rivalries between Khaleda Zia and Sheikh Hasina, and not necessarily to ideological cleavages.

Because of the polarization and politicization of Bangladeshi society, most interest groups are organized along party lines. With the inclusion of Islamic parties in the government after 2001, like-minded religious groups and educational institutions have gained greater influence. They aim to replace the democratic state with a religious order.

Interest groups

The legitimacy of democracy has suffered among citizens, especially before elections. President Iajuddin Ahmed declared a state of emergency on 11 January 2007 because his caretaker government couldn't guarantee free, equal and fair elections. This action was welcomed by the population as it paved the way for Ahmed to step down and postponed the elections.

Consent to democratic norms

Bangladesh has a great variety of social organizations. Many NGOs are active in the rural areas and provide programs for alleviating poverty, empowering marginalized groups and women, health training and basic education. NGOs such as the Bangladesh Rural Advancement Committee (BRAC) have established a country-wide network of branches. Some NGOs, like the Grameen Bank, have received international acclaim with their microcredit banking program. In a few cases, NGOs have been prosecuted because of alleged political activities. In rural areas, Islamic organizations have begun to establish their own networks, which often work against secular NGOs that promote women's rights. In recent years, the government has tried to control the international financial support for NGOs. Financial support for religious organizations with close ties to ruling religious parties is not controlled in the same way.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Despite an uninterrupted period of high growth rates in recent years, socioeconomic development is still not favorable for the majority of the population. According to the national poverty line, 49.8% of the population lives in poverty. UNDP figures indicate that 36% of the population lives on less than

Socioeconomic barriers

one dollar a day, with 82.8% living on less than two dollars a day. Female economic activity accounts for 52.9% of the economy, but females earn less than half the income of their male counterparts. Rural areas still lack basic health care facilities and educational institutions. Thirty percent of the total population is still regarded as undernourished. Only 39% of the population had sustainable access to improved sanitation in 2004. Minorities and women are affected by structural underdevelopment.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	47,513	51,824	56,676	60,034
Growth of GDP	%	4.4	5.3	6.3	6.0
Inflation (CPI)	%	3.3	5.7	9.2	7
Unemployment	%	-	4.3	-	-
Foreign direct investment	% of GDP	0.1	0.5	0.8	1.3
Export growth	%	-2.3	6.9	12.5	15.6
Import growth	%	-11.2	7.4	10.6	19.1
Current account balance	\$ mn.	739.3	131.6	-278.7	-131.5
Public debt	\$ mn.	16,403.5	18,083.0	19,186.4	17,937.7
External debt	\$ mn.	17,046.2	18,773.6	20,129.0	18,934.5
External debt service	% of GNI	1.5	1.2	1.1	1.3
Cash surplus or deficit	% of GDP	-0.2	-0.1	-0.7	-
Tax Revenue	% of GDP	7.7	8.1	8.1	-
Government consumption	% of GDP	5.0	5.4	5.5	5.5
Public expnd. on edu.	% of GDP	2.3	2.4	2.3	2.5
Public expnd. on health	% of GDP	0.8	0.9	0.9	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	1.2	1.2	1.0

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

The country has developed strategic sectors like the textile industry, which was supported by the state. Apart from this strategic sector, the majority of Bangladeshis are still employed in the agricultural sector and in the informal sector of the economy. Bangladesh faces problems in the economic sector that could decelerate economic growth and destabilize the economic framework. First of all, it is confronted with rising power shortages, and it has not implemented reforms in the power sector. Increasing oil prices and fierce competition in world textile markets are also major problems.

Market-based competition

The formation of monopolies is regulated in an inconsistent manner.

Anti-monopoly policy

Bangladesh has pursued a policy of trade liberalization and export promotion. In 2004, manufactured exports were 90% of the merchandised exports, with the vast majority being textiles. After the phasing out of the Multi-Fibre Agreement on 1 January 2005, the industry was partially able to compensate for resulting export losses. The country has also implemented the South Asia Free Trade Area (SAFTA), which became operational in 2006. The expansion of trade with India is still hampered by domestic political discussions, for instance regarding gas export and transit trade.

Liberalization of foreign trade

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 is a top priority, because the banks are suffering from corruption, non-performing loans, overstaffing and political interference. The privatization of the Rupali Bank, a move demanded by the World Bank, had to be halted after a judicial intervention. The Grameen Bank and local savings societies play an important role in rural areas by extending microcredit loans to the poor. They often have better loan repayment rates than state-run banks.

Banking system

8 | Currency and Price Stability

The government tries to control inflation. The official inflation rate was 6.5% for the fiscal year 2005. Inflation has risen constantly since 2002, when it was 2.8%. For 2006, inflation is estimated to reach 7.0%. The country's dependence on the international donor community has helped the government pursue its macroeconomic policy reforms.

Anti-inflation / forex policy

The government has developed a culture of stability that is strongly supported by the international donor community. But because of the volatility of the political process, there are hardly any institutional safeguards that would strengthen an independent culture of stability.

Macrostability

9 | Private Property

The right to own property is safeguarded by law. However, implementation problems are especially acute in rural areas, where patronage networks between landowners, the police and state bureaucrats make it difficult for peasants and minorities to assert their property rights.

Property rights

The privatization of state companies is progressing slowly. Close ties between the political parties and the unions are delaying necessary reforms.

Private
enterprise

10 | Welfare Regime

Social safety nets only exist for a very small section of society, mainly in the government sector and parts of the corporate sector. For many years, the government has promoted poverty alleviation programs with the support of the international donor community. Local NGOs have also initiated programs for social safety nets, but only on a limited basis.

Social safety nets

Despite the fact that two female leaders have dominated the political development of Bangladesh since the democratic transition of 1990/91, and 45 women serve in parliament, equal opportunity is still not a reality for most women. Normally, women, along with ethnic and non-Muslim minorities, have only limited access to education and public office.

Equal opportunity

11 | Economic Performance

Bangladesh's economic performance is mixed. Overall GDP growth rates are still high, despite the phasing out of the Multi-Fibre Agreement. The GDP per capita growth rate was 3.5% for 2004-05. Negative aspects include rising inflation, high underemployment, and budget and trade deficits.

Output strength

12 | Sustainability

Environmental concerns are a high priority in certain areas, such as protection against natural disasters like flooding and hurricanes. In industrial manufacturing, environmental protections are mostly inadequate.

Environmental
policy

Public expenditure on education was 2.2% of GDP in 2004. There are no comparable figures available for investment in research and development. Net primary enrollment has reached 94%. The bulk of public expenditure is 49.5% for the secondary level.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

Bangladesh still faces massive structural problems in governance. Poverty levels remain high, infrastructure is often derailed because of difficult weather conditions, and national gross income levels are still low. Besides the garment industry, there is no other strategic sector that can provide large-scale employment opportunities. Gas exploration in the Bay of Bengal has improved the energy situation in recent years, but the gas is not used for export earnings.

Structural
constraints

Bangladesh has a considerable tradition of civil society associations. There are numerous NGOs, especially in the rural areas. They are engaged in empowerment programs for marginalized groups, poverty alleviation, and health care and education. Islamic groups have also started their own NGO networks and religious institutions to propagate Islam. NGOs like BRAC have developed into national institutions. The Grameen Bank has received international acclaim for their micro-credit lending program. Mohammed Yunus, the founder of Grameen Bank, was awarded the Nobel Peace prize in 2006 for his work.

Civil society
traditions

Political polarization between the two major parties is high, but ethnic and religious conflicts are limited because of the homogeneity of the population. Orthodox Muslim groups have tried to agitate against the moderate Ahmadiyya sect. The armed conflict in the Chittagong Hill Tracts between Muslim settlers and non-Muslim minorities was settled with a peace agreement in 1997; however, there are still reports of armed clashes in that region.

Conflict intensity

II. Management Performance

14 | Steering Capability

The political crisis of winter 2006, which derailed the scheduled parliamentary elections of January 2007, indicates that the political leaders of the BNP and AL are unable to act with a long-term perspective. Even though the caretaker government was headed by President Iajuddin Ahmed, there were irregularities in the voters' list, which led to protests from the opposition alliance under the leadership of the AL, which complained that the caretaker government was acting on behalf of the previous BNP regime. The caretaker government was not able to find a suitable compromise, so the opposition decided on 3 January 2007 to boycott the election. At first, the caretaker government insisted on adhering to the electoral schedule despite public protests and demonstrations that were dispersed by the army. The international community signaled to the caretaker government that it would not accept the results of the parliamentary election if the main opposition parties were not included. This international position led to the resignation of the chief advisor and the replacement of the caretaker government. In order to overcome the political stalemate, President Iajuddin Ahmed stepped down as chief of the caretaker government on 12 January 2007 and declared a night curfew. The new caretaker government was headed by Fakhruddin Ahmed, the former governor of Bangladesh Bank, who postponed the elections. The emergency regulations were supported by the armed forces. These events have also seriously affected the institution of the caretaker government, which was established in 1996 to ensure a smooth transfer of power between the opposing parties.

Prioritization

The government is committed to democracy and a market economy. Because of political polarization, widespread patronage and corruption, success in implementing enduring reforms remains very limited.

Implementation

The political polarization and personal rivalries between Khaleda Zia and Sheikh Hasina have hampered political and economic development since the democratic transition of 1990/91. The political ravaging of the caretaker government showed once again that the political leadership in both parties is neither flexible nor willing to learn from past errors.

Policy learning

15 | Resource Efficiency

Resource efficiency is still modest. Corruption and patronage are rampant. Governmental transparency and accountability are inconsistent. Attempts at decentralization were introduced but were defused by political maneuvers. Local self-government with legal or financial autonomy does not exist.

Efficient use of assets

Coordination within the government is not pursued in a coherent manner. Ministries headed by coalition parties follow their own partisan interests.

Policy coordination

Bangladesh is perceived as one of the most corrupt countries in the world. In summer 2005, Finance Minister M. Saifur Rahman admitted publicly in parliament that corruption had gripped every ministry of the government. Anti-corruption prosecutions are often used as tools against political adversaries.

Anti-corruption policy

16 | Consensus-Building

There is a general support among the main political parties for the establishment of a market-based democracy in Bangladesh. Islamist parties like Jamaat-e-Islami (JI) are exceptions that want to establish an Islamic state.

Consensus on goals

There are hardly any veto actors in Bangladesh. Even Islamist parties like Jamaat-e-Islami (JI) are not necessarily regarded as veto actors, even though they pursue a non-democratic ideology. The popular base of Islamist parties is limited and does not exceed more than 5% of the electorate. Because of electoral constraints, they were co-opted as coalition parties after 2001. The army is successfully confined to the barracks. The participation of Bangladeshi troops in UN peacekeeping missions is regarded as a positive constraint against the future involvement of the armed forces in politics.

Anti-democratic veto actors

The political leadership exacerbates existing political cleavages between the BNP and the AL through the bitter personal rivalry between their leaders.

Cleavage / conflict management

Civil society organizations are actively involved in political debates. Because of the weakness of the state apparatus, they are active in various social and economic contexts. Because of the international character of some of the bigger NGOs, the government tries to control their activities and their financial support.

Civil society participation

Past injustices, such as the military's 1975 assassination of Mujibur Rahman, leader of the AL and father of Sheikh Hasina, and the role of the JI during the liberation war of 1971, are still not properly addressed. There are allegations that Zia-ur Rahman, who was Khaleda Zia's husband and was later assassinated by army officers himself, was involved in Mujibur Rahman's murder.

Reconciliation

17 | International Cooperation

The government is cooperating closely with the international donor community. This could result in some successes, including natural disaster management, and income-generating opportunities and poverty alleviation for the poor. There are still significant gaps in anti-corruption and good governance programs.

Effective use of support

Generally, elected governments are regarded as credible and reliable partners. After more than 15 years of political polarization between the BNP and the AL, the international community knows the limitations of governance in the country. There are concerns among international NGOs that the government is trying to curtail their collaboration with domestic NGOs by controlling financial flows.

Credibility

Relations with India, Bangladesh's most important neighbor, are also part of domestic controversies. The AL is more closely aligned with India and the BNP is more critical towards India. Relations with India were strained during the period under review. India asked the BNP government to close down several camps on Bangladeshi soil that militant groups use to operate in India's northeastern states. The BNP has rejected the claim that such camps exist. The main parties, the BNP and the AL, reached a consensus not to export gas to India. India's attempts to reach a transit agreement through Bangladesh for its northeastern states is still under negotiation. In 2006, the BNP government blocked a proposal for a transit gas pipeline from Myanmar to India. Despite its difficult relationship with India, both countries cooperate in the South Asian Association for Regional Cooperation (SAARC). With the implementation of the South Asia Free Trade Area (SAFTA) in 2006, regional trade is expected to increase. India is also looking for a bilateral free trade agreement with Bangladesh. Regional cooperation with India has increased, with both countries cooperating in the "Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation" (BIMSTEC) Initiative. Bangladesh's relations with Myanmar are still overshadowed by the Rohingya refugees from Myanmar. Rebel groups from Myanmar are conducting operations in the southeastern border regions of Bangladesh.

Regional cooperation

Strategic Outlook

The strategic outlook for Bangladesh is bleak. First, as long as the political polarization between the political leaders continues, political blockades with economic consequences are likely in the future. After the parliamentary elections, the government has a window of two to three years in which it can initiate reforms. After that, the opposition takes its protest to the street and can partially paralyze the country. Since the two main parties do not differ significantly on programmatic points, the main problem is the bitter personal rivalry between the two party leaders, Sheikh Hasina and Khaleda Zia. As long as both leaders and their families lead the parties, there seems to be no room for a significant improvement. The creation of the caretaker government in 1996 as a mechanism for a smooth transfer of power was discredited by the events of winter 2006. A lack of political alternatives renders the situation even more bleak. New parties like the Liberal Democratic Party (LDP), created after a split from the BNP in late 2006, will hardly achieve massive popular support. Established parties like General Ershad's Jatiya party are too dependent on their political leaders. Second, there was a massive increase in political violence and terrorist attacks during the period under review. Many of these assaults were connected with militant Islamic groups aiming to transform the country into an Islamic state. The Islamic parties may not have a broad support base, but the coordinated bombings of August 2005 indicate that religious militant groups are becoming more organized. And to secure their majority, the main parties are willing to compromise with Islamist parties. The BNP has recognized certificates from madrassas as university diplomas, so that a Muslim may now enter the public service. Because of its liberal Islamic traditions, the major parties should receive support from the West so that Bangladesh can be established as a model liberal Muslim democracy. The political turmoil of 2005 and 2006 has also impacted economic development. Growth rates are still healthy, but anti-poverty programs have still not led to an improvement for poor. Here, the country's heritage of corruption and patronage is a major obstacle for any significant progress in the future.