

# **PRIVATIZATION IN THE DEVELOPING WORLD: A BANGLADESH PERSPECTIVE**

**by His Excellency Moudud Ahmed**

**I**n all respects, the U.S. and Bangladesh have a very friendly and cordial relationship. The U.S. is the second largest bilateral donor country to Bangladesh, and if you take all the money that we receive bilaterally and through international agencies, more support and assistance comes from the U.S. than any other nation.

But Bangladesh has an image problem. When we make one step forward, floods come and we are portrayed as a poor country with unemployment and malnourishment. These reports get prominence and, despite tremendous efforts in countering an explosive population and handling one of the most complex economies in the world, the achievements made by the government of Bangladesh hardly get into the newspapers.

One of Bangladesh's greatest successes has been its privatization campaign. According to an August 1988 U.S. Agency for International Development report, Bangladesh has privatized more industrial and commercial units than any other country in the world. Over one thousand commercial and industrial units have been given back to the private sector.

Privatization in Bangladesh stands in stark contrast to the nationalization policies implemented immediately after independence in 1971. First, industrial assets abandoned by Pakistan were taken over by the state. Then, following a massive nationalization order, 90 percent of all industrial assets were nationalized, as were banks and insurance. Ten public corporations were set up to manage and control these industries. In other words, the entire economy was placed under government control.

**Trying Socialism.** The Awami League, which was in power at the time, wanted a socialist transformation in Bangladesh and crafted the First Five Year Program (1973-1978) to achieve this transformation. The Awami League originally had been a middle-of-the-road party with liberal democratic views, but rural youths with more radical policies had come to the forefront of the movement and pushed for massive nationalization. However, the League had little background as a socialist party nor did they have any socialist leadership to materialize a socialist transformation.

Thus, the private sector had almost no role to play in the First Five Year Plan. During the Second Five Year Plan (1980-1985), there was some limited moves toward privatization. In 1982, however, the denationalization process got into full swing. Some 39 jute mills and 30 textile mills were returned to their original owners. Next, 558 industrial units were auctioned back to the private sector. Finally, in a process that still continues, shares of large and medium industries were off-loaded via the stock exchange. Forty-nine percent of total shares were "off-loaded" or removed from each company, with 15 percent reserved for workers of that particular unit and the other 34 percent offered to the public. In 1988, the Bangladesh public sector off-loaded fourteen industries, some of them quite large, with nine more slated for this next fiscal year.

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**Popular Support.** A decade ago, Bangladesh had about 90 percent in the public sector. Today, only about 40 percent is in the public sector. We also are thinking about privatizing the telecommunications system. It is very difficult for a small country to change from one economic system to another. Bangladesh is the only country in the Third World which has successfully switched from one end of the economic spectrum to the other. We did this because of the economic chaos that had resulted from the earlier policies, with almost all industries registering losses. Though we have had some resistance from left-leaning trade unions, the people of Bangladesh support these changes.

Of all the industries the public sector has sold or off-loaded, all have been oversubscribed by the public which want to buy the newly available shares. One was even oversubscribed eight times. The stock exchange has become very vibrant, with transactions increasing twenty times in the last three years.

**Encouraging Investments.** Bangladesh's current economic policy framework is a liberal one. We provide a package of incentives for domestic and foreign private investors which are more favorable compared to other nations of the region. We now have recently established an Investment Board, creating a one-step process to help facilitate investment in the shortest possible time. Our industrial sector is now completely open, except for national security-related industries. No longer are we building industries in the public sector. Those public sectors which the private sector has shown no interest in buying, such as certain shipyards, have been reformed.

Bangladesh provides a major investment opportunity for countries like Taiwan, Singapore, and Japan. In fact, we have had good responses from Japan and the four Asian Tigers. As for the U.S. private sector, investment has been negligible. One of our aims at present is to attract more U.S. private investment. Last year, we hosted an Overseas Private Investment Corporation (OPIC) mission from the U.S. This was the first time a mission of U.S. investors came to Bangladesh to explore the possibility of investment in the private sector.

Thank you very much. Now I would be willing to take some questions.



Q. What was the outcome of the OPIC mission?

A. We received four proposals for joint investments. We are working on them now and I think that soon we can go ahead as soon as suitable local collaborators are identified.

Q. You mentioned investment by the four Asian Tigers. Are you courting Indian investors?

A. We have no restrictions. In fact, we now have more bilateral trade than ever. They are mostly coming in small-sized industries.

Q. Could you have an update on the Chittagong Hill Tracts issue?

A. Until 1900, the Chittagong Hill Tracts (CHT) were completely unregulated. After that, the British put the region under central government regulations. In 1947, the CHT became an integral part of erstwhile Pakistan. Under the 1962 constitution, the central government extended normal laws of the country to the CHT. Bangladesh continued this policy after 1971.

After independence, Bangladesh also began with a policy of settling outsiders in the CHT region. By the time this policy was discontinued in 1980, over 300,000 new settlers

had arrived in the tribal areas of the CHT. The tribals resented this influx, giving rise to a limited armed insurgency.

President Ershad, after initially deciding on a cessation to the policy of bringing settlers into the CHT, initiated two and a half years of protracted negotiations to help settle the issue. As a basis for negotiations, it was determined in Dacca that while the CHT would have to be an integral part of Bangladesh, the tribals would be granted the freedom to maintain their own cultural life and socio-economic activities. Just recently we passed three bills in Parliament dividing the CHT into three districts, each with "local self-governments." Tribals will elect their own councils in each of the three districts, and each will be chaired by a tribal. Non-tribal settlers cannot become chairmen. Moreover, the government will have nothing to do with the implementation of policies decided by the tribals.

On the question of land acquisition, the new bills stipulate that no land can be transferred or owned without the approval of the tribal councils. We hope that taken together these measures can relieve the long-standing CHT problem.

- Q. Has there been any settler opposition to these measures?
- A. The settlers have not liked it. They believe there has been discrimination. For example, they are limited to minority representation in the council, and by law they can not get majority representation.
- Q. Are there any efforts to draft tribals into the army?
- A. Actually, we are recruiting them both into the police force and army. We cannot force them. The door remains open.
- Q. President Ershad signed on January 1 a law establishing investment laws. Have enabling laws also been signed?
- A. The investment law is a self-contained law and we do not have to amend other laws. We may, however, need some administrative orders issued.
- Q. Does this mean that U.S. investors in Bangladesh now have one-stop service?
- A. Absolutely.
- Q. This is important because according to the Bureau of Economic Analysis of the U.S. Department of commerce, there is only \$13 million of U.S. investment in Bangladesh. I am sure you would like to multiply this.
- A. This is the whole idea of the one-stop service. Now, investors ideally would have to meet only one person as the contact point for foreign investment. In addition, companies can be up to 100 percent foreign owned. If they are going up to only 49 percent foreign owned, the foreign investor does not have to get permission of the Board of Investment. Moreover, we are going to give four years tariff protection for a new industry, and allow retained earnings of foreign funds invested in Bangladesh to be treated as equity.
- Q. Previously you advertised one-stop service. You are now re-emphasizing one-stop service. Is this the same wine in a new bottle?
- A. Our previous one-stop service never worked because it was merely an administrative order – a wish – without legal backing. Now, we have reserved power to implement our policy by means of a legal instrument. This new one-stop service is definitely fresh wine.

- Q. For many U.S. companies in Asia, one of their principal concerns is the protection of intellectual property rights. Pharmaceutical and telecommunication companies are especially concerned. What are the extent of Bangladesh's measures to assure the protection of private rights.**
- A. We have a patent law. If our law at present does not have sufficient coverage, it will be amended.**
- Q. In Pakistan, the return of democracy has been a remarkable event. A key element was the willingness of all parts of the country to work together to make the election process work. In Bangladesh, the opposition is not willing to participate until President Ershad resigns. Meanwhile, the President is willing to do everything to cooperate except resign. It seems like there is an impasse. Are there any hopes for the future?**
- Q. Let us go back to the example of Pakistan. When President Zia first held elections, the opposition refused to participate. Last time, however, Benazir Bhutto immediately accepted the chance to take part in elections. In 1986, when elections were offered in Bangladesh, one of the two opposition parties took part. Bangladesh, as a result, was able to return to the constitutional process and remove martial law. In 1987, when the political crisis occurred and President Ershad dissolved Parliament, it was expected that the opposition would take part in new elections. President Ershad offered that he was ready to go ahead with elections, and if necessary to reconstitute the Election Commission. But even then, the opposition did not take part. However, if the election were not held, the constitutional process would have been broken. In that sense, the 1988 elections saved the constitutional process.**

Today, the President has about two and a half years to go in this term. Of course, we can have elections. Elections are the only means of getting or sharing power. I hope the opposition will learn from Pakistan. No one will benefit if the constitution is disrupted again.

Thank you very much for this opportunity.

