

# Bangladesh

## Economic Growth in a Vulnerable Limited Access Order

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(in North, Douglass, John Wallis, Steven Webb and Barry Weingast (eds.), *In the Shadow of Violence: Politics, Economics and the Problems of Development*. Cambridge: Cambridge University Press, 2013. pp. 24-69).

Bangladesh was born out of two violent partitions, each caused by elites' inability to agree about the distribution of rents. It has subsequently struggled to achieve political stability based on different mechanisms of rent distribution among its elites. In the midst of quite significant instability, its economic performance improved in the 1980s. Its experience therefore provides interesting case study material to examine and elaborate the LAO framework. The geographical territory of Bangladesh, then called East Pakistan, was first carved out of the eastern agrarian hinterland of Bengal in 1947 when British colonial rule ended. Unlike West Bengal, which remained in India and which was significantly industrialized at that time, East Bengal was almost entirely an agrarian economy growing rice and jute. In the 1960s, after very limited industrialization had been achieved, another set of violent confrontations between incumbent and emergent elites in Pakistan culminated in 1971 in the independence of East Pakistan, from that point forward known as Bangladesh. In more recent years, Bangladesh has emerged as a relatively high-growth developing country with a significant manufacturing base rooted in the garments and textile industries. But it has an apparently dysfunctional governance structure and political system with frequent political standoffs between the major political parties. We will examine the evolution of the LAO in Bangladesh as a transition between three variants of a basic LAO to a fourth and final version that has elements of maturity but is vulnerable and faces problems in enabling and sustaining sophisticated productive organizations. Indeed we will argue that there appears to be a tension between the capacity of LAOs in very poor countries to achieve sustainable political stability based on the accommodation of political organizations and their ability to assist the development of productive organizations.

This analysis confronts the good governance reform agenda, which has informed much of the reform efforts in the country but with very limited results in terms of achieving better scores on "good governance." The paradox of poor scores on the good governance criteria and sustained growth over two decades has generated two types of responses. The dominant response has been to argue that growth in Bangladesh cannot be sustained unless progress on good governance is achieved rapidly. On the other hand, the inaction and lack of commitment of the ruling elites to implement any of these reforms suggests that their private assessment is quite different. Their actions suggest that the good governance agenda does not address their day-to-day problems of accumulation and political management.

Both responses are partially correct but also wrong in important respects. Improving governance is clearly necessary for sustaining growth given the vulnerability of growth in countries like Bangladesh. But the governance priorities may not be the ones that the good governance agenda identifies. Equally, the good governance agenda clearly does not give elites a workable reform agenda because it ignores the problem of how to maintain political stability in developing countries. But business as usual is just as dangerous for elites because the social order that has emerged is vulnerable and critical weaknesses need to be identified and addressed. The LAO framework focuses on how rents are allocated to achieve a cessation of violence. Some of these ways of achieving political stability may be more successful than others in the context of particular countries, and some may offer more growth opportunities than others. These differences need to be explored from a policy perspective to develop policy priorities that simultaneously address the political requirements of controlling violence and the economic requirements of sustaining growth.

The difficulty of achieving improvements in terms of good governance has a lot to do with the fact that rent creation is necessary to satisfy powerful elites, often outside the structure of rules of the formal state. While the allocation of rents to achieve political stability is clearly vital, some methods of rent allocation have failed to achieve peace and stability, and some types of rents have been very damaging for the economy. Other methods of rent allocation have achieved some measure of stability, and some types of rents have enhanced growth or have at least been consistent with the continuation of growth. By examining some of these differences in the political and economic effects of different patterns of rent allocation we can improve our understanding of how the LAO in Bangladesh has performed and evolved in response to this performance. Reform strategies are likely to have a better chance of implementation if they are based on a proper understanding of the challenges facing the operation of an LAO in a specific country. The challenge is to design incremental institutional and organizational changes that improve the ability of competing elites to develop “live and let live” strategies that also allow growth to be sustained if not accelerated.

The evolution of the LAO in Bangladesh has gone through five major phases that are summarized in Table 2.1. The first phase was one of constitutional crisis following independence from British rule in 1947, a crisis that persisted until 1958. *Pakistan inherited a basic LAO but it faced a growing risk of a descent into fragility during this period.* The partition of British India created a truncated state of India and the unique state of Pakistan consisting of two wings separated by more than a thousand miles of India. The partition left the successor states, particularly Pakistan, facing a monumental human and economic crisis. There were sporadic outbursts of violence, but at the heart of the constitutional crisis in Pakistan was the absence of a power-sharing formula between East and West Pakistan. Elites in the two wings did not share a joint history of state-building aspirations. A viable ruling coalition that included representative members of the elites from the two wings simply could not be constructed. The ruling coalition that created Pakistan and its use of the state apparatus it inherited had many characteristics of a basic LAO but with significant potential for fragility. The threat of fragility

undoubtedly assisted ambitious military and bureaucratic personnel to find an authoritarian solution to the constitutional problem.

**Table 2.1** *The evolution of the social order in Bangladesh*

<p><b>Partition and Constitutional Crisis (1947–58)</b> (Basic LAO with risk of fragility)</p>	<ul style="list-style-type: none"> <li>• Birth of Pakistan in 1947</li> <li>• Partition of India causes refugee and economic crisis</li> <li>• Constitutional crisis of power sharing between East Pakistan (Bangladesh) and West Pakistan</li> </ul>
<p><b>Military Authoritarianism (1958–71)</b> (Basic LAO)</p>	<ul style="list-style-type: none"> <li>• Military-bureaucratic coalition controls rents</li> <li>• Electoral “Basic Democracy” with limited entry</li> <li>• Growth of industry based on rents for infant industries but long-term efficiency low</li> <li>• Unequal access for East Pakistani elites</li> <li>• Victory of East Pakistani Awami League in the 1970 elections leads to war and independence when West Pakistani elites prevent the formation of a government</li> </ul>
<p><b>Failed Populist Authoritarianism (1971–5)</b> (Collapsing Basic LAO-Fragile LAO)</p>	<ul style="list-style-type: none"> <li>• Bangladesh born in 1971</li> <li>• Weak dominant party begins to lose control over asset-grabbing party members and rebellions outside the party</li> <li>• Appropriation by powerful groups contributes to crisis but at the same time Bengali asset-owning class emerges</li> <li>• Widespread violence and uncertainty</li> <li>• Attempt to institutionalize basic LAO in one-party state results in greater fragility and military coup</li> </ul>
<p><b>Authoritarian Clientelism (1975–90)</b> (Basic LAO with features of maturity)</p>	<ul style="list-style-type: none"> <li>• Rent distribution within competitively formed parties constructed under military-authoritarian leadership</li> <li>• Controls over competing political organizations relaxed</li> <li>• Privatization and liberalization encourage setting up of economic organizations outside the dominant coalition</li> <li>• Growth led by new sectors like garments and textiles benefiting from global rent allocation (the MFA)</li> </ul>
<p><b>Competitive Clientelism (1990–)</b> (LAO with more features of maturity but also vulnerable to fragility)</p>	<ul style="list-style-type: none"> <li>• Multiparty democracy without overall control by military-authoritarian leadership</li> <li>• Formal (and substantive) capabilities to set up economic and political organizations outside dominant coalition</li> <li>• Electoral crises and violence when “live and let live” compromises between competing factions collapse</li> <li>• Military-backed emergency government of 2007–8 wasted opportunities of reform by attempting to institutionalize Weberian good governance</li> </ul>

The second phase that followed was characterized by military governance from 1958 until 1971, when Pakistan was again partitioned to create the new state of Bangladesh out of its eastern wing. For Bangladesh, much of the Pakistan period was this period of military rule. *We characterize this phase of the LAO from 1958 to 1971 as a “military-authoritarian” basic LAO.* Here the dominant coalition was tightly defined by a military-bureaucratic coalition and its close business clients and allies. The most important rents were access to critical subsidies to enter productive activities and these were allocated from above to a small number of business houses. Political rents were distributed to a broad group of rural political representatives, bypassing traditional political organizers. The opposition of the latter was countered with the threat of force. Rent allocation from above gave this military-authoritarian period a praetorian character. There was a significant improvement in the organizational sophistication of a small number of emerging capitalist sectors in the previously rather primitive economy. Many “learning rents” were created for infant industries and early industrialization was therefore rapid. However, the management of these rents was not very effective because political organizers were becoming increasingly powerful and could protect inefficient industrialists even in the context of the praetorian LAO. But the real failure of the praetorian LAO was that by excessively limiting the access to rents it failed to maintain long-term political stability and Pakistan collapsed into catastrophic violence out of which Bangladesh was born in 1971.

*The third phase, from 1971 to 1975, was a period of intensely unproductive “primitive accumulation” and a failed attempt to institutionalize a one-party populist authoritarianism.* This period had the formal characteristics of a basic LAO, and in particular, the attempt to create a one-party state aimed to institutionalize a rigid version of a basic LAO. But in reality, this was a period of increasing fragility, with high levels of overt violence and a free-for-all in the economy as powerful groups grabbed resources abandoned by the previous regime. Primitive accumulation refers to the grabbing of assets and resources using political and organizational power. As a large number of previously excluded political organizers entered the rent capture game during this period, rent capture was extensive and damaging as asset stripping, overemployment, and other types of damaging rent creation accelerated. Neither economic nor political viability was achieved as the central leadership lost control over all rents. The belated response of nationalist leader Sheikh Mujibur Rahman was to attempt to control rent capture by constructing a more inclusive but still centrally controlled LAO in the form of a one-party “socialist” state. This too catastrophically failed as violence escalated and Mujibur Rahman and most of his family were assassinated. The support for and opposition to Mujib’s one-party plan was couched in terms of a debate about planning and socialism, but more mundane issues of rent allocation underpinned these debates. While a broad sweep of political organizers were to be included in the state party under this plan, it was clear that there were not enough rents to satisfy everyone. There were too many powerful organizers relative to the available rents and all could not be accommodated using an inclusive populist strategy of constructing a one-party state. Most organizers, particularly those from other parties asked to join the new single party, feared they would

permanently remain minor players. There was serious opposition to the plan not only from outside but also from within the ruling Awami League.

*The fourth phase, from 1975 to 1990, we characterize as “authoritarian clientelism” where military leaders formed parties and ruled through rent distribution within competitively constructed parties and with occasional elections.* The broad principles on which the competition for rents is organized in contemporary Bangladeshi politics began to emerge during this period. Ziaur Rahman, president from 1977 until his assassination in 1981, was a popular freedom fighter and his presidency was quite different from that of his successor, Ershad, who ruled from 1982 until his overthrow in a mass uprising in 1990. Nevertheless, there are some common features of the period as a whole. These were basic LAOs, but with increasing characteristics of openness and maturity because the new military rulers realized that the earlier praetorian approach of defining a narrow dominant coalition from above would not work any longer. The new clientelistic logic was to selectively include enough political organizers in the dominant coalition to minimize the required threat of force to an acceptable level. And by not attempting to block organizational rights and capabilities of outside political organizers, they also avoided the mistake of inclusive populist authoritarianism. Dissatisfied organizers could build organizations outside the ruling coalition, biding their time. Earlier praetorian strategies of going over the heads of established political organizers to try and empower new layers below them through strategies of decentralization continued to be attempted.

The combination of these strategies ensured considerably greater access for political organizers and political organizations outside the ruling coalition compared to the praetorian phase of military rule in the 1960s. Zia reintroduced multiparty elections in 1979, which his Bangladesh Nationalist Party won. However, given presidential control over the army and the administration, politics in this phase was essentially about negotiating inclusion into the dominant coalition led by the ex-military leader. This model proved unviable under Ershad, who did not enjoy anything like Zia’s popularity or legitimacy. The military clientelistic period came to an end in 1990 with the overthrow of Ershad after months of street protests and violence. This marked the transition to a version of multiparty democracy under which the opposition has a real chance of winning and establishing a new dominant coalition consisting of a different set of individuals and coalitions having privileged access to the most significant rents.

Another important characteristic of the 1980s was that a gradual economic turnaround began after the devastation of the war and the damage caused by destructive rent extraction from productive enterprises. Zia and Ershad began the process of privatization that slowly began to reduce asset stripping from productive enterprises. But given the weakness of regulatory agencies and property rights, the privatized enterprises were initially only marginally better in terms of economic performance. Nevertheless, the separation of economic from political rents reduced the most damaging types of predatory rents in the economy. It also allowed the emergence of the garment industry, which President Zia was directly involved in establishing. Economic organizations in these new sectors could be set up without direct support from the dominant coalition and began to drive growth in the economy. Fortunately for Bangladesh, the garment industry

was a beneficiary of accidental rents created for countries like Bangladesh by the quotas set by the MFA for more advanced garment exporters. These rents created the incentives and the opportunities for the transfer of critical technological capabilities to Bangladesh. The experience of the garment industry suggests that even low-technology sectors face market failures that constrain the transfer of technology. The accident of the MFA was particularly fortunate for Bangladesh because the dominant coalition was no longer attempting to assist the creation of new productive organizations. The rent strategies of the dominant coalition were mainly focused on political stabilization, in contrast to the strategies employed by leaders of the praetorian LAO of the 1960s, who directly allocated rents to emerging capitalists in an attempt to accelerate industrialization and growth.

*The fifth (and current) phase, from 1990 onward, can be described as “competitive clientelism,” which sustains a vulnerable semi-mature LAO. This has many characteristics of maturity as political organizations can be set up and operated to challenge the ruling coalition, and the support of the dominant coalition is not a precondition for setting up many types of economic organizations but there is simultaneously significant fragility at the margins.* Competitive clientelism is our description of developing countries’ democracies, though there are significant variations among developing countries (Khan 2010). Formally, and to a large extent in practice, the dominant coalition no longer controls the establishment of new organizations, including political organizations. Nevertheless, given the absence of a Weberian state enforcing a rule of law, the operation of organizations still requires assistance from political and state actors that has to be “purchased” on a personalized basis. Moreover, the elements of maturity may be limited for important rents (like the rents involved in major construction or power sector projects) that may be jealously controlled by the coalition currently in power. Similarly, the dominant coalition may keep tabs on and sometimes take steps against organizations (like television channels or organizations belonging to specific individuals or groups), often in very arbitrary ways. Nevertheless, for a broad range of organizations, there is a great deal of openness about who can set up these organizations, even though the support or non-intervention of the dominant coalition/state has to be indirectly purchased where required. Moreover, the dominant coalition can in principle and in practice be replaced by a new coalition if the opposition can organize a coalition with sufficient organizational power.

The latest phase of the LAO faces challenges in both the political and economic spheres. In the political sphere, party competition remains very vulnerable because “a rule of law for elites” has not emerged and parties periodically get locked in violent confrontations about how to conduct elections. In the economic sphere, greater openness has had some paradoxical effects. Since the dominant coalition can change, this can occasionally have negative results for investment. Where large and long-term investments are required, as in the power sector, investors are wary of the possibility that a new coalition may overturn previous contracts. On the other hand, sectors like garments, pharmaceuticals, and textiles can provide entrepreneurs and workers with opportunities to acquire the technological capabilities necessary to be globally competitive. Organizations in these sectors are also unlikely to threaten the rent extraction strategies of the dominant

coalition. Setting up productive organizations in these sectors has elements of maturity. Support from the dominant coalition is no longer a precondition for setting them up. Interesting, these organizations are driving growth in contemporary Bangladesh. Nevertheless, acquiring technological capabilities in completely new sectors faces significant market failures. Without a strategy for addressing these market failures, the emergence of new medium-sized productive organizations in new sectors is effectively constrained. Since responding to market failures typically involves the creation of policy-induced rents, the failure here is essentially a failure to create and manage productive rents. In the subsequent sections we look at the five phases of the evolving social order in Bangladesh in more detail.

### **2.1 Partition and Constitutional Crisis: 1947–1958**

Pakistan was created in 1947 out of some of the least developed agrarian parts of India. The deep political and economic crisis in Pakistan at the end of British rule was not accidental. The economic underdevelopment of the largely agrarian regions that became Pakistan was bad enough but, in addition, trade links with industrial areas elsewhere in India were severed as a result of the partition. The reasons behind the political crisis were even deeper. A constitutional crisis in the newly independent Pakistan was almost inevitable given the way in which the country was created. East Pakistan was poorer and less developed and had virtually no indigenous capitalists, and virtually no senior bureaucrats or army officers. West Pakistan too was underdeveloped compared to more advanced areas of India, but many of the immigrant Muslim businessmen and senior bureaucrats from other parts of India settled in West Pakistan as they were culturally closer to that region. The army too was largely drawn from the Punjab region of West Pakistan. *The basic LAO inherited by Pakistan/Bangladesh was threatened by a collapse into fragility as a result of intense disagreements among elites over the constitutional arrangements for sharing power between the two wings of the country.*

The irony behind the creation of Pakistan was that it had not been a significant aspiration for elites in *either* wing of what became Pakistan. Pakistan was carved out of the two most important Muslim-majority areas of India: Punjab (whose western part was to dominate West Pakistan) and Bengal (whose eastern part became East Pakistan). Neither had been strongly behind the idea of Pakistan before 1947 for good reason. The demographic dominance of Muslims in these provinces meant that Muslims already enjoyed substantial power under the electoral system introduced by the British in 1936. The demand for Pakistan came from Muslim political elites in central and western India where Muslims were a minority. In particular, Jinnah used the demand for Pakistan as a bargaining tool to try and achieve a guarantee of federalism, which he believed would ensure that Muslims all over India could exercise significant voice in an independent India (Jalal 1985: 258). When Nehru and the Congress Party failed to reach an agreement with Jinnah along these lines, and particularly after Nehru rejected the Cabinet Mission Plan proposal for a federal structure for India in 1946, Muslim elites all over India began to lose confidence in the intentions of Nehru and the Congress and Pakistan suddenly became inevitable.

But Jinnah's Muslim League was not organizationally strong in either Bengal or Punjab and faced serious problems in trying to cobble together a Pakistani state. West Pakistan's largely Punjabi elites soon discovered that they were the dominant group in the new state and this encouraged many of them to buy into the idea of Pakistan. In contrast, East Pakistan elites remained embroiled in conflicts with the central leadership. At its heart this conflict was over who had the power to create and allocate rents in the new state. East Pakistan had a majority of the population of Pakistan, and so its political organizers potentially had significant power, even the power to dominate Pakistani politics. But West Pakistan was dominant in terms of military, bureaucratic, and economic power. As a result of these tensions, the new state of Pakistan faced serious conflicts among elites from the outset, and a decade of constitutional discussions failed to resolve the question of how rents should be distributed among these competing groups.

The central problem was that the relatively poorer and less developed East Pakistan had a bigger population (at that time), making it difficult for the economically dominant West Pakistani elites to feel confident that they could ensure their political dominance through any electoral system. And though East Pakistan was relatively underdeveloped compared to the West, its political organizers were more organized as it had a longer history of political mobilization against colonial rule. Moreover, rich peasants in East Bengal had been in power in the British province of Bengal since the 1936 reforms that allowed political parties led by rich peasants (like the secular Krishok Proja Party) to win elections and form provincial governments. These asymmetries in the economic, political, and organizational capabilities of the elites of the two wings created insuperable difficulties in constructing a constitutional settlement. The military coup of 1958 was the almost inevitable result.

## **2.2 Military Authoritarianism: The "Praetorian" Basic LAO: 1958–1971**

While both political stability and economic viability were of concern to the early civilian leadership of Pakistan, for the military leadership that took power in 1958, achieving economic viability was a priority. From their perspective, the survival of the country depended on military strength and that in turn required a viable economy (Jalal 1990). Political stability was to be achieved mainly through the suppression of organizational rights. As in the rest of South Asia, the fifties and sixties in Bangladesh/Pakistan were a period of catching up under ambitious industrial policies, but in this case under a tightly controlled dominant coalition. *The praetorian basic LAO kept in place a dominant coalition from 1958 to 1971 with a focus on creating more sophisticated productive organizations in modern industry. A secondary objective was to use rents to maintain political stability, but in a context where force was the primary mechanism for limiting access to rents to a narrow group.*

This strategy was ultimately misconceived because it did not adequately assess the strength of the opposition that could be organized by excluded rent-seeking groups. While there was a growing mobilization of excluded elites in both wings of Pakistan, the mobilization in East Pakistan was explosive because state policies during this period discriminated against East Pakistan as a whole. Rent allocation to East Pakistan primarily benefited non-Bengali entrepreneurs to set up industries in East Pakistan. Emerging

Bengali elites were largely excluded from the dominant coalition and unsurprisingly perceived the state strategy as one of national suppression. Their distributive conflict with the dominant non-Bengali political, military, and business elites based in West Pakistan eventually erupted in a massive breakdown of the social order, an outbreak of significant violence, and the emergence of the independent nation of Bangladesh.

An important feature of the basic LAO that this experience reveals is that it can only be stable if, by accident or design, enough of the potential organizers of violence are included within the ruling group. Pakistan's military government in the 1960s was more concerned with accelerating development and less with stability, clearly because in its judgment potential violence by excluded elites could be contained by the state given its overwhelming asymmetry in terms of instruments of violence. This judgment could not have been more wrong. Power in the context of civilian confrontations depends on the relative ability to organize large numbers of people to protest or vote in particular ways and here a monopoly of violence is not a sufficient guarantee of political stability in the long term. Ignoring the claims of powerful political organizers in Pakistan resulted in a growing and increasingly violent mobilization in both wings that eventually brought down the military government and led to the emergence of the new country of Bangladesh.

The coup led by Ayub Khan in 1958 established a military-authoritarian regime that can be described as a tightly controlled basic LAO. Its praetorian character came from its explicit threat of violence to limit access to rents. Martial law was imposed to curtail organizational freedoms to set up political organizations. All significant rents were allocated from above. The dominant coalition consisted of the military-bureaucratic elites and their close business allies. For a while, the threat of force disrupted the ability of excluded organizers to pose a significant threat to the dominant coalition. At the same time, by controlling exchange and interest rates, setting tariffs and quotas, and controlling the access to foreign exchange, the state created rents for privileged business elites. The initial effect was not only the achievement of greater political stability but also a sustained growth spurt that lasted through much of the 1960s. However, much of the rents that the state created and controlled were focused on establishing and promoting relatively sophisticated enterprises in new sectors. Controls over imports, an overvalued exchange rate (that made machinery imports cheap), and export subsidies that compensated for the overvalued currency built a structure of rents that created strong incentives for investment. Both import substituting and export industries developed and incentives were created for absorbing and learning to use new technologies. The early import substitution was primarily in textiles, generally of low capital intensity, but growth followed in other industries like chemicals, food industries, and light manufacturing (Papanek 1967: 1-74).

Though the state did not yet have the resources to provide rents in the form of direct subsidies to industrialists, the combination of an overvalued exchange rate, import controls, and rationing of scarce foreign exchange amounted to very significant hidden subsidies to investors in new machinery. Papanek reported that profits of 50 percent to 100 percent a year were not uncommon in the early to mid-fifties (Papanek 1967: 33).

Access to foreign exchange licenses was a critical part of realizing these rents, and this in turn required close relationships among business, political, and bureaucratic elites. The basic LAO was based on and further developed the personal contacts that existed between the ruling Muslim League leadership and a small number of traders, dating back to the pre-partition days. “Nation Building Companies” like the Mohammadi Steamship Company and Habib Bank Limited had been established by these traders in India in alliance with the Muslim League, and they provided obvious candidates when individuals or companies had to be offered industrial projects (Rashid and Gardezi 1983: 1–8).

The military regime built on a number of agencies set up in the very early years of the state. A month after independence in 1947 from Britain, an industries conference was convened where various forms of assistance were offered to businessmen but the response was very poor. Partly as a result of this disappointment, in 1952 the Pakistan Industrial Development Corporation was set up with the objective of establishing enterprises and then divesting them at attractive prices to risk-averse owners in the private sector. Four members on its board came from the leading business houses, and the first head of the corporation, an enterprising public servant named Ghulam Faruq, went on to become one of the leading industrialists of the country. This arrangement allowed businesses to capture rents by getting the state to absorb all the risks of setting up a new plant, in particular absorbing the costs of training employees in new skills. The relationship between business and government had always been close, and the levels of accumulation and growth in the industrial sector were commensurate.

Also established in the early years were the key financial institutions that would finance investments by new entrepreneurs in new industries that did not yet have a track record and therefore would not be standard risks for normal banks. These were the Pakistan Industrial Credit and Investment Corporation (PICIC) and the Pakistan Industrial Finance Corporation (later Industrial Development Bank of Pakistan, IDBP), which were to assume great importance in later years (Alavi 1983: 46–50; Amjad 1983: 235–50). By providing low-interest loans to entrepreneurs with inadequate collateral and experience, significant rents were allocated to businesses patronized by the dominant coalition. Although these two institutions allocated about a fifth of total investible resources, leading businessmen from the monopoly houses were represented on the boards of all the state financial institutions and the boards of directors of other monopoly houses (Amjad 1982: 30–60, 1983: table 9.7).

These agencies grew in importance under military rule. A small number of monopoly houses with close links to the ruling coalition benefited enormously. From 1958 to 1970, PICIC allocated 44.7 percent of its loans to thirteen monopoly houses, and even the IDBP, which focused on loans below 2.5 million rupees, allocated 31.9 percent to thirty monopoly houses between 1961 and 1970 (Amjad 1982: 51). By the late 1960s, the top eighteen business groups controlled thirty-five percent of industrial assets while the top forty-four controlled around fifty percent (Amjad 1982: 47). As a result of family cross-holdings, the figure for the percentage of assets controlled by the top families was even higher. In the popular press, the top twenty-two families became the butt of attacks as according to some calculations these families controlled most of the new productive

assets in the country. Thus, by the late 1960s, limited access in the economy had a figure: twenty-two families. Table 2.2 shows growth rates in different sectors between 1950 and 1980. The initially high growth rates proved to be unviable, largely because many of the higher technology firms supported with (learning) rents never graduated to self-sufficiency. Perhaps more of them may have survived if given more time, but political crises led to the abandonment of these strategies by the late 1970s.

**Table 2.2** *Growth in East Pakistan / Bangladesh 1950–80*

	Manufacturing	Industry	Agriculture
1950–5	9.5	11.5	2.4
1955–60	8.5	8.6	0.3
1960–5	10.6	17.4	3.2
1965–70	5.3	7.7	2.8
1970–5	-9.8	not available	not available
1975–80	5.1	5.9	3.3

Sources: Alamgir & Berlage (1974: apdx C, table 4; apdx 14-A), World Bank (1984, 1986)

The economic success of Pakistan in the 1960s led some observers, such as Gustav Papanek, a Harvard Advisory Group economist working on Pakistan, to publicize Pakistan as a new model of growth (Papanek 1967: 2). With the benefit of hindsight, the weakness of Papanek’s analysis was that this acceleration of growth depended on the political sustainability of the state’s ability to direct vast quantities of resources into the hands of a tiny emerging capitalist class during the late fifties and early sixties. The early results of growth in Papanek’s statistics concealed the fact that these accumulation strategies were based on a vulnerable basic LAO and the state had very limited capacities to govern these subsidies to ensure that productivity growth was rapid enough to make the investments viable.

First, as in India, the state’s governance capabilities for limiting moral hazard problems were not sufficiently developed. The result was that even by the late sixties, new enterprises set up a decade ago had not graduated to the point where they could become globally competitive without the implicit rents continuing. The popular perception therefore was that this was a strategy for enriching privileged groups. The second weakness, closely connected to the last, was the failure to develop a broad-based Bengali capitalist class in East Pakistan/Bangladesh. The weakness of the Bengali bourgeoisie is reflected in Table 2.3 since much of the growth in industrial investments in East Pakistan initially took place through a growth in the public sector, peaking at fifty-three percent of total investments in 1968. With the benefit of hindsight, the praetorian LAO failed to allocate sufficient rents to potential organizers of violence and allocated too many rents to client capitalists, a group that included almost none from the eastern wing. An emerging alliance between excluded business interests and excluded political interests in East Pakistan proved to be devastating for the stability of the regime.

**Table 2.3** *Industrial investment in West and East Pakistan 1961–71*  
(Million Rupees in Constant 1960 Prices)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
West Pak	852.94	846.15	757.05	1062.50	1221.43	1087.96	987.16	1013.79	916.87	1061.36
%Public Sector	5.1	3.9	15.6	3.2	9.8	10.8	10.9	11.6	8.3	3.2
East Pak	205.99	459.42	332.21	382.30	450.21	390.00	477.02	799.81	796.84	700.88
%Public Sector	21.7	13.8	29.8	24.3	24.3	25.0	24.8	53.0	50.7	45.7
All Pak	1058.9	1305.6	1089.3	1444.8	1671.6	1478.0	1464.2	1813.6	1713.7	1762.2

Source: Amjad (1982: table A.9). The Pakistan rupee was equal to USD 4.8 at that time.

Nevertheless, there was some growth of a Bengali industrial capitalist class in this period, even if concentrated in medium enterprises. At the time of the independence of Bangladesh in 1971, one study found sixteen large Bengali business houses, each with assets of more than Rs. 25 million and with combined assets of nearly Rs. 700 million (S. Baranov, cited in Sobhan [1980: 15]). The Pakistani rupee was roughly equal to 4.8 dollars U.S. at that time. The bulk of the nascent industrial bourgeoisie was, however, small to medium entrepreneurs. Excluding the large jute and textile industries, state financial institutions funding the establishment of enterprises had, by 1971, given over three thousand loans to Bengalis, most below Rs. 400,000, helping to set up around thirteen hundred units (Sobhan and Ahmad 1980: 64–5). However, a much bigger group of the Bengali lower middle classes felt totally excluded. These classes provided the political entrepreneurs and organizers who led an increasingly successful mobilization against the dominant coalition.

The military-authoritarian regime misjudged the strength of these excluded groups and their ability to mount a significant challenge. The praetorian order had kept an eye on rent distribution for political stability but it was far too inadequate. The major institutional mechanism for purchasing stability was the so-called “basic democracy” system that Ayub innovated with the Basic Democracies Order of 1959, one of the first acts of his regime. This attempted to bypass the established political elites in the towns by creating a new constituency of rent recipients in the villages. Eighty thousand “basic democrats” were elected on a non-party basis and they were the electoral college for electing members of parliament. Authoritarian regimes have often used this tactic of going over the heads of their immediate opponents by appealing to the interests of those below them. The latter initially demand a lower price and the authoritarian leader often believes they will be easier to control. The “basic democrats” also directly elected the president. The provision of relatively limited rents to this large army of rural representatives through rural infrastructure construction programs and Food for Work programs was for a time sufficient to create a countervailing source of support for the regime that made it difficult to organize dissent (Sobhan 1968).

In the end, the basic democracy plan was self-defeating. As the rural basic democrats became more confident and ambitious, they saw obvious opportunities in throwing their lot in with the growing dissent in the towns. When this began to happen in the late 1960s, not only did the “hot house” development in this LAO come under threat, the social order was fundamentally challenged as there were no easy ways of incorporating enough excluded elites into the system quickly enough. Under pressure in both wings of Pakistan, the military government allowed elections in 1970 that gave the East Pakistan-based

Awami League an absolute majority in the all-Pakistan parliament as the East had a majority of seats in the central legislature. This led to an even more serious constitutional crisis for Pakistan as West Pakistani elites were unwilling to let an East Pakistan party form the government. The last desperate act of the praetorian LAO was a bloody crackdown on political organizers and their intellectual supporters in East Pakistan in March 1971. As the conflict became increasingly violent, the basic LAO rapidly collapsed into a fragile one. Ultimately, the social order could not be sustained and as the civil war intensified and transformed into a war for liberation and independence, Pakistan's historic enemy India intervened to assist the Bengali struggle for independence and the independent country of Bangladesh was born in 1971.

### **2.3 The Rise and Fall of a “Populist Authoritarian” Basic LAO: 1971–75**

The political break of 1971 allowed the emergence for the first time of a direct relationship between upwardly mobile Bengali political entrepreneurs and the state. However, the long-excluded Bengali political entrepreneurs had an apparently limitless appetite for rents and as yet no entrepreneurial capabilities to productively operate any of the assets and resources they were capturing. The massive acceleration of asset and resource capture by politically powerful organizations was the “primitive accumulation” that had catastrophic consequences for economic rehabilitation after the war, which had been disruptive enough on its own. Nevertheless, it was through these processes that a new Bengali capitalist class was to emerge after a decade. *The third phase, from 1971 to 1975, was characterized by extensive and unproductive “primitive accumulation” and a failed transition to a one-party state. Formally the latter was an attempt to institutionalize a basic LAO but the period was marked by growing fragility.*

The huge upsurge in the numbers and demands of political entrepreneurs who now wanted a share of the rents made it difficult to construct a new social order. On top of the ravages caused by the conflict, the victory created a big gap between the aspirations of a multitude of organizers who had participated in (or claimed to have participated in) the freedom struggle and the rents available for them to capture. The Awami League as the dominant party had many features of authoritarianism from the outset as it was a broad coalition of powerful organizers, many of them armed, who used political and military power to capture abandoned assets, settle disputes among themselves, and prevent their collective power being challenged. Rent capture went beyond the usual forms of targeted subsidies to include very damaging types of “primitive accumulation” as abandoned assets were grabbed and sometimes stripped, and nationalized mills and factories were used to create rents in the form of unsustainable employment and pricing policies. Not surprising, this LAO suffered from growing fragility, with politically powerful factions and armed gangs grabbing resources openly. The last-minute attempt by nationalist leader Mujib to institutionalize his failing populist authoritarianism by creating a one-party state only served to exacerbate fragility and the basic LAO effectively collapsed.

Violence kept erupting because the distribution of rents between the vastly increased numbers of claimants could not be settled by any other obvious means. Central control over the party and the growing number of organizers outside the party could not be easily established. Individuals and groups who received less than they expected threatened to

leave the party and engage in opposition or violence from outside unless they were accommodated on their terms. Unfortunately, accommodating all individuals and groups on their terms would add up to more redistribution than the economy could possibly sustain. The growing conflicts were expressed in a number of ideological debates between those who had fought or claimed to have fought in the war of liberation and those who for various reasons had not or could not, and between slightly different versions of the now dominant socialist ideological consensus. Behind these debates lay the concern about who would have the power to decide or limit the allocation of rents.

This situation was clearly unsustainable and the ruling party, the Awami League, attempted to reassert a basic LAO by creating a one-party state. In January 1975 the fourth amendment to the constitution was pushed through despite misgivings among many party members only when Prime Minister Mujib, leader of the liberation movement, threatened to resign (Karim 2005: 348). The constitutional amendment changed Bangladesh to a presidential system with power concentrated in the hands of Mujib, who became the president. The amendment also provided for the creation of a national party with the sole power to engage in political activity, and all members of parliament and the president had to belong to this party. In February all parties were suspended and the national party launched. This was the Bangladesh Krishok Sromik Awami League (Workers and Peasants Awami League) or BAKSAL (Mascarenhas 1986: 57). The plan had the strong support of the pro-Moscow faction of the communists as it fitted in with the blueprint of similar one-party experiments in other parts of the developing world then supported by Moscow. Socialist ideology aside, this was clearly also an attempt to reassert central control over rent allocation within a defined dominant coalition, in other words, to recreate an authoritarian one-party version of a basic LAO.

However, ideologies do matter. There was genuine disquiet about the plan from those who believed it was the thin end of the wedge that would convert the country into a planned economy of the Stalinist type. No doubt, the pro-Moscow communists' support for the plan was based on the same expectation. Nevertheless, the failure of this proposal to win the support of many of Mujib's key lieutenants was significant. Many people inside and outside the party saw the move as a logical culmination of steps toward an authoritarian protection of the rents of the ruling coalition. The 1973 election, though it resulted in a huge victory for the Awami League, had revealed the vulnerability of many of the top leaders of the party and their reelection was widely believed to have been achieved through interventions in the electoral process (Karim 2005: 305–8). Many of Mujib's henchmen and relatives were already deeply unpopular for their acts of appropriation and their blatant immunity from all legal restrictions.

As the opposition National Awami Party put it: “Pakistan's 22 families have become Bangladesh's 2000” (Karim 2005: 290). The party could have added that the rents of the two thousand were based entirely on expropriation and were not even remotely associated with learning new technologies or industrialization. The paramilitary Jatiyo Rakkhi Bahini (JRB) was increasingly used to protect Awami Leaguers from attack and also to intimidate voters during elections (Karim 2005: 273). The introduction of BAKSAL must be assessed in this context. While there was little public demonstration against the

constitutional amendment, the climate of fear was not appropriate for the free expression of views. In secret, many different groups inside and outside the ruling party began to plot Mujib's violent removal (Mascarenhas 1986: 64). Mujib himself explained that the fourth amendment could not provide a permanent solution and was an emergency response to a situation going out of control: "This one-party arrangement is purely temporary. Once I have saved the country from counter-revolution I will restore multi-party democracy" (quoted in Karim 2005: 258). Mujib's most dangerous enemies were within his own party. Many rightist members of his cabinet and foreign embassies were aware that a strike was planned against him and his family (Lifschultz 1979; Mascarenhas 1986). And so it was that on August 15, 1975, less than four years after independence, the founding father and president of the new country was assassinated.

Independent of the betrayals and conspiracies, it is also clear that the plan to create a one-party state was deeply unpopular with many sections of the elite who were supposed to join together in an inclusive basic LAO. Since the viability of an LAO is that significant organizers of violence should have an incentive to desist from violence, the BAKSAL experiment was demonstrably a failure. The interesting question is why the attempt to define the dominant coalition in this way did not find broad support among the very group that it was trying to incorporate. The likely answers to this question have important implications for understanding the nature of the LAO that subsequently emerged in Bangladesh.

The essential problem with an attempt to impose order on rent allocation in poor countries using a one-party authoritarian structure is that there is no well-defined elite to begin with. Political accumulation in South Asia is a dynamic process in which sequential layers of political entrepreneurs are continuously emerging at all levels. One way of imagining this is to think of a multitude of patron-client organizations with conveyor belts in each taking enterprising individuals higher up and with individuals at higher levels occasionally making a transition from purely political accumulation to various combinations of political and economic accumulation as they begin to invest in productive enterprises of different types. A single authoritarian populist party is simply a coalition of a large number of patron-client organizations brought together in a larger coalition. Attempting to define rent allocation in a coherent way in this context faces two sorts of problems.

The first problem is to determine the distribution of rents between and within the different patron-client organizations that together constitute the bigger coalition. If each of these organizations generated its own rents and the question was only about protecting the rents of each, the problem would be a lot simpler and the organizations could collectively provide third-party enforcement and protection of their individual rents. This may happen if all organizations were productive organizations or if the patrons of each organization were extracting rents solely from their own clients. But if a significant part of the rents of organizations were based on "primitive accumulation," each coalition is targeting the same pool of social resources for capture. In this case, the distribution of rents between organizations cannot be guaranteed by the organizations themselves. Each organization can no longer provide third-party enforcement for the rents of other

organizations because there is likely to be a conflict of interest. Only a very strong leader could handle the arbitration of rent distribution between organizations and only if that leader had the support of most organizations most of the time.

Prior to the one-party experiment, the Awami League was facing a growing crisis in managing its intraparty distributive conflicts. Significant numbers of leaders within the party were disaffected and some were leaving. This was happening as early as 1972. In particular, the departure of a significant section of the left wing of the Awami League to form the Jatiyo Shomajtantrik Dal (JSD) in 1972 was significant. If the distribution between coalitions depends on the decision of a supreme leader, all coalitions have to be confident of their access to that leader, and the leader has to have sufficient authority to impose decisions once taken. The transition to a one-party structure has to be understood in this context. It is not clear that Mujib had the authority or the physical concentration of force to ensure that all individual organizers would come into the single-party structure and then accept the distribution of rents that the leader imposed. Historically, a sustainable one-party system requires a considerable concentration of the control over rents and of the instruments of force at the center and this was not in evidence in Bangladesh in 1975. Since all coalitions cannot be sure that the leader will treat them fairly *ex post*, and since leaving a constitutional single party is not legally possible, only coalitions already close to the leader would voluntarily agree to join the new system.

The second problem is to define the limits of the dominant coalition. There are potentially an indefinite number of political organizers who believe they have enough capacity to challenge the dominant coalition to deserve inclusion and a share of rents. However, the more organizers who are included, the smaller the rents that existing organizers can capture. The problem for a formal and well-defined dominant coalition like a one-party state is that it defines insiders and outsiders clearly and creates strong incentives for outsiders to unite against insiders. In the praetorian order, the insiders were not formally defined, but it was clear that a very small group was privileged. The political rents were broadly distributed but to less powerful organizers and achieved stability for a while. But the support purchased from 'basic democrats' together with the threat of force could not prevent powerful excluded organizers from opposing the system over time. The proposed one-party state defined a broader group as potential insiders but it defined the borders very clearly. This created strong incentives for all those who felt they may be excluded or may get an insufficient payoff to oppose the arrangement.

Apart from the difficulty of organizing primitive accumulation through a one-party state in the context of rapidly emerging elites, a further problem for the populist authoritarian model was that some of the primitive accumulation was already resulting in emergent capitalists who did not want the limitations of socialism. By 1974, appropriation had created a potential capitalist class who wanted opportunities to convert some of their acquisition into productive enterprises. They wanted property rights over their potential investments to be protected. Pressure from this group had already resulted in a revision of the government's socialist industrial policy. In 1974 the ceiling on private investment was increased from 2.5 million to 30 million takas. Partnerships with foreign private investors were allowed, and the moratorium on nationalization was increased from ten to

fifteen years. The emerging capitalists were obviously not too excited by the prospect of a one-party state under which these changes may have been reversed. Some of the most successful accumulators under the Awami League thus became alienated from the party they had benefited from and constituted an internal rightist source of opposition to the proposed LAO.

It appears that viable, well-defined dominant coalitions like one-party states require either the military dominance of a leadership based on its control over a significant immediate flow of rents coming for instance from natural resource rents or it requires strong, broadly based party organizations that offer credible career paths for organizers to rise up the party hierarchy to benefit from a growing economy. Where the leadership already controls a significant flow of rents from, say, extractive resources, this can provide it with the military ability to deal with outsiders and offer enough to insiders to achieve political stability. Some oil-rich one-party states provide examples of this variant. Still, the calibration of the frontiers of the party is critical to ensure that the available force is sufficient to deal with potential dissent. Of course, the degree of concentration of force and rents required to make a one-party system of this type viable is not defined in absolute terms, but rather in relation to the organizational strength of potential organizations who are demanding rents by threatening violence.

Another variant that appears to work is the single party that is very broadly based and therefore not immediately offering significant rents to individuals lower down the organizational chain, but that can provide stable and credible career paths for aspiring organizers to move up the pyramid. To be credible, a party offering its organizers increasing rents over time implies that the party has access to rents from a growing real economy. This kind of strategy may therefore work if a well-organized party is operating a version of a developmental state, as in contemporary China. Mujib's BAKSAL had neither feature. It did not control enough resources immediately to create a cohesive coalition based on the control of rents and instruments of force at the center. Indeed, the party did not even fully control the army as Mujib had to build paramilitary forces to protect him, thereby further alienating the army. Mujib's assassins were mainly junior ex-army officers, though the conspiracy to remove him involved many others. Nor did the party have a credible development strategy and a strong internal organization that could allow it to offer stable career paths to its own political organizers by assuring them of a fair share of future rents.

The rents that competing coalitions of elites were trying to capture in Bangladesh are therefore also relevant. The fragility of the LAO was both a cause and a consequence of the fact that political appropriation at this time was largely unproductive. It was based on grabbing abandoned assets, appropriating public resources through the creation of excess employment, construction contracts, import contracts, and so on. These types of primitive accumulation create zero-sum rents that at best have no positive effect on production, and in many cases can have a significant negative effect. A major target of the appropriation was the assets abandoned by departing Pakistanis. But in the chaos, the assets of many Bangladeshis were also targeted, including assets of any group associated with the Pakistanis, such as the Bihari (non-Bengali) population. Not only that, the assets of many

Hindus (who had never been supporters of Pakistan) were also grabbed (Karim 2005: 283–90).

The significant productive assets of West Pakistani capitalists like major factories could not be immediately privatized given the absence of Bengali entrepreneurs, but were nationalized by the state resulting in an increase in the state's share in modern industry from thirty-four percent to eighty-one percent. But even this was not enough for the new political order. The Presidential Order of March 1972 brought previously Bengali-owned factories in the jute, cotton, and sugar sectors into public ownership. This raised the public sector's share to no less than ninety-two percent of the assets of modern industry with a corresponding increase in the economic resources and jobs the state could allocate to its core supporters (Murshid and Sobhan 1987: 3–4; Sobhan and Ahmad 1980: table 10.1). Employment in the public services witnessed a dramatic expansion. At the time of liberation in 1971, there were 450,000 employees of all grades in the public services, of which only 320 were officers at the level of joint secretary or above. By 1973, total employment in the public services had increased to over 650,000, with officers in the higher grades increasing to 660 (World Bank 1984: 109). Some of this growth was due to the change in coverage from the inclusion of new industrial units within the public sector, which brought their administrative staff within the ambit of the public services. But the number of white collar staff in Bangladesh's small industrial sector would only account for a fraction of the increase.

Coalitions within the ruling party used their political power to enrich themselves directly (E. Ahmed 1986: 27; Umar 1980). Nurul Islam, an economist in the Planning Commission at that time describes some of the processes:

By 1974 there were a number of factors which had contributed to an accumulation of surplus funds in private hands. For one thing, high profits were earned in domestic and import trading activities, including illegal trade such as trade in contraband goods and in smuggling jute and other exportables across the border. Since these transactions were illegal, the risk premium was high and hence profits, once realised, were high. In addition, many residential buildings and trading or commercial enterprises, abandoned by Pakistanis, were illegally occupied by private persons. The "caretakers" of such commercial enterprises, hastily appointed by the government in 1972 immediately after independence, made large fortunes through the undeclared sale of assets. Moreover, there were gains to be obtained from rental or sales proceeds of the abandoned houses which were illegally occupied by private persons. Those who had accumulated financial resources were pressing the government to commit itself to a more substantial and permanent role for private enterprise in the economy of Bangladesh. (Islam 1979: 225–6)

This accelerated primitive accumulation had the expected negative effects on economic performance. An assessment of 1970–5 is difficult because of the very real disruptions caused by the war and the short life of the regime. Productivity in manufacturing was on average less than fifty percent of the level reached in 1970 and real wages in manufacturing were on average around sixty percent of their 1970 level (World Bank 1978: vol. II, annex I.6, p. 173; 1984: vol. II, table 9.12, p. 118). In addition, in 1974 Bangladesh suffered from a serious famine that took place without any significant decline in aggregate food availability (Sen 1983). The causes were largely state failure in managing distribution and ensuring purchasing power in a context of hoarding and

smuggling. More than a million people died in the famine, probably more than in the war of liberation (Karim 2005: 335–40; Sen 1983: 134–41). The state could not of course remain insulated from the political consequences of the collapsing economy. The impetus for the “Second Revolution” and the creation of a one-party state came from the economic crisis and the need to control the expropriation, speculation, and smuggling destroying the economy.

#### **2.4 Authoritarian Clientelism 1975–90**

The problems of the first two phases help to explain many features of the transition that happened subsequently. Mujib’s assassination brought the military to power through a series of bloody coups and countercoups. But the military leadership knew by now that neither the Pakistani praetorian model nor the authoritarian populist one-party model would work in Bangladesh. General Zia, who formally became president in 1977, was a decorated freedom fighter and widely popular. Nevertheless, he took care to construct a strong constituency of supporters for his rule. He did this by constructing a political party that eventually became the Bangladesh Nationalist Party (BNP), which remains one of the two dominant parties in contemporary Bangladesh. *The period from 1975 to 1990 was one of authoritarian clientelism when military leaders formed parties based on internal rent distribution and encouraged political competition to identify the most suitable factions for inclusion.* This strategy for constructing the dominant coalition had a number of important features distinct from the earlier phases.

First, the terms on which individual coalition leaders joined the dominant coalition were individually bargained. Individual organizers could join or depart from the dominant coalition depending on calculations of net benefits by the supreme leader and individual coalition leaders bargaining for entry. The terms of the bargaining were simple: the national leader wanted to incorporate the largest number of the most important organizers into the party at the lowest price in terms of the rents that they demanded. A broad ideology of development and nationalism defining the new party allowed individual organizers from the far left and right of the spectrum and everyone in between to seek terms for entry into the new dominant coalition. The price that individual leaders could extract depended on their proven organizational capabilities and the significance of their departure for undermining their erstwhile parties. As other parties were no longer banned, organizers had the chance of proving their organizational abilities outside the ruling party before seeking terms for incorporation. Opposition parties were allowed to set up, operate, and contest elections to demonstrate their organizational power. The only limitation was that it was implicitly clear that the top job was not up for grabs because the dominant party was unlikely to be defeated at an election given its control over the administration.

Second, no attempt was made to define *ex ante* the boundaries of the dominant coalition. The regime maintained the right to calibrate the size of the dominant coalition, again through a competitive process of assessment and negotiation. This too ensured that excluded elites had an expectation that they may be included on appropriate terms in the future if they played according to the rules of the game. The combination of these two

characteristics ensured that the required rents were competitively allocated to the most important political organizers and political stability was as a consequence achieved.

Finally, both Zia and Ershad attempted to check the power of established political organizers by creating new rural voices through processes of decentralization. These strategies were quite similar to the “basic democracy” strategy of the praetorian period, but now they were a complementary part of a broader strategy and not the exclusive source of redistributive rents for achieving political stability. Even so, these strategies, particularly Ershad’s attempt to create political legitimacy for a new class of political representatives in the newly created “upazillas” (a tier of government constituting a small number of villages), was strongly opposed by urban political organizers. These strategies therefore had a limited effect in enhancing overall political stability during this period, and the attempt to force them through possibly had a negative effect.

This period remained on the whole a period of considerable instability. Violence continued for a while, particularly within the army, where coups were frequently attempted. Nevertheless, some signs of a viable LAO began to emerge that were later built upon in the fifth phase. First, the strategy of ensuring entry to political organizers through individual negotiations to determine the price being demanded proved a viable strategy for constructing coalitions. It remains the strategy through which competing political parties in the fifth “democratic” phase construct the coalitions that sustain their power in and out of office. By its nature, it means that the ruling coalition is turbulent, with constant negotiations, infighting, and sometimes violence, both within the coalition and with coalitions currently out of power. But in the absence of any better method of determining the distribution of rents within the ruling coalition, this has emerged as the operative default mode. After a fashion, it works.

Second, the openness in terms of defining the boundaries of the dominant coalition proved extremely useful in managing the perpetual entry of new aspirants into the ruling coalition. Authoritarian clientelism allowed new entry into the ruling coalition except at the highest level, which was reserved for the (ex-) military leader. This arrangement, however, proved unsustainable over time. On the one hand it created strong incentives for ambitious officers within the army to try and replace the supreme leader. There were very frequent coup attempts under Zia in particular, as the traditions of violent seizures of power were still very fresh. In fact, Zia was finally killed in a coup by army officers in 1981. On the other hand, the reservation of the top job for a single individual eventually resulted in strong opposition to the system as a whole. The futility of elections to replace the top leader became apparent under Ershad and resulted in a growing political mobilization against him. As the BNP (the mass party set up by Zia) was now in opposition, this mobilization brought together the BNP with the Awami League, the party that had tried to set up the one-party state under Mujib. Under a combined and increasingly intense and violent mobilization, Ershad was deposed in 1990, marking the end of clientelistic military rule.

During this period, economic and political organizations could be set up relatively freely, without the prior clearance and approval of the dominant coalition for most categories of

organizations. However, since the most important organization was the ruling party and the coalition it constructed, and entry into this was foreclosed without the approval of the dominant coalition, the system at the highest level had all the characteristics of a basic LAO. There were also important changes happening in the types of rents that organizations were seeking and capturing at this stage. The most rampant types of primitive accumulation began to die down as most abandoned assets had been appropriated. However, economically damaging politically created rents continued to be created explicitly as part of political stabilization strategies. These included, for instance, rents distributed to supporters of the ruling coalition in government construction contracts or in import contracts for scarce commodities like sugar and cement.

An important change that took place around this time compared to the praetorian phase was that the dominant coalition no longer saw rents as having any potentially productive purpose and stopped trying to create or allocate rents as part of an explicit industrial policy. Subsidies, for instance to agriculture or on fuel prices, were justified on welfare grounds and the earlier market failure justification for infant industry protection or technology acquisition began to die down. This was partly because of the memory of the political fight against the twenty-two families of Pakistan and the sham socialism of the Awami League, and partly because the international climate of economic opinion had changed radically in the 1980s. Zia was an advocate of privatization for all these reasons. The rents that public sector industries and the newly privatized industries continued to receive was because the state was too weak to remove these rents as powerful clients were benefiting, not because the ruling coalition believed that this would accelerate the modernization of the economy. Indeed, given the capacities of the state to manage these rents, there was little chance that rents could play a productive role unless new capabilities and political arrangements were developed. But this was not part of the agenda. Nevertheless, an accidental set of rents and Zia's interventions did result in the introduction of the garment industry into Bangladesh that changed the economic structure of the country.

Between 1976 and 1983, a total of 217 public sector enterprises were wholly or partially sold to the private sector or returned to their former Bengali owners from whom they had been nationalized without compensation in the aftermath of liberation. However, significant denationalizations only began under the regime of General Ershad. Under the New Industrial Policy adopted in 1982, denationalizations of large-scale public enterprises were given priority. Privatization faced substantial and growing political opposition, particularly from the trade unions of white collar workers where the overemployment was most significant (Bhaskar and Khan 1995). Nevertheless, the government divested 110 large units in little more than a year, including jute mills previously owned by Bengalis, after which the program continued at a slower pace (World Bank 1984: 149). The privatizations were supported by international agencies, but in effect they had a very limited impact on the economy. The large-scale enterprises created under the Pakistani industrial policy of the sixties had never achieved full global competitiveness. After their nationalization in the seventies they built up vast additional liabilities because of overemployment, looting, and mismanagement. This did nothing to help their future viability when they were gradually privatized in the eighties. The new

owners took over the liabilities as well, wrongly believing that political arrangements could be worked out to sustain subsidies into the future. Some of the privatized firms limped on and were lucky to become moderately profitable. Many eventually closed down, particularly in the jute and cotton textile sectors.

The net effect of the Pakistani industrial policy as well as the accelerated primitive accumulation that happened in the immediate aftermath of independence did not take the country to a significantly higher technological level. Rather, the main effect was to achieve the creation of a new moneyed class through a process of primitive accumulation that began in the fifties. By the mid-1980s, Bangladesh had a potential small to medium capitalist class who had accumulated relatively significant blocks of capital. There were by now hundreds and possibly thousands of individuals who could if called upon raise \$100,000 or more of capital in the form of land, liquid capital, or collateralized bank loans for investment. These individuals began to look around for simple technologies to invest in, now as economic entrepreneurs. It was at this stage that a lucky accident involving internationally created rents had a significant impact on Bangladesh's prospects.

### **The MFA and the Acquisition of Garments Technologies**

The growth of the ready-made garments industry in Bangladesh has often been presented as a vindication of the success of free market policies combined with the virtual absence of labor market protections in Bangladesh. But in fact investment even in the simplest of technologies involves significant risks for domestic investors when these technologies are new to the economy. The time it will take to become globally competitive is not known and entrepreneurs have no idea of what production in very specialized globalized production chains entails. Nor is it viable for foreign firms to invest in up-skilling labor in a poor economy in low-margin, low technology industries unless there is some cost sharing and risk sharing for the foreign firm. This is of course why all global production does not rapidly shift to the poorest countries. A combination of factors made this transfer of technology feasible for Bangladesh in the early 1980s.

An important part of the story was the emergence of the Multi-Fibre Arrangement (MFA) in 1973. This was an arrangement administered by the General Agreement on Tariffs and Trade (GATT) that set bilaterally negotiated quotas on developing countries for textile and clothing exports. The aim was to satisfy U.S. objections to free trade in garments, which threatened its domestic garment and textile industry. As a concession to global opinion, at the same time as quotas were imposed on established garment-producing countries, the MFA did not put quotas on a number of the least developed countries like Bangladesh that did not have any garment industry at the time and were therefore no threat to the United States (Goto 1989). For Bangladesh, it was fortuitous that just at that time a potential investor class was emerging through the industrialization efforts and primitive accumulation that we have described. The MFA created "quota rents" for countries like Bangladesh that did not have quotas by allowing them to sell at a higher price than established competitors and at the same time created incentives for established garment producers to transfer their technologies to countries like Bangladesh. And finally, Bangladesh was lucky to have just then an investor-friendly leader in the form of

President Zia, who saw the importance of underwriting investments in the sector using informal support at the highest level. The garment sector emerged only because of a concurrence of these favourable conditions and provides a good example of why the emergence of productive organizations even in low-technology sectors required a lucky allocation of rents that allowed significant market failures to be overcome.

The MFA created serious problems for established producers of garments in countries like South Korea that suddenly found themselves quantity constrained. They had a strong incentive to relocate production to countries that did not have quotas. But developing countries that did not have a textile and clothing sector were clearly relatively poor countries and suffered from market failures affecting technology acquisition and learning. To attract investors from more advanced countries who wanted to relocate, developing countries had to offer something more than their quota-free status. After all, many poor countries were quota free but only a very few benefited from MFA. Bangladesh was one of them and its success has to be explained in terms of specific mechanisms through which these market failures were addressed.

By the late 1970s, domestic primitive accumulation had created numerous potential investors for a sector like garments where the efficient scale of investment was at most in the hundreds of thousands or low millions of dollars. The agent of change in Bangladesh's transition was a joint venture between a retired Bangladeshi civil servant turned entrepreneur, Nurul Quader Khan, and a South Korean multinational, Daewoo. The joint venture set up Desh Garments in 1979, a partnership in which the Bangladeshi partner provided capital and arranged government support for a new potentially risky investment and the South Korean multinational provided the training and technology transfer. That a retired civil servant from Bangladesh could sit across the table with a global multinational and offer credible equity cannot be understood outside the context of the primitive accumulation that the country had just gone through. Daewoo's calculations were straightforward. Bangladesh's access to the United States and other markets through the MFA was an attractive business proposition, but they would probably not have been willing to take all the risks of investing in Bangladesh without credible commitments from the developing country.

Equity participation from a joint venture partner provided part of this commitment, but perhaps even more important was the explicit support provided by President Ziaur Rahman to the project. President Zia's support appeared credible because he took the initiative in linking up Nurul Quader with Kim Woo-Choong, the chairman of Daewoo. His support assured the South Koreans that unexpected problems would be dealt with or at least addressed. And in fact, political support at the highest level ensured that relatively small but critical institutional innovations like the back-to-back LC (which allowed Bangladeshi producers to borrow from local banks using export orders as collateral) and the bonded warehouse (which allowed complex customs duties on imported inputs to be avoided) were quickly introduced.

Desh was remarkably successful. Between 1981 and 1987, its export value grew at an annual average of ninety percent (Rahman 2004). The learning and transfer of technology

unleashed by this single project was remarkable. By the end of the 1980s, of the 130 people first trained by Desh in Daewoo’s factories in South Korea, 115 had become entrepreneurs and set up their own garment firms! From virtually a zero base in 1980, by 2005 there were around thirty-five hundred active firms in the garments sector employing well over 2 million people (World Bank 2005). Primitive accumulation continued to be an important source of entrepreneurial supply. In a survey carried out in 1993, twenty-three percent of garment factory owners responded that they had originally been civil servants or in the army (Quddus and Rashid 2000). We can assume that many others had close contacts with politics and had made their initial capital through political processes. From a country not much different from the typical African country in the 1970s, Bangladesh’s manufacturing output today equals that of all of sub-Saharan Africa combined excluding South Africa.

**Table 2.4** *Bangladesh garments: Growth rates of dollar exports 1985–2006*

Year	Woven	Knitwear	Total Garments Dollar Export Growth Rates
1985–90			45.9
1990–5			24.1
1995–2000			14.3
2000–1			11.7
2001–2	-7.1	-2.5	-5.7
2002–3	4.3	13.3	7.2
2003–4	8.6	29.9	15.8
2004–5	1.7	31.3	12.9
2005–6	13.5	35.4	23.1

Sources: Based on Mlachila and Yang 2004: table 1; World Bank 2005: table 1)

The rapid emergence of Bangladesh as a garment exporting country is shown in Table 2.4. Exports grew at double digit rates for more than two decades. By the early 2000s, the sector accounted for around seventy-percent of Bangladeshi exports. By 1985, so successful was the Bangladesh garment industry that Ronald Reagan imposed quotas on it (M. A. Rashid 2006). Though Bangladesh continued to benefit from preferential treatment, particularly in European Union markets, effectively, the first five years of quota protection were enough to trigger a major shift in the country’s fortunes. This result had many contributing factors, but in the first instance the MFA provided substantial temporary rents that served to reduce the risks involved in financing learning and technology transfer. Setting up complex productive organizations requires a significant amount of tacit knowledge, and this is typically only acquired through costly and uncertain processes of learning by doing. The costs and risks involved in acquiring this tacit knowledge meant that even relatively simple garments production technology was not transferred to Bangladesh prior to the MFA despite its much lower wages compared to countries like South Korea (Khan 2000, 2009).

The MFA unintentionally provided “learning rents” for building productive organizations in the garments sector. The difficulty of financing an initial period of loss making, when the tacit knowledge involved in using new technologies is being learned, often prevents start-ups in developing countries. In principle, markets should enable organizational

learning to be financed but there are significant market failures that ensure that without access to some rents, takeoffs even in low technology sectors are rare. The MFA rents and the specific conditions of joint investments by Bangladeshi and foreign investors ensured that the necessary period of learning could be financed and also that the different stakeholders put in high levels of effort so that the rents were not wasted as a result of moral hazard problems (Khan 2009). Bangladesh also had a favorable political regime able to make small but critical institutional innovations to support the project. The political regime could meet its political stabilization requirements with other rents, so did not have to devise ways of letting its political clients capture the MFA rents, for instance by setting up unviable garment factories with state assistance. The emergence of the garments industry, together with successes in a number of other manufacturing sectors like pharmaceuticals, ensured that industry has been steadily increasing its share in GDP in Bangladesh, shown in Table 2.5.

**Table 2.5** *Bangladesh: Sectoral shares in GDP 1980–2005*

		1980	1990	2000	2005
Bangladesh	Agriculture	31.6	30.3	25.5	20.1
	Industry	20.6	21.5	25.3	27.2
	Services	47.8	48.3	49.2	52.6

Source: (World Bank 2008)

The history of the garments industry’s success is important as Bangladesh attempts to move higher up the value chain. Much of its growth so far has been at the lower ends of the value chain, even though there is evidence of growing backward linkages and diversification. By 2005, roughly forty-five percent of export value was added in the domestic economy due to growing backward linkages in spinning, weaving, dyeing, and accessories (Bhattacharya et al. 2002; M. N. Ahmed and Hossain 2006; World Bank 2005). The story of the garment industry’s success tells us that market failures in capital and knowledge markets were overcome through very specific policy and governance arrangements. The blocks of capital required for the next stage of upgrading are much larger and primitive accumulation cannot be relied upon to provide these investments. A survey of the garment sector in 2007 revealed that the available terms of financing were an important constraint to technology upgrading in the sector (Khan 2008). Banks were willing to lend, but the fixed return and collateral requirements deterred investors unsure about the length of time required to learn new technologies. The sharing of risks and returns across a number of investors could in theory address this problem, but organizations could not credibly commit to reveal profits or pay dividends in the future, making these market solutions fail.

As the problem of credible commitments to uphold contracts on sharing returns across multiple investors is a major problem constraining the growth in the technological and organizational sophistication of organizations, it is important to examine why this problem persists. Third-party enforcement by the state is too much to expect in a limited access order. But why do productive organizations and their associations (like the Bangladesh Garment Manufacturers and Exporters Association, BGMEA) not attempt to

engage in third-party enforcement of contracts? In fact, the BGMEA, like other business associations, does engage in a limited range of arbitration activities but the limited nature of these activities needs some explanation.

Around 2010, the BGMEA had four arbitration panels, each specializing on a specific part of the business, constituted of well-known and respected businessmen who are active in the BGMEA and who voluntarily give up their time to engage in arbitration as a social service for the trade body. The BGMEA is the most active among the different trade bodies in engaging in the arbitration of disputes involving its members. The critical part of the relative success of arbitration under the aegis of the BGMEA is that a number of informal pressures are often used to get the parties to first sit around the table, and then subsequently to comply with the outcome. Even more interesting is that these methods are used *without formal BGMEA approval*. For instance, the BGMEA provides UDs (Utilization Declarations) and UPs (Utilization Permits) to its members to show that they have used duty-free fabrics and yarns in their exports. These certificates are potentially very valuable because otherwise the garment factory becomes liable for significant import duties on the inputs they have imported. The BGMEA has no formal powers to withhold these or other certificates from its members. Apparently the arbitration panels have asked the BGMEA for formal powers to sanction members in the context of arbitration, but the board has so far not conferred such powers to its arbitration panels. We do not know the full reasons behind this, but perhaps the BGMEA leadership was afraid of potential misuse of these powers, which could lead to lobbying by members to return powers of granting certification to the customs authorities.

Nevertheless, arbitrators on these panels told us privately that hints that the granting of certificates or other services may be delayed were usually sufficient to get reluctant parties to attend hearings and in most cases to comply with outcomes. The fact that the arbitrators were themselves in the business also meant that they knew the hidden practices relating to profit-sharing arrangements or norms of compensation that often involved sharing profits or compensating different parties from profit that had not been declared. It is also clear that foreign buyers were aware of these arrangements and happily participated in them. This meant that arbitration using formal procedures would have been difficult in these cases anyway, and informal arbitration had a great deal of credibility because industry insiders had the knowledge to find acceptable solutions. This could involve, for instance, suggesting how to split losses using undeclared transactions such that both parties were reasonably satisfied in the context of unexpected problems.

However, while we find many examples of arbitration in areas of trade (for instance how should losses be shared if a shipment is delayed or cancelled?), we do not find BGMEA arbitration in areas of disputes between investors in plants and equipment. In general, the stakes involved in investment decisions are too high for the standard instruments used as threats to ensure compliance. While all organizations have an interest in improving the credibility of their contracts, as individuals contesting the interpretation of particular contracts, all individuals and organizations also have an interest in challenging the judgment of an arbitrator if it goes against them. Without recourse to the threat of a formal enforcement procedure somewhere, the process fails when the stakes become too

high relative to the informal threats. A trade body just does not have the credible threats to enforce contracts affecting major investments, even though it may have sufficient instruments to ensure compliance with judgments in the case of contracts affecting particular shipments. This is why investment in productive organizations is still almost entirely organized by the resources of individual investors or bank loans raised by individual investors pledging first-class collateral. The sources of available financing ensure high levels of risk aversion in investments. Organizational growth is therefore typically horizontal, replicating areas of already existing competence. Investments in building more sophisticated organizations that are appropriate for more complex technologies are constrained by individual investors being unable to absorb all the risks of learning new technologies and building organizations appropriate for their use.

There does not appear to be a strong relationship between the types of LAOs as they evolved in Bangladesh and the success of third-party enforcement that could allow organizational depth to increase in productive organizations. When authoritarian clientelism was later replaced by open party competition in competitive clientelism (with its greater aspects of maturity), the problem of third-party enforcement of investment contracts was not significantly reduced. This is because different forms of the LAO in Bangladesh have primarily described the autonomy of *political* organizations. Economic organizations in Bangladesh (and South Asia more generally) have in general not required personalized authorization or support from the dominant coalition to set up, but have always required the support of political organizations in a very specific sense. Getting state officials to perform their formal duties or to desist from obstructing, or to deliver particular privileges often requires an entrepreneur to have political friends who can ensure the required services for a price. But the political organization is not in general required to sustain the internal organization of the productive organization. Moreover, political organizations even during the period of authoritarian clientelism were coalitions of organizers so it was always possible for a productive organization facing third-party enforcement against its interests to buy protection from another political organizer. It would in general not be worth the while of even a military ruler to take on an important organizer within his coalition simply to enforce a particular contract. With the advent of more open political competition after 1990, the problem of contract enforcement has remained at least as intractable as before.

Our interpretation of the causes behind the rapid growth of the garment industry in Bangladesh also casts doubts on the argument that Bangladesh's success was based on cheap labor and labor market flexibility. It is true that Bangladesh scores higher than India on labor market flexibility (it is easier to fire workers compared to India) and indeed both Pakistan and Bangladesh score higher than India on the overall ranking of "Doing Business Conditions" of the World Bank. But the specific mechanisms through which the garment industry developed suggests that cheap and flexible labor by itself did not help Bangladesh very much *before* the market failures constraining investment in a new sector were overcome. Moreover, the persistence of cheap and flexible labor has not helped investment in the next stages of the value chain even though wages have remained low. The implication is that the development of more sophisticated organizations using more sophisticated technologies depends on solving specific market failures. The break

provided by the MFA cannot be relied on for other sectors or for moving up the value chain in garments and textiles. It is possible to imagine the political organizations in Bangladesh reaching an agreement to develop mechanisms for financing risk and cost sharing for technology upgrading. This type of productive rent creation, if it was on a limited scale, would not necessarily compete with the political rents that political organizations were primarily concerned with. The institutional and political arrangements required to manage such strategies are, however, not on the policy radar screen at the moment.

Indeed, unlike the praetorian period, the period of authoritarian clientelism established a new consensus that politics should not concern itself with productive rent strategies. There was no attempt to use rents internal to the system to create more sophisticated organizations or to absorb more sophisticated technologies than the ones that already existed. Rather, the focus of rent allocation by the dominant coalition became much more about the management of political stability. The emergence of the garments industry, itself the product of a fortunate conjuncture of conditions that enabled MFA rents to have very productive effects, allowed the political leadership to focus on the capture of political rents. The calibration of force and the distribution of rents that emerged during this period had features that continued into the next one. But the absence of any strategy of productive rent generation is a significant challenge to the system, as is the periodic disruption implicit in this system of political management, which we discuss in the next section.

The clientelistic military period established that brute force could not be used to stay in power. The dominant coalition needed to have a significant section of civilian political organizers. But it could not absorb all potential aspirants either. The actual practice of clientelistic military rule paradoxically established the norm that the control of violence in Bangladesh has to be based on a competitive system of rent allocation to allow the most important organizational and violence specialists to be brought into the ruling coalition at the cheapest price. However, the implicit links of the political leader with the army meant that this process of bargaining and calibration had to permanently happen under a single leader. Other parties could at best expect some of their most important organizers to be bought off. But eventually the major political parties united to reject an arrangement that deprived them of access to the most significant rent allocation decisions. Ershad was overthrown in 1990 by a popular uprising when the army refused to continue to support him if it meant shooting at thousands of demonstrators. However, the return to “democracy” kept intact many features of the system established during this period. The major change was that the top position of the dominant coalition became contestable in a competitive multiparty system where the leadership was selected by periodic demonstrations of organizational power by rival coalitions during elections.

### **2.5 Competitive Clientelism and Vulnerable Semi-Maturity 1990–**

The overthrow of Ershad was followed by elections where none of the contestants were in power and so could not directly influence the administration in charge of organizing the elections. An ad hoc interim government led by a chief justice organized these elections and created a precedent for organizing acceptable elections in the future. As the

administration remained tolerably neutral, the outcome of the election was determined by the organizational power that the parties could mobilize on the ground. The actual numbers of votes cast were almost the same for the two main parties in the 1991 elections but the BNP won significantly more seats because of the vagaries of the first-past-the-post electoral system, but also because the BNP had at that time a more extensive distribution of organizational strength. Even so, the BNP did not gain an absolute majority and needed the support of the Jamaat-i-Islami, a religious party, to nominate most of the thirty women members of parliament that the constitution allows, thereby gaining an absolute majority. As the BNP was not in power and could not have influenced the police, the vote counters or any other administrative tool to influence the outcome, the electoral result was accepted by the losers.

A fair election has come to mean that the outcome reflects the balance of forces on the ground without the interference of bureaucratic or military officials who are administering the police, the polling booths, and the process of counting the votes. If these administrative tools are controlled by one side or the other, the outcome of the election may not reflect the forces on the ground. Note that the objective of a fair election in this context is not to discover the true preferences of the electorate, partly because true preferences may not exist given the absence of serious differences in the policies that the parties are likely to implement. Rather, elections are processes through which the organizational strengths of the competing clientelist coalitions are revealed. Stability is likely to be achieved if the party with a demonstrable superiority in organizational strength wins the elections. The requirement is that no party should be able to leverage its strength by using the administrative apparatus to give it an electoral advantage unrelated to its strength on the ground. *The final (and current) phase, from 1990 onwards, can be described as "competitive clientelism" where the LAO has characteristics of maturity in the sense that the establishment of competing political organizations cannot now be controlled by the dominant coalition nor can they ensure that a coalition of oppositional organizations cannot eventually remove them from power.*

The electoral process built on elements of the competitive determination of the membership of the dominant coalition established in the previous period. The military-backed parties during the military clientelistic phase had accepted that new entrants had to be included in the dominant coalition depending on their organizational power and the price they demanded. The difference after 1990 was that the leadership and composition of the dominant coalition itself was determined by an electoral test of the aggregate organizational power of contesting coalitions. Potential entrants into the dominant coalition now had two tasks. They had to demonstrate, as before, their ability to organize to deliver stability or violence in particular sectors or geographic regions. But now they also had to choose a party where they were most likely to get the best deal in terms of an offer of the highest rents for the organizational power they could deliver. Of course for well-known, ideologically committed leaders, switching parties was not an option. But for the vast majority of political organizers, party choice was and is determined by the offer of rents. Indeed, so blatant are these calculations that Article 70 of the 1972 constitution prohibits members of parliament from voting against their parties as

otherwise the horse-trading and transaction costs before every parliamentary vote would make voting in parliament prohibitively expensive.

However, after the BNP won the 1991 elections, the next election would be unlikely to be fair according to what would be acceptable to clientelist parties if a particular party remained in charge of the administration organizing the election. The opposition demanded the institution of a permanent constitutional arrangement to set up an interim caretaker government to organize every election after a government's term was up. Intense pressure from the opposition and a failed attempt to hold an election that was boycotted by the opposition finally led the government to pass the thirteenth amendment to the constitution in 1996 that set up the permanent institution of a caretaker government. A neutral caretaker government was to be set up at the end of every government's term with the last chief justice of the Supreme Court becoming the interim head of government. This was a unique institutional experiment to create a rule of law for elites at the critical moment of electing the next ruling coalition.

However, this institutional arrangement was clearly not buttressed by a deeper set of credible threats that needs to underpin a rule of law for elites or even a "live and let live" agreement. Any institutional system can be undermined if the underlying political compromises can be violated. The ruling coalition at any time always has an individual interest in prolonging its stay in power or to undermine the opposition through institutional and organizational steps. The caretaker government system worked for two elections, despite minor attempts by both parties to interfere in the elections when they were in power. In both cases the ruling coalition was replaced by the opposition. But the hope that a new rule of law for elites had been institutionalized was short-lived.

The constitutional caretaker arrangements collapsed in the run-up to the 2007 elections when the incumbent BNP went too far and appeared to interfere with the dates of retirement of Supreme Court judges so that its preferred candidate could head the caretaker government. The result was an increasingly violent standoff that resulted in a series of general strikes (*hartals*) and violent street confrontations in which the opposition graphically demonstrated its violence capabilities. In a context of increasing uncertainty, a group of bureaucrats backed by the military and the international donor community took over power on January 11, 2007 as a new emergency interim government. Under the constitution, the caretaker government has to organize an election within two months, but this caretaker government stayed in power for two years under emergency powers it gave itself.

The emergency caretaker government turned out to be a significant wasted opportunity. The emerging system of competitive clientelism had clearly not yet acquired a set of internal checks and balances to be fully self-sustaining. The emergency could have been an opportunity for investigating and establishing further checks and balances and indeed for establishing that if the parties could not agree, other institutions in the country would intervene to break the deadlock. But instead, the caretaker government, headed by an ex-World Bank bureaucrat and backed by an army very close to the international community because of its lucrative involvement in international peacekeeping missions, took a "good

governance” perspective on how to solve the problem. Its interpretation (no doubt strongly influenced by dominant Western policy perceptions) was that the political instability was caused by political corruption. The opportunity for political corruption (so the argument went) created the distorted incentives for politicians to interfere with electoral outcomes. This analysis suggested that if political corruption could be rooted out and if parties could be made to compete on the basis of alternative manifestos of delivering public goods (as in OAOs) the problem of electoral violence could be rooted out.

For the next two years, the emergency caretaker government attempted to address the problem through “good governance” reforms, in particular through a focus on corruption, believing that the source of the problem of political violence was the engagement of political leaders in corruption. Hundreds and possibly thousands of political activists were arrested and incarcerated on charges of corruption, including the leaders of the two main parties. Hundreds of businessmen were arrested and some of them handed over millions of dollars to the new government as “ill-gotten gains” under pressure (which turned out to include torture). Thousands of cases of corruption and extortion were introduced in the courts. The whole exercise was deeply flawed, not only from the analytical perspective of an LAO analysis, but also in terms of procedures. In the end, almost all the cases had to be abandoned on the grounds that the evidence was missing or inadmissible. The experience of anticorruption cases globally suggests that even a single successful prosecution is very difficult as the participants do not leave paper trails and bank transactions that can unequivocally be established as corruption. Not surprising, the military caretaker government’s attempt to address the problem in this way failed dismally. The two arrested leaders of the main political parties had to be released, and one of them was elected prime minister in the 2009 elections.

The main effect of the two-year experiment was a collapse in investor confidence that did not recover even a year after the election of a new government. The two main parties whose intransigence and violence had caused the problem in the first place did indeed receive a shock, but whether this will result in any lasting positive effect remains to be seen. The new government elected in 2009 immediately began conducting business as usual, including harassing the opposition using administrative powers and removing anticorruption cases against its supporters but not those against the opposition. As in the past, the opposition did not bother to go to parliament. It is not clear how the two-year emergency helped, except in the most limited sense of helping to construct a better voter register during this period. In 2011 the government amended the constitution to do away with the caretaker system and provoked a new round of mobilizations by opposition parties demanding the reinstatement of this arrangement for conducting the next elections. A rule of law for elites that will allow the smooth operation of elections will only emerge when both major parties recognize that wiping out the opposition using administrative means is simply not a feasible strategy. How long this takes to emerge remains to be seen.

The failure to make incremental improvements in the mechanisms through which a competitive clientelism operates in Bangladesh has significant negative implications.

First, the threat of political violence remains undiminished. The paradox is that while the LAO has aspects of maturity in the sense that the dominant coalition cannot prevent the setting up of new organizations, the absence of a system of implicit rules guiding the entry and exit of political organizations in and out of the dominant coalition also gives the LAO many characteristics of fragility. The LAO can collapse very rapidly into fragility but the relative sophistication of political and economic organizations means that outbreaks of violence are not likely to result in a cumulative decline into anarchy. This cannot be ruled out, but there are enough stakeholders in business and in the international community who will intervene to try and stop it. The takeover in January 2007 was clearly part of such an intervention even though it was seriously misconceived.

The problem for Bangladesh in terms of the LAO framework can be stated as follows. The explosion in the number of aspirants who want access to rents on the basis of their capabilities for political organization has meant that a basic LAO is no longer a viable political proposition. Even as early as the 1960s, the attempt of the Pakistani praetorian order to manage rent creation and allocation for a defined set of elites was very vulnerable and eventually blew up in violence. The populist authoritarian one-party state did not even take off properly before the leadership was assassinated. The subsequent history of the LAO in Bangladesh has been about how to square this circle. Different attempts have also had important implications for the types of productive rents that the system could manage, as we outlined earlier.

The clientelistic military period demonstrated that entry and exit cannot be permanently managed by a single individual as the rents controlled by that individual can become the target of a significant social mobilization by all political organizers. Therefore the emergence of competitive clientelism can be seen as a natural evolution of the LAO. However, making it work is not simple given the absence of third-party enforcement of the critical rules for entry and exit of political organizations into the ruling coalition. The political organizations themselves cannot enforce rules of entry and exit because the rents at that moment become zero-sum for some of the organizations. The institution of the caretaker government was an attempt to create an institutional third party, but history shows that it cannot be truly independent as governments can also appoint Supreme Court judges. Indeed, the government also appoints army chiefs, though the last army chief appointed by the BNP went against the party by supporting the takeover of January 2007.

Here a comparison with India is useful. India's transition to an LAO with significant characteristics of maturity has also been in the context of a competitive clientelism and is also subject to vulnerability. But in India, the organization of elections has not been a problem as in Bangladesh. Why is that the case given the many social similarities between the countries? One possibility is that India's size and diversity helps it to organize third-party enforcement of the electoral rules through which competing political organizations can enter and exit the ruling coalition. At the level of each Indian state, an election result that is strongly contested by powerful coalitions within the state, or allegations of partisanship on the part of the Election Commission of India, can effectively bring in organizations from outside the state to assess whether formal rules

have been excessively transgressed to the point that a party with inferior organizational power won. An impasse between warring parties at the state level also means that the federal government can impose president's rule and rerun the election. Therefore, while election fraud, violence, and rigging does happen in India as well, the parties know that an outcome out of line with the organizational strength of parties on the ground cannot be sustained. The problem with a small country is that neither the election commission nor the interim government under the caretaker system has the credibility of being a neutral third party. Therefore on top of the general problems of organizing the dominant coalition in a context of growing political demands from emerging intermediate classes, small countries have an additional problem of running elections that can produce acceptable outcomes for competing clientelist parties.

The challenge for Bangladesh will be first and foremost to revisit the rules of organizing elections such that all parties are satisfied that the ruling party will not use administrative power to shift the electoral outcome too much. The problem is not just of blatant stuffing of ballot boxes but also more subtle uses of police and administration to harass the opposition and to make their attempts to get their supporters out more difficult. Delays in sending out the police to deal with ruling party thugs combined with swift responses against opposition party thugs may be all that is required to swing critical marginal constituencies. Administrative bias has become more serious as a result of the growing tendency to replace top bureaucrats with party supporters when new parties come to power. Given all these constraints, the electoral process will remain imperfect in LAOs like Bangladesh, but the efforts of the ruling party have to be restrained if the outcome is to be acceptable. If this process is seen as a good governance problem, it cannot be resolved because any election in Bangladesh in the near future will not conform to those standards. If on the other hand, elections are seen as a problem of managing a restructuring of the ruling coalition in an LAO, and the outcome of the election has to reflect organizational power on the ground, a better discussion of the types of policing, third-party monitoring and enforcement, and so on can ensue.

One of the paradoxes of the increasingly intense political competition and the aspects of maturity that have emerged is that long-term investments have become more risky. If ruling coalitions can change every five years and if significant investments (in say power plants) requires rent sharing with ruling politicians, the investor cannot be sure that the subsequent regime will not punish them by changing or cancelling contracts. One consequence has been that ruling coalitions have found it increasingly difficult to attract investors in long-term investment projects like power and infrastructure projects whose revenue streams have to be guaranteed beyond the life of a government. Here too, the nature of the LAO is at issue, rather than solely issues of corruption that the mainstream governance agenda focuses on. A more open public discussion of these issues may assist the judiciary to take a different view on these matters over time. The judiciary in Bangladesh has had a healthy tendency to provide judgments at variance with the wishes of the ruling coalition. So far, the judiciary has not taken a properly public interest approach in judging which contracts should be struck down. They have been more concerned to knock down legally dubious contracts when new governments have brought cases against apparent wrongdoings by previous governments. But it is possible to

imagine that the conception of the public interest may change with a better discussion of the dynamics of LAOs. If courts look for insider dealing and corruption they could knock out all contracts but a more discriminating approach may focus on contracts that will clearly reduce value for the public. If elites begin to understand that their search for rents needs to be more closely aligned with the public good that would be significant progress.

The emergence of relatively high growth from the 1980s onward in a context of ongoing political instability may have lulled elites in Bangladesh to think that the economy can perform despite the damaging games played by political organizations. The fortuitous accident of the Multi-Fibre Arrangement has been particularly lucky for Bangladesh and came at a time when little else worked in the country. This international accident created temporary rents and incentives for investment in learning in the garment industry. The effect was hugely positive because the MFA did not allow a permanent dependence on rents simply because they could not be expected to last forever. And the terms on which these rents were allocated to particular firms could not be significantly manipulated by domestic political mobilizations.

The conditions that allowed the emergence of the garments sector need to be understood because the replication of this successful technology acquisition is by no means assured in other sectors. The ability of the ruling coalition to manage a few productive rents is critical if growth is to spread to new sectors. The replication of these accidental conditions through deliberate, yet modest, development of governance capabilities is a necessary precondition for the replication of these successes and their extension to other sectors in the context of the specific LAO characterizing Bangladesh. A better understanding of the rents necessary for the political sustainability of the LAO, and the rents necessary for accelerating the growth of organizational sophistication in the productive sector is necessary for a better public debate on institutions and governance.

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